PAYMENT OF ADJUSTED-COMPENSATION CERTIFICATES

HEARINGS

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

SEVENTY-SECOND CONGRESS

FIRST SESSION

ON

HOUSE BILLS NUMBERED 1, 27, 94, 4493, 4535, 4539, 5461, 6180, 6584, 6693, 7726, 8016, 9593, 9694, 9929, 10096, 10367, 11117, 11300, 11674

APRIL 11 TO 29, AND MAY 2 AND 3, 1932

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COMMITTEE ON WAYS AND MEANS

House of Representatives

SEVENTY-SECOND CONGRESS, FIRST SESSION

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EUGENE FLY, *Clerk*

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PAYMENT OF ADJUSTED-COMPENSATION CERTIFICATES

MONDAY, APRIL 11, 1932

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D. C.

The committee met at 10 o'clock a. m., Hon. Charles R. Crisp (acting chairman) presiding.

The ACTING CHAIRMAN. Gentlemen, the committee will please come to order. I will state to the committee how I shall direct the hearings to be held. The rules of the House are made specifically applicable to the hearings before the committee. Under the rules of the House we have two periods of debate; we have debate under the hour rule and under the five-minute rule.

Of course, the committee may invoke the five-minute rule whenever it sees fit. We will start the hearings under the broader rule of the House, the hour rule.

I would suggest that the proponents of the measure first be heard and when they have concluded, the opponents of the measure will be given an opportunity to be heard. At the conclusion of their presentation, the porponents will be given an opportunity to offer rebuttal testimony.

It seems to me, taking into consideration how this committee has worked during this session of Congress, it would be advisable not to have afternoon sessions on these bills. The Members, of course, desire to participate in the work on the floor of the House and they have as well their own district matters.

Therefore, I shall fix the time for the hearings to start at 10 o'clock in the morning and to run until 12.30, allowing us two and a half hours each day.

It was suggested to me this morning by Mr. Patman, Mr. Rankin, Senator Thomas, and Mr. Kvale, that the proponents of the measure would be pleased if the committee would recognize a committee selected by them to present their witnesses and as the authority has been conferred upon me to direct this hearing, I shall pursue that policy. If the Members of the House who are urging this legislation will meet among themselves and agree on a committee of three to have charge of the presentation of witnesses and as to the time each witness shall occupy, subject to the hour rule, I shall endeavor to carry out their suggestions.

Mr. RANKIN. Mr. Chairman, shall we House Members who are supporting this measure meet now and agree on that?

The ACTING CHAIRMAN. I do not think it is necessary to do that. You may do it after we get through. I presume you have certain witnesses you are prepared to present to the committee now. Of course, it would be perfectly agreeable to the Chair if you gentlemen have your conference now.

Mr. RANKIN. We know which witnesses we want to present to-day. Shall we proceed with them?

The ACTING CHAIRMAN. That is quite agreeable to the committee.

The clerk of the committee has received a telegram from General Butler expressing his favorable interest in the legislation and stating that it will be impossible for him to be present. Without objection, we will have the telegram placed in the record.

(The telegram referred to is as follows:)

APRIL 10, 1932.

EUGENE FLY,
Clerk of House Ways and Means Committee,
Washington, D. C.:

It is a matter of very great regret to me that I can not attend the hearing of the Ways and Means Committee on April 12 in person, to testify in favor of the prompt payment to the soldiers of the unpaid portion of the bonus which I feel justly due them. I have always been, and shall continue to be in favor of this bonus. Unfortunately, however, I can not possibly leave the present campaign in Pennsylvania to come to Washington at this time. I have traveled through 42 States in the past six months and everywhere find the soldiers in great need of assistance. The Nation owes them this return for their services. Whether elected Senator or not I shall make it my personal business to do all in my power to secure justice to the soldiers in this and in every other matter concerning their welfare.

SMEDLEY D. BUTLER.

The ACTING CHAIRMAN. Gentlemen, you may present your first witness. We will hear Mr. Patman.

STATEMENT OF HON. WRIGHT PATMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. PATMAN. Mr. Chairman and members of the committee, we appreciate the fact that this committee has worked very hard in the last few months. I do not suppose there has been a committee of Congress that has worked as hard and as faithfully as the Ways and Means Committee of the House. We do not want unduly to burden you. We appreciate the fact that you have given us this opportunity to present our side of the case and any arrangements that the committee makes as to time for these hearings will meet with our entire satisfaction. We shall certainly try to conform to the wishes of the committee in every way in order that the committee may be convenienced.

Senator Thomas has been invited to appear before the committee by myself and other members of the House as well as by the Veterans of Foreign Wars. Ex-Senator Owen of Oklahoma is here. He has been invited to be a witness. Senator Owen can not be present after this morning. In fact, he remained over at our request, in order to make his appearance this morning. I hope the committee will hear him after I have finished. For that reason I expect to cut the time of my presentation as much as possible.

Dr. Willford I. King, the head economist of New York University, who recently appeared before the Banking and Currency Committee, will be a witness for the proponents of this legislation. He can be here Thursday or Saturday and in accordance with the suggestion of the chairman this morning, we suggest Thursday would be the best day. I have asked the clerk of the committee to send him a telegram inviting him to be here next Thursday.

Senator Thomas has also suggested that the committee should hear Mr. Le Blanc, who has a reputation as an economist, not only here in our own country, but internationally. We have requested that he be invited to appear. Also Mr. Harris of Harris & Volts of New York. We ask that he be invited.

The ACTING CHAIRMAN. I assume that you have given the clerk their names and addresses?

Mr. PATMAN. The clerk is taking these names down.

Sergt. Alvin York, the greatest hero of the World War, is to be here as a witness. He is to be in Louisville, Ky., I believe to-night, and will get here probably to-morrow or the next day. I understand his testimony will be short, will not take a great deal of time to present.

I hope the committee members will feel free to interrupt me if I wander from my subject even the least bit, or any time any member wishes to ask a question. I hope the committee will feel at perfect liberty to interrupt me at any time.

The ACTING CHAIRMAN. May I say that under the rules of the committee, witnesses appearing before the committee are not interrupted by members unless the witness yields to the member. If the witness desires to be interrogated, that is entirely in his own control. Of course, when the statement of the witness is completed members of the committee have the right to ask questions.

Mr. RAGON. Mr. Chairman, may I ask Mr. Patman how long he expects to take to conclude his statement?

Mr. PATMAN. Well, I must get through before 11 o'clock.

Mr. RAGON. I was going to suggest that Mr. Patman probably knows more about this legislation than any man in the country. Probably he will be on the witness stand for some time. I thought it might be well to let Senator Owen precede Mr. Patman, if that would not upset arrangements already made.

Mr. PATMAN. I felt that the more orderly procedure would be to explain the proposal first, even for the benefit of Senator Owen who is here.

Mr. RAGON. Very well.

Mr. HAWLEY. Mr. Chairman, before Mr. Patman proceeds, may I ask him whether he has a bill on which they are all agreed?

Mr. PATMAN. No, sir; there is a difference.

Mr. HAWLEY. My only purpose in asking the question was that if there is such a bill, to suggest that it be introduced in the record at this time.

Mr. PATMAN. The bill that most of us have agreed on, I think, is H. R. 7726, which is referred to as House bill No. 1 as amended by the addition of section 2 to provide for the issuance of currency to pay adjusted-service certificates.

Mr. HAWLEY. I suggest that bill be put in the record.

Mr. PATMAN. Very well.

(H. R. 7726, the bill above referred to, is as follows:)

[H. R. 7726, Seventy-second Congress, first session]

A BILL To provide for the immediate payment to veterans of the face value of their adjusted-service certificates

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Title V of the World War adjusted compensation act, as amended, is amended by adding at the end thereof three new sections to read as follows:

"PAYMENT OF CERTIFICATES BEFORE MATURITY

"SEC. 509. (a) The Administrator of Veterans' Affairs is authorized and directed to pay to any veteran to whom an adjusted-service certificate has been issued, upon application by him and surrender of the certificate and all rights thereunder (with or without the consent of the beneficiary thereof), the amount of the face value of the certificate as computed in accordance with section 501.

"(b) No payment shall be made under this section until the certificate is in the possession of the Veterans' Administration, nor until all obligations for which the certificate was held as security have been paid or otherwise discharged.

"(c) If at the time of application to the Administrator of Veterans' Affairs for payment under this section, the principal and interest on or in respect of any loan upon the certificate have not been paid in full by the veteran (whether or not the loan has matured), then, on request of the veteran, the administrator shall (1) pay or otherwise discharge such unpaid principal and so much of such unpaid interest (accrued or to accrue) as is necessary to make the certificate available for payment under this section, and (2) deduct from the amount of the face value of the certificate the amount of such principal and so much of such interest, if any, as accrued prior to October 1, 1931.

"(d) Upon payment under this section, the certificate and all rights thereunder shall be canceled.

"(e) A veteran may receive the benefits of this section by application therefor, filed with the Administrator of Veterans' Affairs. Such application may be made and filed at any time before the maturity of the certificate, (1) personally by the veteran, or (2) in case physical or mental incapacity prevents the making or filing of a personal application, then by such representative of the veteran and in such manner as may be by regulations prescribed. An application made by a person other than a representative authorized by such regulations, or not filed on or before the maturity of the certificate, shall be held void.

"(f) If the veteran dies after the application is made and before it is filed it may be filed by any person. If the veteran dies after the application is made it shall be valid if the Administrator of Veterans' Affairs finds that it bears the bona fide signature of the applicant, discloses an intention to claim the benefit of this section on behalf of the veteran, and is filed before the maturity of the certificate, whether or not the veteran is alive at the time it is filed. If the death occurs after the application is made but before the negotiation of the check in payment, payment shall be made to the estate of the veteran irrespective of any beneficiary designation, if the application is filed (1) before the death occurs, or (2) after the death occurs, but before the mailing of the check in payment to the beneficiary under section 501.

"(g) Where the records of the Veterans' Administration show that an application, disclosing an intention to claim the benefits of this section, has been filed before the maturity of the certificate, and the application can not be found, such application shall be presumed, in the absence of affirmative evidence to the contrary, to have been valid when originally filed.

"SEC. 510. If at the time this section takes effect a veteran entitled to receive an adjusted-service certificate has not made application therefor he shall be entitled, upon application made under section 302, to receive at his option either the certificate under section 501 or payment of the amount of the face value thereof under section 509.

"SEC. 511. The Administrator of Veterans' Affairs, in the exercise of his powers to make regulations for payment under section 509, shall to the fullest extent practicable provide a method by which veterans may present their applications and receive payment in close proximity to the places of their residence."

SEC. 2. Payments of the face value of adjusted-service certificates under section 509 or 510 of the World War adjusted compensation act, as amended, shall be paid in Treasury notes. The Secretary of the Treasury of the United States is hereby authorized to have engraved and printed a sufficient amount of Treasury notes, in the denominations of $1, $2, $5, $10, $20, $25, $50, $100, $500, and $1,000 each; such Treasury notes shall be full legal tender, noninterest bearing, exempt from all taxes, including Federal, State, and subdivisions thereof.

SEC. 3. This act may be cited as the "Emergency adjusted compensation act, 1932."

Mr. PATMAN. The other school of thought is represented here by Senator Thomas of Oklahoma. He has a little different plan of payment. I am not favoring his plan, I am not opposing it. He is not favoring my plan. He favors his own plan. But I am very anxious that the committee hear him.

In the beginning, I want to say to this committee that unless we can show that the payment of these adjusted service certificates will benefit the country, promote the general welfare, we are not entitled to win; we are not entitled to have this bill pass.

It is true that the veterans need this money. More than 2,000,000 of them are out of jobs. But, at the same time, they realize that in order for them to be helped, it must be done on the theory that it will promote the general welfare. If it will not promote the general welfare, if it will be the least bit detrimental to the general welfare, we are not entitled to ask this committee to pass or to approve this legislation.

Now, I say that 2,000,000 veterans are unemployed. That is a misstatement in this: Mr. John Arthur Shaw, who is Director of the Unemployment Service of the Department of Labor, told me—and I have his statement in the record—that 750,000 able-bodied veterans are unemployed. They are able, willing, and anxious to work and can not find jobs. More than 75,000 men who have disabilities not sufficient to disqualify them for work, are unable to find jobs, although willing to work. There are 800,000 veterans, so Mr. Shaw tells me, who are working from 1 to 3 days a week at greatly reduced wages and, of course, are not making sufficient money to pay their actual running expenses, to obtain the comforts and necessities of life for themselves and their families. That, of course, aggregates almost 2,000,000 veterans.

By reason of the fact that there are 3,666,000 of these certificates, and that all except 800,000, approximately, of the veterans have borrowed on those certificates, and further in view of the fact that 200,000 of those 800,000 can not borrow because their certificates are not two years old, I think that is pretty good proof that at least four-fifths of the veterans are in need of this money.

Two hundred thousand can not borrow. Taking 200,000 from 800,000, approximately—I am not attempting to quote the exact figures—would indicate that there are only about 600,000 who have not borrowed because they did not want the money.

The question receiving the most consideration at this time in regard to this legislation, throughout the country and among the veterans is, can the payment to the veterans on a debt that must be paid anyway be used as a vehicle to carry our country back to prosperity?

House bill No. 1 as amended by 7726 was drawn by Mr. Beaman, the gentleman who assists this committee in drawing bills. It was very carefully drawn. Afterwards H. R. 7726 was introduced, which provides this one addition—section 2:

Payments of the face value of adjusted-service certificates under section 509 or 510 of the World War adjusted compensation act, as amended, shall be paid in Treasury notes. The Secretary of the Treasury of the United States is hereby authorized to have engraved and printed a sufficient amount of Treasury notes, in the denominations, of $1, $2, $5, $10, $20, $25, $50, $100, $500, and $1,000 each; such Treasury notes shall be full legal tender, noninterest bearing, exempt from all taxes, including Federal, State, and subdivisions thereof.

Of course, that is for the purpose of paying the adjusted-service certificates. In order to persuade Congress to pass a bill of this nature, we realize we must present proof to show that the face or maturity value of these certificates are due; at least, that the veterans would be entitled to a sum equal to the full face or maturity value of these certificates now; that is, considering that the Government does not have to invoke a new principle in order to do that. Here is the way we arrive at that conclusion:

Congress had hearings before committees for many months, over a period of some three or four years. During this time, the committees of Congress finally agreed—their reports disclosed and the debates in the House disclosed—that there was a difference, after charging the veteran with the amount of the pay that he received and his clothing and board, all of which should be added, of course, in arriving at the total amount, and deducting his daily wages from the lowest wages paid to a civilian laborer during the war, of a dollar and a dollar and twenty-five cents per day. You will find those figures in the committee reports in support of one of these bills. Therefore Congress agreed that there was a difference, as I say, of a dollar and a dollar and twenty-five cents a day that should be paid to the veteran.

After many proposals were suggested, the committee finally agreed upon one plan, the adjusted-service certificate form of payment. That is to say, suppose a man served a certain length of time, 200 days overseas. That would be computed at the rate of a dollar and twenty-five cents a day; also 210 days here at one dollar, making $210, or a total of $460. Now, instead of giving that man $460, the Government gave him an adjusted-service certificate equal to $1,000, and the amount of that certificate was arrived at in this way:

They said, "Well, we have already paid you $60. We paid you that $60 when you came out of the service. Therefore we are going to deduct the $60 from your $460. But we are going to add 25 per cent for waiting, since you are going to have to wait a number of years in order to get your money. Twenty-five per cent of $400 makes $100 which, added to the $400, makes a total of $500. We will give you an adjusted-service certificate equal to what the $500 would pay for if you were going to purchase an endowment policy from a private life insurance company. In an average case that would amount to $1,000."

So the man who was entitled to $460 got an adjusted-service certificate for $1,000. Now, we are asking that this payment be made as of the time the services were rendered, with a reasonable rate of interest to be computed from that time. We do that on the theory that the Government has invoked that principle for others; that it has always been the policy of the Government to pay in that way.

For instance, let us take one who served his country during the time of the war by making war munitions and supplies. He had all of his factory facilities engaged in war work. He paid an income tax in 1917. After the war was over, he filed an application asking the Government of the United States to allow him a refund on his income tax for 1917, because he had failed to deduct a sufficient amount for depreciation of his war facilities during 1917. If he had deducted a sufficient amount, he would be entitled, let us say, to a $460 tax refund. The Government would give him that refund and the Government would give him that refund not as of 1925 but as of the time he paid his income taxes, March 15, 1918, with 6 per cent interest from that time, on the theory that if he had not paid a sufficient income tax and had an assessment levied against him by the Government, he would have had to pay 6 per cent interest from that time. Therefore, the Government turns around and says, if it is fair for you, it is fair for us. The law says you must pay us 6 per cent from March 15, 1918. We will invoke that same principle in this case.

It does not seem to me to be unreasonable, and you may say what is a reasonable rate of interest?

For years and years the Government caused the veterans to pay 6 and 7 and 8 per cent interest. That interest was compounded annually on the money that they received as loans on their certificates. If it was fair and reasonable for them to pay 6 and 7 and 8 per cent interest compounded annually on their certificates, is it not at least fair that the Government pay them at the minimum rate from the time the services were rendered?

That is exactly what we are asking for, and no more. We are not asking for the 25 per cent. We are asking you to exclude that—take it out. That is the only bonus that is in that certificate—that 25 per cent; and we are asking you to take it out. Just give the veterans a dollar and a dollar and twenty-five cents to-day as of the time the services were rendered, with that reasonable rate of interest from that time, the minimum rate at which the Government charged the veteran over that period of years, and each veteran is entitled to receive an amount from the Government equal to the face or maturity value of his adjusted service certificates, October 1, 1931. I have actually taken my pencil and figured it out myself. Others have figured it out, and if you agree with what I have said, there is no question about the amount.

Now, we do not think that a bond issue is the proper way to handle this proposition. We feel it would be detrimental to the country at this time to have a bond issue. I think it must be handled in another way. I think that a bond issue would be so detrimental to the country that we would not be justified in asking for it. Therefore, no bond issue is being proposed, no bond issue is being asked.

I am not going to quote exact figures here, because General Hines is present and he has the figures in his possession, although I got those figures from his office a few days ago and I will refer to them in a general way.

The number of holders of certificates is 3,539,507 of the amount of $3,513,000,000. About 3 per cent of the population of any community are holders of these certificates; about 4 per cent are veterans. The veteran population bears a very definite ratio to the total population of any community, county, or State. You can always arrive at the number of veterans in any community who are holders of certificates by taking 3 per cent of the entire population of that community.

These certificates range in value from $126 to $1,590 each. The average certificate amounts to $1,000.

Two million six hundred and seventy-nine thousand seven hundred and forty-four have borrowed the limit allowed by law, 50 per cent. Now, the argument is being made that they are unpatriotic in asking for the remainder; that they should sit idly by and allow the Government to liquidate those certificates in 1945.

Mr. Chairman, I am not going to ask that these letters that I have here be read. I have pulled from my correspondence certain short letters from all sections of the country, which I consider represent a good answer to that suggestion. I have cut them down as much as I possibly could; and I believe the members of the committee will find them interesting to read—I would like to have the privilege of inserting them as a part of my remarks.

The Acting Chairman. Is there any objection?

(There was no objection.)

Mr. Patman. I will then file for the record at this point, along with a few explanatory remarks by myself, a number of communications and clippings I have received bearing upon this proposal.

Following is a letter from a veteran's wife:

Minneapolis, Minn., *January 12, 1932.*

Mr. Wright Patman,
Washington, D. C.

My Dear Sir: I am taking the liberty to write you about the bonus.

I am an ex-service man's wife. We have six dependent children. My husband, whom you met while in Minneapolis, December 29, has not been working for months.

We owe several months' rent. Our gas, electric, and water will be turned off shortly. What are we going to do.

Mr. Patman, for God's sake get that bonus bill through and get it passed. Not alone ourselves but thousands of ex-service men here in Minneapolis are in the same condition and worse. Won't you for the sake of cold and hungry children have that taken up now and not wait until the last thing. Mr. Patman, I am asking you, send me a word of hope that we may at least have something to hope for.

I am desperate. If we could get that bonus our bills could be paid and our children have clothes and food. I just now received word that unless our rent is paid by to-morrow evening (January 13) we must move—but where. We haven't a cent. What can we do? Can you send me a word of hope?

Sincerely,

——— ———.

The following newspaper item is self-explanatory:

FATHER FROZEN SEEKING FOOD FOR BABIES

Port Arthur, Tex., March 10.—Four small children learned to-day from their widowed mother that their father died last night trying to provide them with food.

T. J. Veazy, a World War veteran, had been out of work for months. His children and wife needed food and he had no money with which to buy it. Wednesday it was cold, colder than it has been this year. The children were crying and hungry. Although he had insufficient clothing to brave the north winds he borrowed a shotgun and a few shells and went hunting.

Rabbits ran better at night and he tramped the prairie looking for them. Shortly before midnight he was found in a beach marsh near here. He had died from exposure, according to Justice B. H. Wiley who held the inquest.

Veazy served over a year in France. He enlisted for service July 21, 1917, six days after his 21st birthday. He was honorably discharged June 25, 1919, as a private in Company C, One hundred and forty-first United States Infantry. He held an adjusted service certificate for $1,579. He had used the loans to the limit of 50 per cent. Had he not died the other 50 per cent would have been practically consumed by compound interest by 1945, or he would have owed the Government at that time.

The following letter is from an Oklahoma banker:

AMERICAN BANK & TRUST CO.,
Ardmore, Okla., March 29, 1932.

Hon. WRIGHT PATMAN,
Washington, D. C.

DEAR SIR: I see by the press that you are daddying a measure to pay the soldiers the balance on their bonus certificates.

Since Congress met last December it has put in a lot of time discussing and passing depression lifters and emergency measures that do not lift nor emerge. This measure that is being pushed by yourself and Senator Thomas is the only simple, reasonable, and practical one that has been offered; that is, to pay the soldiers the balance on their bonus certificates; that will put cash in every hole and corner of the country, a total of more than $2,000,000,000. Let the Government issue bonds bearing say 2 per cent interest, turn these bonds to the 12 Federal reserve banks, the banks issuing Federal reserve currency and pay the soldiers, the bonds to be retired as and when the funds are accumulated to pay off the bonus certificates. This would increase the Government's obligations but very little, in fact the only increase would be what little interest the bonds would draw, and it would increase the credit over the whole country more than $10,000,000,000.

There seems to be a fearful dread in the minds of some wizards of finance of inflating the currency of the country, but not so much fear of deflating values of every kind of property, including labor, until it is so thin that it has to pass a spot twice to make one shadow.

There also seems to be a fear in the minds of some people that these men will spend their money on liquor and riotous living. It is too bad if those middle-aged men could not be risked with four or five hundred dollars each of their own money.

Something must be done quick. The American people have held their poise remarkably well, but if there is no change, many of the people who are out of work and living practically on a dole and losing their farms and homes will go Russian.

There is no psychology nor soothing sirup about this measure; $2,000,000,000 distributed in cash over the whole country will pay for lots of rent, food, and clothing and will be a practical depression lifter.

Yours very truly,

M. GORMAN.

I have received letters from bankers from all over the Nation approving the full-payment bill. If the money is paid it will go into the banks. I hope it will be kept in the local communities as long as possible. One dollar that moves rapidly in a local community will pay lots of debts and relieve lots of distress. The people do not have money. They are reduced to barter.

The following letters are self-explanatory:

EDGEFIELD, S. C., *April 8, 1932.*

DEAR MR. PATMAN: I am writing to you about your proposed bonus pay by issuing new currency. With the rank and file of veterans over the State of South Carolina and in adjacent counties in Georgia, it is the most popular topic of conversation. I am known in all parts of the State and travel a great deal. I have yet to find my first veteran who is really opposed to this legislation. Some half-heartedly oppose it. It is also popular with the small business man. Many people who will not profit at all by being remotedly connected with a veteran, are in favor of it for the reason that they think that this much new currency is bound to help business and the depression. I wish that the men who are supposed to represent the rank and file of the people could know and realize how important this legislation is and also how popular it is with the public outside the veteran circle. Needless to say the veteran is in favor of it.

I congratulate you on your courage and devotion in your fight for the man who served his country in its hour of need, the man who made nothing while millions were laid by by those who never went at all.

Yours sincerely,

LEONARDO ANDREA,
Superintendent of Schools.

THE MONTROSE NATIONAL BANK,
Montrose, Colo., April 2, 1932.

Hon. WRIGHT PATMAN,
House of Representatives, Washington, D. C.

DEAR MR. PATMAN: Some time ago you were good enough to send me a copy of the Congressional Record containing your speech in regard to the paying of the adjusted-service certificates. I have read it with interest but am still undecided about the question, as some authorities say, that it can not be paid at this time, and others with the same facts and figures at hand state that it can and should be paid in full.

However, there is one argument which I have not yet seen advanced, and yet to my mind it is one of the most important reasons why the veteran should be paid in full at this time if any further expenditures on the part of the Government are to be made as a kind of a stimulant to the present conditions. My contention is that it would do far more good and be more far reaching in its effect if the money was in the hands of the veterans than if it was expended for public works and construction. We have a concrete example here in Montrose in the construction of a Federal building. Work on this was started late last fall, and at the present time the basement is about completed. In all that time they have not employed more than 6 to 10 men at one time, and nearly all of these were specialists and skilled laborers. So far as doing anything to relieve unemployment here, it has been a flat failure, for most of the men who were working have been brought in from the outside by the contractors, which, of course, was doubtless necessary. They employ little or no common labor or local men, and still, because the employment department of the American Legion sees that a Federal building is being constructed here, they keep sending us questions and literature as though it were a great opportunity for us to put men to work. Now, if the money which the Government is putting into public works, a lot of them not being needed at all, was used to pay the adjusted-service certificates, the money would be spread over a greater protion of the population and would get into the hands of hundreds of thousands of men who are destitute to-day and in the most dire need of the necessities of life, while, if it used in the construction of roads and buildings, only a few such as the contractors and skilled laborers will benefit. One reads every day of the agitation for construction as a relief measure for the unemployed, but I am of the opinion that it amounts to nothing in the way of actual relief.

The situation is growing more acute each day, and since the Government seems more intent on raising money than on the reduction of expenses most of us have about reached the point where we feel like "dig in, soldier, it is'nt going to last forever." I am not speaking for myself but for the many, many sad cases where families are in need of the severest kind.

Yours very truly,

R. R. GOWDY,
Post Commander, No. 73, American Legion.

STEUBENVILLE, OHIO.

Congressman PATMAN,
Washington, D. C.

DEAR CONGRESSMAN: I hope you are successful in having the balance of our bonus paid.

Am slowly starving and my home is gradually being broken up.

For God's sake and my family's sake please fight for us.

Loyally yours,

——— ———.
[Name deleted.]

MONTGOMERY, ALA., *February 22, 1932.*

Hon. WRIGHT PATMAN,
United States Congress, Washington, D. C.

MY DEAR CONGRESSMAN PATMAN: As I am a World War veteran (now an officer in the United States Army Reserve) I am indorsing your fight for the immediate payment of the balance of the veterans' adjusted-service certificates, as hundreds of other veterans in this section of Alabama are doing. May God help you in this fight to help the ex-service men. They need it.

I used my last year's "bonus" money to pay medicine, hospital, and burial expense for my late wife. I am buying a small farm that I have found if the balance is paid this year.

I wonder if any of the Government officials or the officials or stockholders of the large banks, railroads, and other large corporations that the Government has helped in a financial way, have ever had their little boys and girls come to them and ask for food when they were hungry, or when their school shoes are worn out have they found it almost impossible to get more? Do you think that they have had to make excuses when their kids asked for more school supplies, books, etc.? Has one single one of those gentlemen been forced to buy the cheapest food obtainable for his family to eat, such as grits, potatoes, etc., day after day? Thousands of we, the working class, are in that condition now, the class that actually go into the trenches and crawl around in the rotten filth and mud on our bellies like snakes and fight like devils against whoever our Nation directs us against, and if we come out alive we are proud of it, glad of the chance to offer our lives for our country. And when the next call comes we are ready for more of it. We would all rather hear the whine of a shell than the whine of our hungry kids. Please beg them to do something for us now. We will appreciate it more than they know.

Wishing you success in your fight, I am,

Sincerely,

GEO. C. BENTON.

SAN ANTONIO, TEX., *February 25, 1932.*

Representative PATMAN.

DEAR SIR: The soldiers' bonus bill will soon come before the House. I ask you in the name of humanity to do all you can to put it over.

I have five little children and a wife who are insufficiently fed and are at this present moment hungry.

I have stood in water, mud, and filth up to my waist fighting for my flag, until now, broken in health, out of work, I am obliged to accept charity. To-day they left me a bunch of spinach and a small, very small, piece of meat to feed eight people.

My God, gentlemen, do you think have I no pride? Let me tell you Representatives of the American people, I am as good an American citizen as any of you, and so were my forebears before me. I want work, not charity, and the people must have it.

If the Government will pay us what they owe us it will put just that much money in circulation, for there is no doubt that almost all of the World War men need money as badly as I do.

If this letter could be read by the Representatives of all the States there would be no doubt about the result.

There are thousands of ex-soldiers in actual want right now. I know I am, for as God is my judge, there is not a single penny under this roof at this writing and none in sight, and furthermore, I am willing to make oath to everything I have written.

I have just read a draft of your bill in Congressional Record, and I want you to know I thank you personally, for what you have done for the soldiers.

Would to God there were more men in Washington like you—men who know what the Government owes us, and what is our due.

Mr. Patman, I thank you, so do my babies and my dear wife, and we all say God bless you.

Sincerely yours,

JACK RAST.

FORT MORGAN, COLO., *February 22, 1932.*

Hon. WRIGHT PATMAN,
Washington, D. C.

DEAR SIR: I am writing this letter in an effort to tell why I think the balance of the adjusted compensation certificates should be paid off in the very near future.

I am a disabled World War veteran, rated at 75 per cent disabled. There is absolutely no chanced for me to get any employment which I am able to do. I have a wife and three children, and we have to accept charity from different organizations. If I could receive the balance of my Government pay I could get a little tract of land, with chickens and a cow or two, and I'm quite sure I could make my own way and be better physicially.

I feel, as many others do, that the United States Government paid off their civilian employees at $10 and $15 per day, and the soldiers were paid $1 a day to be lined up and shot down. I certainly think we should be paid off, when we can't possibly get jobs and the foreigners are holding down a good many of the jobs. We are desperately in need of the money which is rightfully ours. With what we have borrowed, by the time the certificate is payable, the interest will have eaten it up. We'll simply be cheated out of it. I hope this letter will leave an impression, that the Government will come to our rescue before it is too late and every one of us will be paupers, depending on our individual counties. And it's pretty hard getting things from counties, too, and it's not pleasant feeding one's children on a biscuit and bean diet.

Very sincerely,

LEE E. HEMENOVER,
319 West Beaver Avenue.

(Veteran serial number C1424234.)

I will not name the city from which the following clipping came. Many clippings disclosing similar conditions in different sections are in my possession:

Because he struck a man who tried to wedge into a food line at the garbage dump located at Thirty-second and Cicero Avenue, John Reyee, 3439 West Thirty-ninth Street, spent three days in the local jail house.

Lines form every day at the garbage dump from 8 in the morning to 5 in the afternoon, awaiting truckloads of city refuse that is dumped here daily. Men and women come there to see if they can't find food to carry back home with them. They get some if they come early enough.

Two billion, two hundred million dollars placed into circulation will help everybody. It should be called "stimulating currency," because it will stimulate conditions.

Here is what a veteran's wife thinks:

FEBRUARY 25, 1932.

Hon. WRIGHT PATMAN,
Washington, D. C.

MY DEAR CONGRESSMAN: May I give you a woman's point of view on the bonus? I am a soldier's wife, so I speak for millions of women and children. Day by day we see our children needing the things our bonus would purchase such as stockings, handkerchiefs and underwear. We see our men getting thin and weary worn looking for jobs and wondering where the rent is coming from. We ask our God how much longer must we be victims of this manmade depression.

Now we look toward the bonus as a help. We're trying very hard to be brave and loyal.

Won't you help us to get what is really ours?

In my estimation its an ideal way to get those idle dollars working, for one may rest assured they will be spent for the real necessities of life.

AN AMERICAN MOTHER.

If the certificates are not paid now, compound interest on previous loans will consume the remainder and in many cases the veterans will owe the Government from $100 to $200 more interest than they will receive in 1945.

A California veteran writes as follows:

Congressman WRIGHT PATMAN,
Washington, D. C.

DEAR CONGRESSMAN PATMAN: I served all through the World War. My wife is sick and can not help me any more, 4 little babies starving, the man took my home away from me for I could not keep up the payments. Had over $3,000 paid in even 7 per cent war bonus. Now I live in 3-room house starving slowly. I was born in Garden Valley, Tex., lived there my first 21 years of life. I was on the *Jacob Jones* and *Chancey* when they went down during the war, laid in the water so long I am slowly losing the use of my left side. I am desperate for work. I gave my all to the Government, now they refuse me work.

Wishing you the best of luck, health, and happiness, I beg to remain.

Sincerely,

——— ———.

The following story is from the New York Daily News:

IDLE VETERAN PREFERS PRISON TO PANHANDLING

He was one of a dozen men swept into west side court yesterday by police in their attempt to clear Broadway of panhandlers.

He said his name was John Hogan, that he enlisted at 15 as a bugler, when the United States entered the World War, and that he was gassed at Chateau Thierry.

Hogan is 30 now, as years go. But he looks 50. His hair is white, his face is seamed and his hands trembled as he stood before Magistrate Edward Weil.

"You've been convicted of panhandling four times," said the Magistrate. "But you've had your share of bad breaks. I think I'll let you off."

"I'd rather go to jail, Judge," Hogan answered. "I can't get a job. I work maybe one day a week and get $1.75 for it. Panhandling is bad enough, but that sort of work is worse. You've been very kind. Please give me 30 days."

"As you will," said Magistrate Weil. "Thirty days it is."

Four others seized in the drive were given jail terms.

The following letter illustrates that the money will be used for good purposes:

FEBRUARY 23, 1932.

Hon. WRIGHT PATMAN.

DEAR SIR: As an ex Y. D. war veteran I want to thank you for your stand on the bonus question.

I was gassed during the war but I am not getting anything from the Government. I have been out of work for a long time; fortunately my wife is working a little and we manage.

But now the unavoidable is about to happen, that is, a baby is coming about August. But my wife will be obliged to quit work soon. Then I don't know what we will do for expenses. Unless we receive either the bonus or some form of payment.

I am respectfully,

——— ———.

The following clipping from a Detroit paper is self-explanatory:

POVERTY WRECKING WAR VETERAN'S FAMILY

"I've had to send my baby girl away so she wouldn't be put out on the street with us."

This cry of despair was found in a letter from the wife of a war veteran, asking Mayor Murphy to help her husband find a job, even if it were for only two or three days a week.

"I don't want to be on the welfare," she said. "All I ask is coal and rent, and I can feed myself. We haven't been able to pay our rent, and the trust company threatens to put us out any day. We have been living on $2 a week, which I get from a girl roomer."

With the recent onslaught of low temperatures, coal is a more serious problem for the welfare department than it has been previously.

Fifteen years ago Mrs. B's husband was ready to give his life for his country. Now it is up to his countrymen to make his life worth living.

Following is a report of a case in the East:

SEEK NURSE FOR PAIR—EX-SOLDIER AND WIFE BOTH HAVE DOUBLE PNEUMONIA

Red Cross chapter was trying to-day to get nursing services from United States Veterans' Bureau for an ex-soldier and his wife who both have double pneumonia.

The family lives on a farm and there are five young children. A neighbor woman is coming in occasionally to help.

"It is one of the most pitiful cases I ever have seen," Miss Emma Justus, Red Cross secretary, said to-day.

"When I went to see them yesterday, the mother was unconscious and the father was almost too ill to speak. They also need groceries."

Since he is a disabled ex-soldier and unable to be moved to a Government hospital, Miss Justus has applied to Veterans' Bureau for a nurse to care for him.

The following letters explain themselves:

Mr. PATMAN:

DEAR SIR: My family and I are on the verge of loosing our home and will have to resort to charity if some relief don't come soon I have been out of work five months.

I served 11 months in France during the World War in the One hundred and fourteenth Machine Gun Battalion and will appreciate more than words can express my gratitude and thanks to you if you will do all in your power to help us at this time by putting above-mentioned bill across.

Sincerely yours,

——— ———.

FEBRUARY 22, 1932.

Hon. Mr. PATMAN.

DEAR SIR: I am taking the liberty of writing to you in regard to the noble stand you have taken in behalf of the ex-soldiers during these hard times of depression. I served in the Army 22 months—12 months in France. I am married; have two children and unable to find employment of any kind; so am living on associated charities. Words can not express the gratitude and appreciation of your good work, and hope you are successful in getting the balance of the bonus paid to the ex-soldiers.

Sincerely yours,

CHAS. A. O'DELL, *Pampa, Tex.*

BONUS, TEX., *February 21, 1932.*

DEAR SIR: I am writing you a few lines for the need of my money.

I have a wife and five children. Times are so tight; things is so high; work is so cheap and scarce; cotton was so cheap last year I did not get out of debt and I owe half of my grocery bill yet from last year, and that makes it still harder for us.

And yet and still I am trying to farm.

I am needing for clothes and shoes for the family.

I like to get it if I could.

From,

OLLIE CALLIE.

If more money is put into circulation, prices of commodities will rise. The country will be destroyed if we try to adjust our living standards to present prices.

The following letter was written by a veteran's wife:

MARCH 31, 1932.

To whom it may concern:

Please give my husband a job of any kind. My husband left me and three children here in Detroit and went himself to Dayton, Ohio. He left me here penniless. We are simply starving, picking up food after other people. We also have no clothes, no shoes, and no fuel. Our gas and electric is shut off three months ago. My children are going to have consumption from lack of food.

So please have pity on me, my husband, and my children, and give him a job of some kind so he could help me out of this what I'm in. Any favor done to my husband will be greatly appreciated by me and my children.

Respectfully yours,

—— ——.

I have received thousands of similar appeals from every section of the United States. It is true that the suffering is not restricted to the veterans and their families, but by paying the veteran this debt it will stimulate economic conditions and help everybody.

In connection with the question of whether or not the veterans are unpatriotic, let us see what they will get in 1945 if these certificates are not paid now.

You have over 2,000,000 men who need this money for the comforts and necessities of life. They need it to buy clothing and food for themselves and for their families. It is all right to tell them they should be patriotic. They are patriotic. They manifested their patriotism in the past. But it is awfully hard to convince them that it is right for them to sit idly by and see their families and themselves suffer while the Government is consuming the remainder of their certificates in compound interest. That is something that is very difficult to understand.

Let us see what these veterans will get. We will take the average certificate of a thousand dollars where a veteran has borrowed the limit allowed by law. He got his money in little dribs until the 50 per cent loan act was passed and then he got a substantial sum. If he pays 4½ per cent interest compounded annually from now until 1945, let us see what he will have. He can not borrow any more money until 1944 and then he will be permitted to borrow $16.55. The next year, 1945, the Government will settle with him, and will pay him $66.25 and the certificate will be canceled. But all the veterans are not so fortunate as to receive even that sum. Some of them will continue to pay 6 per cent interest compounded annually because they borrowed from the banks and the banks at the end of six months have turned their certificates in to the Veterans' Administration.

It is the ruling of the Veterans' Administration that where a veteran borrowed from a bank, using his adjusted-service certificate as collateral, and pays the bank 4½ per cent interest, compounded annually, as the present law requires, such a veteran will be required to pay 6 per cent interest, compounded annually, on this loan when the bank transfers it to the Government at the end of six months. This will result in the veteran who is the holder of a certificate of the average amount, $1,000, being indebted to the Government in the sum of $112.18 on the date of the maturity of his certificate in 1945.

The following table is based upon an assumed case. It is assumed that the veteran has a certificate for $1,000; that it was dated January 1, 1925, and made payable January 1, 1945; average age of 33 at the time of issuance; that loans were made by a bank in the eleventh (Texas) Federal reserve district each year on January 1, from 1927 to 1931, inclusive, then a loan on March 1, 1931, for the 50 per cent loan value and redemption of the note by the Government in six months:

Year	Loan value	Interest rate effective at date of loan	Interest due beginning of year	Cash to veteran	Reserve value
		Per cent			
1925					$31.14
1926					73.71
1927	$87.99	6		$87.99	97.77
1928	120.06	5½	$5.27	26.80	133.40
1929	153.59	6½	6.60	26.93	170.66
1930	188.67	7	9.98	25.10	209.64
1931	225.38	5½	13.20	23.51	250.43
Emergency loan act, Mar. 1, 1931	500.00	4½	2.06	272.56	
Redemption by the Government Sept. 1, 1931	500.00	6	11.25		
1932	500.00	6	30.67		293.11
1933	500.00	6	32.51		337.80
1934	500.00	6	34.46		384.59
1935	500.00	6	36.53		433.60
1936	500.00	6	38.72		484.96
1937	500.00	6	41.04		538.80
1938	535.73	6	43.51		595.26
1939	589.05	6	46.12		654.51
1940	645.06	6	48.88		716.74
1941	703.92	6	51.82		782.14
1942	765.86	6	54.93		850.96
1943	831.12	6	58.22		923.47
1944 [1]	900.00	6	61.71		1,000.00
Jan. 1, 1945			21.80		
Total			649.28	462.89	

[1] At this point the amount of principal and interest due on account of the amount paid the bank on Sept. 1, 1931, would exceed the face value of the certificate.

The above tabulation was prepared by the Veterans' Administration at my request and forwarded to me by Gen. Frank T. Hines.

By deducting the amount of cash received by the veteran from the amount of interest due by the veteran it will be discovered that the veteran will owe the Government $112.18 instead of the Government owing him one penny.

Veterans who have borrowed on their certificates are paying $166,000 a day interest.

A veteran of the average age, who was 33 years of age January 1, 1925, received from the Government an adjusted-service certificate for $1,000, the average value. He has borrowed on the certificate every opportunity and will continue to do so as a majority of the veterans have done. He will not repay any part of the principal or make any interest payments. The following computation furnished by the Veterans' Administration shows the amount the veteran receives in cash, the amount of compound interest charged, and other information:

Year	Loan value	Interest due beginning of year [1]	Cash to veteran	Year	Loan value	Interest due beginning of year [1]	Cash to veteran
1925				1936	500.00	26.75	
1926				1937	500.00	27.95	
1927	$87.99		$87.99	1938	535.73	29.21	
1928	120.06	$5.27	26.80	1939	589.05	30.52	
1929	153.59	7.20	26.33	1940	645.06	31.90	
1930	188.67	9.21	25.87	1941	703.92	33.33	
1931	225.38	11.32	25.30	1942	765.86	34.83	
Emergency loan act, March, 1931	500.00		274.62	1943	831.12	36.40	
				1944	900.00	38.04	16.55
1932	500.00	21.00		Jan. 1, 1945 (10 months)		33.75	66.25
1933	500.00	23.44					
1934	500.00	24.48		Total		450.20	549.80
1935	500.00	25.60					

[1] Interest at maximum rate of 6 per cent to March, 1931, and maximum of 4½ per cent after March, 1931.

It will be noticed that the veteran will receive less than $100 more on his certificate than the Government will receive in interest; or will receive $49.80 more than one-half the value of his certificate.

Only one substantial payment has been or will be made on the certificate. The other payments are in dribs and not sufficient to afford substantial relief for any purpose. After the 50 per cent loan is granted the remainder of the certificate will be practically consumed by compound interest. His next loan will be granted January 1, 1944, for $16.55. The Government does not pay compound interest for the money it borrows.

Now, it is awfully hard to convince people, 2,000,000 of them who need this money for the purposes for which they do need it, that in order to be patriotic they must sit idly by and let the balance of this certificate be consumed by compound interest, and not say a word about it. It is awfully hard to convince them that that is the right thing to do.

Mr. ESLICK. Will the gentleman yield for a question?

Mr. PATMAN. Yes, sir.

Mr. ESLICK. Do you mean that where veterans have borrowed from banks on the basis of 6 per cent interest, and that certificate is turned in to the Government, it continues to bear a 6 per cent interest rate?

Mr. PATMAN. I mean that where he has borrowed on the basis of .6 or 4½ per cent and the bank turns it in to the Government, as I understand it, there was one section of the law that was not changed—possibly the Congress intended to change it, but it did not change it—when it is turned in to the Government at the end of six months, counsel for the Veterans' Administration has held that they must pay 6 per cent from then on. Am I right about that, General Hines?

General HINES. That is right. One section of the law, Mr. Chairman, requires that whenever the Government redeems a loan from the bank the certificate went into the adjusted-service certificate fund and the veterans paid 6 per cent interest. We have submitted the matter to the comptroller hoping that he might agree with the feeling that I have, that while Congress did not specifically change that provision, we felt that when they expressed the wish that they pay not more than 4½ per cent, it was the intention to apply it to the entire law, though they did not apply it. There was one provision that was not amended, although it was mentioned at the time. If the comptroller will agree with the Veterans' Administration, we will continue at 4½ per cent under that provision, although technically and legally, I feel sure the provision is correct and requires 6 per cent.

The ACTING CHAIRMAN. The comptroller has not yet rendered a decision?

General HINES. He has not yet rendered a ruling. In the event he feels there is not sufficient law, the Veterans' Administration would be favorable to a change in that provision.

Mr. MCCORMACK. Will the gentleman permit me to ask the general a question?

Mr. PATMAN. Yes.

Mr. MCCORMACK. You state technically and legally it is correct?

General HINES. Yes, sir.

Mr. MCCORMACK. But from the practical angle it is incorrect?

General HINES. No. From the practical angle it would be much simpler, administratively, to have them all at 4½ per cent. The law is quite specific. The provision is not ambiguous.

Mr. PATMAN. Thank you, General. At any rate, the law as it is now means that the veterans are being charged 6 per cent. I have statements in my office that disclose that and there is no question about it. Of course, as the general says, if the comptroller does not agree with him that the law should be changed, they will probably continue to do it.

Mr. BACHARACH. May I interrupt the gentleman?

Mr. PATMAN. Yes, sir.

Mr. BACHARACH. How many of the veterans are paying 6 per cent?

Mr. PATMAN. Well, not so many; just those who borrowed through the banks.

Mr. BACHARACH. You do not know the number?

Mr. PATMAN. I do not know the number, but it is a small number. If the gentlemen will pardon me, I would like not to be diverted at this point.

Mr. BACHARACH. Surely.

The ACTING CHAIRMAN. The gentleman does not have to yield for any question, if he does not desire.

Mr. PATMAN. The main feature of this proposition at this time is what I would call the reflation feature. Inflation is putting too much money in circulation; deflation is taking out too much. Reflation is restoring the amount of money that should not have been taken out, in order to bring the country back to prosperity.

I will admit it is not so much the volume of money that makes a prosperous country as it is the velocity of the money and credits. Since 1929, the velocity of money and credits has decreased 50 per cent. There is only one way to make up for lack of velocity and that is by increasing the volume of money. We are hopeful in asking for the passage of this legislation that this will not only pay these certificates, but that it will put sufficient money in circulation to cause commodity prices to rise and when commodity prices rise, money will be brought out of hoarding, because there will be some incentive to bring money out.

The manufacturer manufacturing his goods on the basis of a certain wage scale, by purchasing his raw materials at a certain price, can see a little profit in the transaction. There will be some incentive for him to put men back to work in the factory to produce goods. As it is now, the manufacturer of these goods, if he were to set about manufacturing them, by the time they were manufactured and sent out on a declining market, would lose money. Therefore the best thing to do is to lay off men and cut down their force and save as much of the expenses as possible. But, with a rising market, there is every incentive for them to put men back to work. That will restore the prosperity of our country.

Well, you will ask, "How much money should be put into circulation?" I am not going to try to answer that. We are going to have economists here who will answer that. But I do make this statement, that I do not think it is possible that the amount of money to be put into circulation will be too much. The question in my mind is, is it enough? I doubt that it is.

The people are being reduced to barter. Down in Houston, Tex., the other day I read a great big advertisement that said, "Mr. Farmer, you have no money; neither have we. We have gas and oil. You have chickens. Bring your chickens and we will trade you gas and oil for them." People do not have enough money with which to do business. Something has got to be done to get money out among the masses.

It is true that the President of the United States and other patriotic people in our Nation have been striving to get money out into circulation, sufficient for people to do business with. But to my mind it has not yet percolated down to the masses and it does not look as though it is going to percolate down to the masses. Our theory is you must start with the masses and let the money go upward. If you will put purchasing power in the hands of the consumer, in the hands of people who have the consuming power but do not have the purchasing power, you will cause goods to be bought. You will see these veterans and their families in the stores the next morning buying clothing and hats and shoes and food for them to eat. You will see a demand for goods and with a demand for goods and other things, there will be an incentive for manufacturers to borrow some money and get back to manufacturing. As it is now, why should a man borrow money from the bank, even if the bank is willing to lend it to him? He has no business into which to put money that will make him money. There is a declining market. There must be something done to cause or to bring about a rising market.

I have a letter from a man who visited 97 Kansas towns and cities. He called on the drug stores. He said that he started out against this proposal. He said that these gentlemen on whom he called were not particularly for the veteran, but they wanted this money in circulation. He said without exception those 97 managers of those drug stores said that the only salvation to this country was to pass this bill and get this money in circulation so that there would be enough money with which to do business.

These are all typical letters. I have another letter here from a merchant down in Texas. He is not even remotely connected with the veterans, but he says that unless something is done to get money out to the masses of the country in this country, that we are in a deplorable condition.

A banker from Oklahoma says that the people have maintained their poise remarkably well, but unless some thing is done in the very near future to get this money out among the masses, he does not know what is going to happen in a very short time. It is a dangerous situation.

The Federal reserve system is buying some Government bonds, but who gets that money? The people who hold these bonds are already buying as much as they want to buy. They are not going to buy an extra pair of shoes or an extra hat or an extra suit of clothes because the Federal reserve system has issued to them those Federal reserve notes that would circulate as currency. They already have plenty. But if that money can reach the masses, the people who are in need of these things but do not have the purchasing power, there will be a great incentive for them to buy and of course that will help conditions generally.

I have talked to many economists about this and I believe that this theory is sound, that we can issue paper currency for the difference that is due on these certificates. I believe that we can issue United States notes. I have referred to them as United States Treasury notes, but it makes no difference how you refer to them. But in order to make them the same as the money we now have outstanding, that should be changed to United States notes. The same principle is involved.

We have this prejudice to overcome. They will say, "Look at the inflation in Europe, in Russia, in the South American republics. How are you going to overcome that?"

Well, we do not expect to start out here on any kind of a program that would cause such wild inflation as occurred in Germany. We do not expect to try to put five tons on a 1-ton truck. We do not expect to try to issue several times as much money as this country needs. It will be all right with us to tie to a 40 per cent gold base and just say that the policy of this Government is, as it has been in the past, that we would never issue currency that will be in excess of a 40 per cent gold base.

I believe it is sound, and I believe that many economists in the United States will say so. But here is the prejudice. They will say, "Take the Civil War; think about the greenbacks." They went down to almost nothing; and some of our friends claim now that those greenbacks were backed by 40 per cent gold, which, of course, was a mistake. They were not backed by 40 per cent gold. And in support of that I want to insert an excerpt from the Encyclopaedia Americana, page 427, volume 13, on the greenbacks issued during the Civil War.

(The statement referred to is as follows:)

February 25, 1862, $150,000,000 authorized; not receivable for import dues nor payable by the Government as interest on its obligations.

June 11, 1862, and March 3, 1863, further issues were authorized; and on January 3, 1864, they reached their maximum amount of $449,338,902. The great inflation, the uncertain fortunes of the war, and the belief that even if victorious the United States neither could nor would pay its enormous debt at face value, but would reduce or scale it, combined to depreciate the value of the notes; throughout 1864 they were worth on an average only about 45 cents on the dollar, and on one day, July 11, when Early was threatening Washington, they dropped in panic to about 35 cents.

Mr. Patman. That statement shows that these greenbacks were not backed by any 40 per cent gold. They had nothing behind them. All they had behind them was the credit of this Nation; and when General Early of the Southern Confederacy was about to take Washington, this article discloses, the credit of the Nation was impaired, and when the credit of the Nation was impaired the greenbacks went down to 35 cents on the dollar. But when the war was over and Secretary of the Treasury Sherman issued an order that "hereafter these greenbacks shall not only be good for certain debts that are specified, but they shall be good for all debts"—I sent to the Library and got a copy of that order; it was issued in 1879—from that time on those greenbacks remained at 100 cents on the dollar, and they have never gone down. In 1900 there were $346,000,000 worth of these greenbacks and Congress set aside $156,000,000 as a gold reserve, and since that time they have had a gold reserve of 40 per cent behind those United States notes.

Well, there is nothing else behind them. There is no 60 per cent eligible paper behind them. That is the same principle that we want you to invoke here, except that the other 60 per cent in our case will be backed by Government obligations—these service certificates that are held by veterans of the World War. Now, if United States notes are fiat money—of course, our plan would probably be called fiat money; but our plan is no more fiat money than any other paper currency that is now being circulated in this Nation, except the gold certificates, which are 100 cents on the dollar.

Now, we have $4,000,000,000 worth of gold in this Nation. That statement can be verified by reports from the Treasury Department. Four billion dollars' worth of gold is enough to justify the issuance of $10,000,000,000 worth of currency. But do we have $10,000,000,000 worth of currency in circulation? No; we have five and a half billion dollars' worth of currency in circulation. So it is not the gold standard of 40 per cent that our Nation is suffering from, but it is the double gold standard that we are suffering from. If you would just issue money as long as you had a 40 per cent gold base, we would have plenty of money in circulation; and I venture to suggest that this depression, if it happened at all, certainly would not have been so harmful and detrimental as it has been if that money had been issued.

I want to insert in the record some excerpts from statements recently gotten up by economists from Cornell University, Doctors Pearson and Warren.

The ACTING CHAIRMAN. Without objection, they will go in the record.

Mr. PATMAN. Here is one statement:

> The unemployment in the United States is variously estimated at from six to eight million.
>
> Since 1929, the decline in prices in England, France, Germany, Italy, have been very similar, France 33 per cent; England, 28; Italy, 27; United States, 26; and Germany, 22.
>
> Since 1929, prices in China have risen 8 per cent. China is on a silver basis. In the same period, prices in gold-using countries have declined from 22 to 33 per cent. At the same time that other countries are feeling the effects of declining prices, China is feeling the effects of rising prices. There is full employment and profits are large. It does not follow that the prices in the gold-using countries would have been the same as the prices in China had these countries been on a silver basis. The use of any metal as money changes the demand for it and hence changes its value.

Here is a statement about the debts of the country, private and public—a statement to the effect that all debts amount to about $203,000,000,000. Therefore this $2,000,000,000 that we are asking to put in circulation would only represent about 1 per cent of the total public and private debts, and certainly 1 per cent would not be too much.

(The statement referred to is as follows:)

TABLE 2.—*Estimated public and private debts of various classes in the United States*

[000,000 omitted]

Year	Gross public debt less sinking fund assets of all classes of Government organizations in the United States					Building and loan assets [2]	Bank loans [3]	Farm mortgages [4]	Corporate liabilities [5]	Life insurance policy loans and premium notes [6]
	National	States	Counties	Incorporated places and all other civil divisions						
				Cities over 30,000 [1]	All other places					
1912	[2] $1,029	[2] $346	[2] $372	[8] $1,809	*$1,374*	$1,138	$14,041	[9] $3,320	--------	$588
1922	[1] 22,156	[7] 834	[2] 1,273	3,281	*3,200*	3,343	27,684	[10] 7,858	--------	1,141
1929	*16,000*	[7] 1,662	--------	5,530	*6,970*	8,695	41,782	--------	$76,096	2,379
1930	*16,000*	*1,800*	--------	*8,000*	*7,000*	8,829	40,510	9,241	--------	2,807
1931	*18,000*	*2,000*	*3,000*	*9,000*	*7,000*	--------	35,211	--------	--------	*3,400*

Figures in italics are estimates.

[1] Financial statistics of cities having a population of over 30,000: 1929, United States Department of Commerce, Bureau of the Census, p. 5.
[2] Statistical Abstract of the United States, 1930, Fifty-second number, pp. 220 and 277.
[3] Comptroller of the Currency for 1930, Reported loans and discounts as of 1930 for banks, pp. 737 and 745. Statistical Abstract of the United States, 1912, pp. 622–625, 1922, pp. 516 and 521; 1924, p. 243; and 1930, pp. 267 and 271–273.
[4] Yearbook of Agriculture, 1924, p. 190, reports the farm mortgages for 1920. Later data by E. Englund and D. L. Wickens, of the United States Department of Agriculture.
[5] Furnished through the courtesy of E. White, chief statistician, office of Commissioner of Internal Revenue, United States Treasury.
[6] Insurance Yearbooks of the Spectator Co., and furnished through the courtesy of W. A. Berridge, of the Metropolitan Life Insurance Co.
[7] Financial Statistics of State Governments: 1929. Bureau of the Census, p. 3.
[8] 1911.
[9] 1910.
[10] 1920.

Extremely rough estimates of the total indebtedness are shown in Table 3. The total debt is approximately $1,700 per capita, or about one-half of the national wealth in 1929. If the value of commodities is to drop one-third and remain at that level, the debt would become about 75 per cent of the value of the property, So much of this can never be collected that it is probable that the lenders would have a greater buying power if they were paid in full at a price level of 150. The usual argument for reducing wages is that a dollar has more buying power. This same argument might be applied to debts which are the most serious result of deflation.

TABLE 3.—*Rough approximation of public and private debts* (*from Table 2*)

Debt	Amount, billions	Per cent	Per capita
Corporations	$76	37.4	$618
Urban mortgages [1]	37	18.2	301
Bank loans	35	17.3	284
State, county, and local	21	10.3	171
National	18	8.9	146
Farm mortgages	9	4.4	73
Life insurance policy loans and premium notes	3	1.5	24
Retail installment paper [2]	3	1.5	24
Pawn brokers loans and unlawful loans of all kinds [3]	1	.5	8
Total	203	100.0	1,649

[1] Based on estimates furnished through the courtesy of George Terborgh of the Brookings Institution.
[2] Based on reports of the National Association of Finance companies.
[3] Ryan, F. W., Family Finance in the United States, the Journal of Business of the University of Chicago, vol. III, No. 4, pt. 1, p. 404, October, 1930.

The decline in commodity prices has resulted in many business failures. During the last two years 3,635 banks have suspended, with deposits of $2,624,000,000. In the same period, 54,640 business failures have occurred, with liabilities of $1,405,000,000.

EFFECT OF DECLINING PRICES ON HOME OWNERS

The home owner's security is in the value of a home. If commodity prices fall so that the home can be built for 25 per cent less than he paid, his equity is gone unless he paid more than 25 per cent down. But when all the bankrupt properties are thrown on the market, buyers disappear as if by magic, and the multitude of sellers depress prices so that an owner who paid 50 per cent down may see his equity disappear. In such a time it is well to remember that well-constructed, well-located homes have a permanent value even if they are unsalable for a time.

Mr. PATMAN. The next statement shows farm wages by the month, with board. It shows that the decline in farm wages has been about 50 per cent in the last year or two, because commodity prices have gone down so.

(The statement referred to is as follows:)

During the World War period, wholesale prices in the United States have declined more than one-half since 1920, and union wage rates are beginning to decline.

FARM WAGES

Farm wages for various States are shown in Tables 1, 2 and 3. Farm wages are a compromise between city wages and farm prices. In States distant from industrial centers, farm wages follow farm prices fairly closely. In States that are near industrial centers, farm wages are influenced more by city wages than by farm prices. For example, in 1919 union wage rates were 58 per cent above pre-war. Prices paid to farmers were more than double pre-war, and wages in North Dakota were 86 per cent above pre-war, but in New York State only 76 per cent above. For 1931, union wages were much more than double pre-war, but farm wages in North Dakota were below pre-war, and in New York were 42 per cent above pre-war.

The farm wages paid in Alabama average $11.83 per month in addition to board. This is below pre-war. A considerable number of persons feel that the present depression is a proper punishment for luxurious living. If this is the case, conditions in Alabama ought to be good. Living could scarcely be luxurious enough to be injurious on $12 per month.

TABLE 1.—*Farm wages by the month with board, 1910–1931* [1]

Year	New York	Pennsylvania	Alabama	Texas	Iowa	North Dakota	Oregon	United States
1910–1914	$24.56	$19.75	$13.5	$18.74	$29.34	$30.08	$31.40	$20.41
1910	23.50	18.75	13.00	18.00	28.00	29.00	32.00	19.58
1911	24.00	19.20	13.70	18.40	28.30	28.90	31.00	19.85
1912	24.40	19.80	13.70	19.00	29.60	30.30	31.00	20.46
1913	25.50	20.60	14.40	19.20	30.70	31.00	31.00	21.27
1914	25.40	20.40	13.00	19.10	30.10	31.20	32.00	20.90
1915	25.40	21.00	12.50	18.70	31.10	32.00	31.30	21.08
1916	29.40	24.00	12.50	20.40	34.10	33.20	34.50	23.04
1917	35.00	30.00	16.00	25.00	41.00	41.00	44.00	28.64
1918	40.00	34.00	21.20	31.00	50.00	52.00	58.00	35.12
1919	43.30	37.80	25.50	38.80	55.00	56.00	64.00	40.14
1920	54.40	47.00	29.30	42.00	66.35	70.00	68.00	47.24
1921	40.00	35.00	17.00	26.00	39.60	40.00	44.50	30.25
1922	39.70	33.00	17.60	24.20	36.80	38.70	43.50	29.31
1923	45.50	38.00	19.90	28.30	43.30	40.30	52.50	33.09
1924 [1]	47.30	39.24	21.67	29.33	43.82	41.92	45.93	33.34
1925 [1]	48.40	39.42	23.46	27.75	44.58	43.17	45.79	33.88
1926 [1]	49.60	40.63	22.00	28.67	45.79	44.17	49.25	34.85
1927 [1]	49.42	40.21	21.08	26.83	46.92	44.58	49.96	34.93
1928 [1]	48.52	38.83	21.50	29.54	47.37	45.12	48.17	34.96
1929 [1]	49.25	40.08	21.17	29.13	47.42	43.96	50.46	35.16
1930 [1]	44.58	38.83	17.83	25.88	45.00	35.63	46.29	31.57
1931 [1]	34.96	29.46	11.83	19.08	32.96	25.25	33.08	23.84

[1] The quarterly wages published by the United States Department of Agriculture were weighted in the following manner to obtain the average yearly wage rate: Apr. 1, July 2, Oct. 2, and the following Jan. 1.

Index Numbers of Wages, 1840–1926. Monthly Labor Review, United States Bureau of Labor Statistics, Vol. 26, No. 2, p. 332, February, 1928, and Warren, G. F., and Pearson, F. A., Purchasing Power of Wages, Farm Economics, No. 68, p. 1438, November, 1930.

TABLE 2.—*Index numbers of wages, 1910–1931*

[1910-14=100]

Year	Farm wages by the month with board								Union wage rates	Earnings of New York factory workers
	New York	Pennsylvania	Alabama	Texas	Iowa	North Dakota	Oregon	United States		
1910	96	95	96	96	95	96	102	96	96	----------
1911	98	97	101	98	96	96	99	97	98	----------
1912	99	100	101	101	101	101	99	100	100	----------
1913	104	104	106	102	105	103	99	104	102	----------
1914	103	103	96	102	103	104	102	102	104	101
1915	103	106	92	100	106	106	100	103	105	104
1916	120	122	92	109	116	110	110	113	109	116
1917	143	152	118	133	140	136	140	140	117	132
1918	163	172	156	165	170	173	185	172	135	164
1919	176	191	188	207	187	186	204	197	158	190
1920	221	238	216	224	226	233	217	231	203	227
1921	163	177	125	139	135	133	142	148	210	207
1922	162	167	130	129	125	129	139	144	197	202
1923	185	192	147	151	148	134	167	162	215	220
1924	193	199	160	157	149	139	146	163	233	223
1925	197	200	173	148	152	144	146	166	243	228
1926	202	206	162	153	156	147	157	171	255	234
1927	201	204	155	143	160	148	159	171	265	236
1928	198	197	159	158	161	150	153	171	266	237
1929	201	203	153	155	162	146	161	172	268	242
1930	182	186	131	138	153	118	147	155	278	232
1931	142	149	87	102	112	84	105	117	279	213

Mr. PATMAN. Now, these farmers during good times voted bonds to build schoolhouses and construct roads and make other public improvements. They did it on the basis of 20-cent cotton and more than a dollar a bushel for wheat. Now, the citizen who holds these bonds does not have a right to take a hundred-dollar bond of that farmer and strike out "$100" and put "$400" there; neither does the bondholder have a right to strike out "6 per cent interest" and put "24 per cent interest" there. But by reason of contracting the currency, and by reason of the low velocity of money and credits, the dollar has become so dear that it is equal to that same thing—those farmers having to pay $400 instead of $100 in commodities, and 24 per cent interest instead of 6 per cent interest.

So before we can ever get this country back, I plead with you that something must be done to put money in circulation, and new money that will stimulate trade and cause commodity values to rise, in order that people may be able to pay their debts.

Doctor Pearson and Doctor Warren say:

NO ONE GAINS BY DEFLATION

All action, public or private, that is based on the idea that some person or group of persons are to blame for the present situation, is unsound. All action that assumes that the losses which one is sustaining are due to gains being made by some one else is equally unsound. The losses are unequal, but practically everyone loses. The trouble is that civilization has not yet progressed far enough to invent a stable measure of value. Not long ago, an outbreak of bubonic plague was blamed on individuals. It is now known that the trouble was due to the lack of development of science or education, or both. Economic diseases are due to a lack of development of economic science and education. Vast sums of money have been spent on chemical and medical research. Very little has been spent on economic research. The little science that has been developed in economics has not become common knowledge, as, for example, the knowledge about bacteria.

Economic troubles are not acts of Providence any more than polluting a stream with typhoid is an act of Providence. Both are acts of man and can be remedied, when there is sufficient knowledge.

I have here a statement of monetary gold. This statement is from 1880 down to date. The first column shows the total money in circulation; the next is the monetary gold coin and bullion; the next, the total monetary circulation; the next is the individual deposits; then the percentage of gold to total money; and then the monetary circulation per dollar of gold.

(The statement referred to is as follows:)

TABLE 3.—*Monetary gold, money in circulation, and bank deposits in the United States on June 30, 1880–1931*

Period of year	Total money [1]	Monetary gold coin and bullion [1]	Total monetary circulation [2]	Total individual deposits [3]	Percentage of gold to total money [1]	Monetary circulation per dollar of gold	Deposits per dollar of gold
1880–1889 [4]	$1,488,000	$563,000	$1,222,000	$2,988,000	37.8	$2.17	$5.31
1890–1899	1,845,000	699,000	1,628,000	4,962,000	37.9	2.33	7.10
1900–1909	2,906,000	1,349,000	2,596,000	10,792,000	46.4	1.92	8.00
1910–1919	4,722,000	2,290,000	3,702,000	21,210,000	48.5	1.62	9.26
1920–1929	8,422,000	4,029,000	4,861,000	44,510,000	47.8	1.21	11.05
1880	1,186,000	352,000	973,000	2,134,000	29.7	2.76	6.06
1881	1,350,000	478,000	1,114,000	2,539,000	35.5	2.33	5.31
1882	1,409,000	507,000	1,174,000	2,756,000	36.0	2.32	5.44
1883	1,472,000	543,000	1,230,000	----------	36.9	2.27	----------
1884	1,487,000	546,000	1,244,000	----------	36.7	2.28	----------
1885	1,537,000	589,000	1,293,000	----------	38.3	2.20	----------
1886	1,561,000	591,000	1,253,000	----------	37.8	2.12	----------
1887	1,633,000	655,000	1,318,000	3,305,000	40.1	2.01	5.05
1888	1,691,000	706,000	1,372,000	3,419,000	41.7	1.94	4.84
1889	1,659,000	680,000	1,380,000	3,766,000	41.0	2.03	5.55
1890	1,685,000	696,000	1,429,000	4,061,000	41.3	2.05	5.83
1891	1,678,000	647,000	1,497,000	4,197,000	38.5	2.31	6.49
1892	1,752,000	664,000	1,601,000	4,665,000	37.9	2.41	7.03
1893	1,739,000	598,000	1,597,000	4,627,000	34.4	2.67	7.74
1894	1,805,000	627,000	1,661,000	4,651,000	34.8	2.65	7.42
1895	1,819,000	636,000	1,602,000	4,921,000	35.0	2.52	7.74
1896	1,800,000	600,000	1,506,000	4,945,000	33.3	2.51	8.24
1897	1,907,000	696,000	1,641,000	5,095,000	36.5	2.36	7.32
1898	2,074,000	862,000	1,838,000	5,688,000	41.6	2.13	6.60
1899	2,190,000	963,000	1,904,000	6,769,000	44.0	1.98	7.03
1900	2,336,000	1,034,000	2,081,000	7,239,000	43.7	2.01	7.00
1901	2,511,000	1,125,000	2,203,000	8,461,000	44.8	1.96	7.52
1902	2,594,000	1,193,000	2,279,000	9,105,000	46.0	1.91	7.63
1903	2,718,000	1,249,000	2,400,000	9,554,000	46.0	1.92	7.65
1904	2,838,000	1,328,000	2,553,000	10,001,000	46.8	1.92	7.53
1905	2,919,000	1,358,000	2,623,000	11,351,000	46.5	1.93	8.36
1906	3,109,000	1,476,000	2,775,000	12,216,000	47.5	1.88	8.28
1907	3,158,000	1,466,000	2,814,000	13,100,000	46.4	1.92	8.94
1908	3,423,000	1,618,000	3,079,000	12,785,000	47.3	1.90	7.90
1909	3,452,000	1,642,000	3,149,000	14,108,000	47.6	1.92	8.59
1910	3,467,000	1,636,000	3,149,000	15,283,000	47.2	1.92	9.34
1911	3,607,000	1,753,000	3,263,000	15,906,000	48.6	1.86	9.07
1912	3,702,000	1,818,000	3,335,000	17,024,000	49.1	1.83	9.36
1913	3,777,000	1,871,000	3,419,000	17,476,000	49.5	1.83	9.34
1914	3,798,000	1,891,000	3,459,000	18,518,000	49.8	1.83	9.79
1915	4,051,000	1,986,000	3,320,000	18,966,000	49.0	1.67	9.55
1916	4,542,000	2,445,000	3,649,000	22,526,000	53.8	1.49	9.21
1917	5,679,000	3,220,000	4,066,000	26,058,000	56.7	1.26	8.09
1918	6,906,000	3,163,000	4,482,000	27,716,000	45.8	1.42	8.76
1919	7,688,000	3,113,000	4,877,000	32,629,000	40.5	1.57	10.48
1920	8,158,000	2,865,000	5,468,000	37,268,000	35.1	1.91	13.01
1921	8,175,000	3,274,000	4,911,000	34,791,000	40.1	1.50	10.62
1922	8,276,000	3,785,000	4,463,000	37,144,000	45.7	1.18	9.81
1923	8,703,000	4,050,000	4,823,000	39,984,000	46.5	1.19	9.87
1924	8,847,000	4,488,000	4,849,000	42,904,000	50.7	1.08	9.56
1925	8,304,000	4,365,000	4,815,000	46,715,000	52.6	1.10	10.70
1926	8,429,000	4,447,100	4,885,000	48,827,000	52.8	1.10	10.98
1927	8,667,000	4,587,000	4,851,100	51,062,000	52.9	1.06	11.13
1928	8,118,000	4,109,000	4,797,000	53,245,000	50.6	1.17	12.96
1929	8,539,000	4,324,000	4,746,000	53,158,000	50.6	1.10	12.29
1930 [5]	8,307,000	4,535,000	4,522,000	53,564,000	54.6	1.00	11.81
1931 [5]	9,080,000	4,956,000	4,822,000	50,485,000	54.6	.97	10.19

[1] Statistical Abstract of the United States, 1930, United States Department of Commerce, No 52, pp. 246–247. 1930.

[2] From 1880 to 1899, inclusive, Statistical Abstract of the United States 1923, No. 46, p. 605, 1924; and from 1900–1929, Statistical Abstract of the United States, 1930, No. 52, p. 247. 1930.

[3] From 1880–1914, Statistical Abstract, 1923, No. 46, p. 798, 1924; and from 1915–1929 from Statistical Abstract of the United States, 1930, No. 52, p. 262. 1930.

[4] 6-year average, excluding 1883–1886, for which data are lacking.

[5] Annual Report of the Comptroller of the Currency, Dec. 1, 1930, pp. 57 and 138. 1931; and text of the Annual Report of the Comptroller of the Currency, pp. 128 and 146. December, 1931.

Whenever the countries again establish a free gold basis, the tendency to hoard gold will be greater than before the war.

Banks in the United States and in other countries will, for some years, wish to maintain a liquid position so that they will not again be called on to sell securities at a lost in order to get cash. This means that high cash reserves will be held.

In some regions, there is a shortage of banks so that a much larger amount of money will be kept in homes than formerly was the case. For some time, fear of banks will increase the tendency to keep cash rather than bank accounts.

Because of low profits, many banks are introducing a charge for checks. This will tend to reduce the number of small accounts and reduce payments by check.

Mr. PATMAN. By looking at this chart you will find that since 1880 the monetary circulation per dollar of gold has gone down from $2.17 to 97 cents. In other words, we have more gold than we have currency in circulation. It is not the 40 per cent gold standard that is hurting us, but it is that 80 and 100 per cent gold standard that has been causing us so much trouble.

I think the members of the committee will find this statement to be very interesting. It was prepared by Doctors Pearson and Warren of Cornell University.

I have another statement here from the same gentlemen. They say:

Beginning in May, 1920, prices which were 244 per cent of pre-war started to decline, and did not stop until prices reached 136 in June, 1921. This was the beginning of the agricultural depression, of which the end is not yet in sight.

This was just prepared a short time ago.

Tens of thousands of young men returned from France married, went in debt, and started farming. Many are now paying interest on a debt that it is impossible for them to liquidate.

So, in inflating the currency and in cheapening the dollar, so to speak, you are permitting people to pay their debts; some of them on the same basis that those debts were contracted. You will say, "Yes, but won't the creditor receive less?" Possibly so; but it is better to receive less than nothing at all. You will say, "Won't the man who has fixed wages receive less in commodities for his dollars?" Yes, he will receive less; but it is better for him to receive less than not to have any dollars to buy those commodities with. So I suggest to you, my friends, that one of the main reasons for the passage of this legislation is for the reflation feature that is involved, in order that money may be put into circulation and people will have sufficient money to do business on.

The Federal Reserve Bulletin for March, 1932, has this statement in it. I will not read the whole statement, but will just read the conclusion:

On the basis of these excess reserves, the Federal reserve banks could issue 3,500,000,000 of credit if the demand were for currency, and 4,000,000,000 if it were for deposits at the reserve banks.

There is plenty of money right there if you want to change this plan and adopt some plan similar to Senator Thomas's. The Federal Reserve Board says they have got sufficient gold reserves to justify the issuance of three and a half billion dollars more money, and it could safely be done that way. But what we want to do is to convert $2,000,000,000 noncirculating Government obligation into a $2,000,000,000 circulating obligation. Government bonds do not circulate and they do not affect the price level; but United States notes as currency will circulate, and they will affect the price level. And this country, I repeat, can not possibly come back until something is done to cause commodity prices to rise.

You will say, "What about impairing the credit of our great Nation? Permit me to suggest—not for the purpose of suggesting that we should be extravagant—that $400,000,000,000 represents the national wealth of our Nation. Four hundred billion dollars. I received that information lately, from the best source, I guess, in the antihoarding drive that is being conducted through the newspapers. Representations were made by the committee appointed by the President of the United States that the wealth of our Nation is $400,000,000,000. What is the debt? How much are the debts? We owe $18,000,000,000. That is the ratio, you might say of 22½ to 1 or equal to a $22,500 business owning $1,000. That is the ratio.

Now, our indebtedness is only 4 per cent of our national wealth. After the Civil War it was 10½ per cent. Of course that is no reason why we should increase it, but it is just to let you know that we should not be alarmed about it now. France owes 20 per cent of her national wealth, and England owes 40 per cent of her national wealth.

I mention that not for the purpose of encouraging extravagance, but to let you know that in these arguments that are being made that the credit of our Nation is being impaired, certainly those gentlemen should take into consideration the wealth of our Nation and the indebtedness against it, before making such statements as that.

Now, if members of the committee desire to ask me any questions, I shall do my very best to answer them.

The Acting Chairman. Are there any questions?

Mr. Hill. Mr. Patman, you speak of issuing about $2,000,000,000 of United States notes on the basis of the monetary gold that the United States now has. How much monetary gold have we in the United States?

Mr. Patman. We have $4,000,000,000 in this country.

Mr. Hill. I mean in the Treasury of the United States?

Mr. Patman. In the Treasury of the United States, I do not know the exact amount now, but I can take one item and show you where you can get enough from that one item alone.

There is $1,600,000,000 worth of gold certificates outstanding. They are backed 100 per cent by gold. Six hundred million dollars would back those 40 per cent. There is a billion dollars of idle gold right there that would justify the issuance of two and one-half billion dollars in currency.

You will say, "Is 40 per cent enough?" Two per cent is enough on your bank checks. When you put your money in a bank, if 2 per cent of the depositors go there and get their money, the other 98 per cent have not got any money there. Two per cent is enough for the banks. Certainly 40 per cent ought to be enough for the Nation.

We have other witnesses here who will be heard on that question.

Now, of course, Mr. Connery, of Massachusetts, is one of the proponents of this legislation, and Mr. Rankin and Mr. Kvale also, and they want to be heard; but I would like for Senator Owen to be heard at this time, if the members of the committee have no objection.

Mr. Ragon. Mr. Chairman, I suggest that Mr. Patman yield to Senator Owen, because I would like to ask him several questions, and I do not want to take the time now.

Mr. Patman. I will yield to Senator Owen. Will that be satisfactory, Mr. Chairman?

The ACTING CHAIRMAN. Yes.

Mr. LEWIS. I would like to ask Mr. Patman one question. Mr. Patman referred to a very interesting incident in Texas, where some oil and gas people advertised to the farmers, describing a situation something like this: "Here is gas and oil that we would like to sell, and you have calves and chickens that you want to sell, but neither of us has any money; so bring in your calves and chickens and we will give you oil and gas for them." Do you know anything more about that incident and what its developments were?

Mr. PATMAN. No; I do not. I know that it is very inconvenient for people to exist without money as a medium of exchange.

Mr. LEWIS. There were not further developments?

Mr. PATMAN. No. Advertisements have been appearing in the Houston papers. By the way, you know, oil in east Texas has been cheaper than water in west Texas during the last few months.

Mr. RAINEY. Are you going to have some witness on the stand who can give us the exact amount of the gold reserve, the exact amount of Treasury notes and certificates, and how much is held against them, and why?

Mr. PATMAN. Yes, sir.

Mr. RAINEY. Or do you want me to ask you those questions?

Mr. PATMAN. If it is not developed by Senator Owen's testimony, or one other witness that we have, I will get those figures from the Treasury report. They are available.

Mr. RAINEY. But you will have a witness?

Mr. PATMAN. Yes; we will have one.

Mr. RAINEY. From whom we can get those figures?

Mr. PATMAN. Oh, yes.

Mr. RAINEY. And you would prefer to have me wait and get that testimony from him?

Mr. PATMAN. Yes, sir.

Mr. RAINEY. And what witness will that be?

Mr. PATMAN. I think Senator Owen will be able to give you those figures.

Mr. RAINEY. All right.

The ACTING CHAIRMAN. Mr. Patman, if you will excuse yourself, we will hear Senator Owen and you may come back later.

I would like to state, for the benefit of members of the committee who were not here when we took the matter up, that on motion of Mr. Hawley it was suggested that the chairman should control and regulate the hearing; that in deference to the suggestion of some of the Members of Congress, Mr. Patman, Mr. Rankin, Mr. Kvale, Mr. Connery, and others, who said that they would like to have a committee to present their case, the Chair announced that the policy would be for the committee to meet at 10 o'clock and go until 12.30, and not have afternoon sessions; that these proponents who are interested could select a committee of two or three, or whatever number they desire, to present their witnesses; and that when they shall have concluded, then the opposition to the measure will be given a hearing, and then the proponents will be given a rebuttal. So, if you gentlemen, after we adjourn to-day, will agree on your committee, you can then present your witnesses.

Mr. PATMAN. We shall be very glad to do that.

Here is one point that I overlooked:

The Veterans of Foreign Wars presented the other day petitions from more than two and one-half million citizens of the United States asking for this legislation to be passed. I have already filed, and other Members of the House have filed, petitions; and the petitions that we now have, and those that have already been filed, will contain more than 5,000,000 names of citizens from every community in the United States—not all veterans—asking for the payment of these certificates.

Mr. CROWTHER. Mr. Chairman, I would like to ask one question at this time, due to the opening statement of Mr. Patman. You rather laid the burden upon the committee of preparing and submitting this legislation which was known as the adjusted compensation act—the committee and the Congress, I think you said. But is it not a fact that the representatives of the American Legion and other kindred societies appearing before us at that time wholeheartedly supported that proposition of the 20-year adjusted compensation certificate?

Mr. PATMAN. I understand they did, except the Veterans of Foreign Wars. I understand the other organizations did accept it; but I was not a Member of Congress at that time, and of course I am not familiar with that personally.

Mr. RANKIN. Mr. Chairman, Senator Thomas has suggested, and I think the suggestion is a wise one, that we ask the chairman to invite the economists of the Federal reserve system and also of the Treasury Department to come here after to-day and hear this argument, for the reason that we might want to propound some questions to them or they might want to have some propounded to us.

The ACTING CHAIRMAN. Gentlemen, it is the intention of the Chair, when the opposition is heard, to invite the Secretary of the Treasury, the Comptroller of the Currency, Mr. Meyer, the chairman of the Federal Reserve Board, and General Hines, to appear before the committee; and then, of course, the proponents will be given an opportunity in rebuttal.

Mr. RANKIN. What Senator Thomas has in mind, and what I had in mind, is for them to hear the arguments in favor of this legislation, in order that we may have the benefit of their reactions to what is said here.

The ACTING CHAIRMAN. Of course I will be glad for those gentlemen to be present, but I do not think that we could ask them to stay here during the hearings.

Mr. RAGON. The testimony will be printed.

The ACTING CHAIRMAN. And I have no doubt, as suggested by Mr. Ragon, that those gentlemen, before they appear, will read the testimony that is now being introduced before the committee, and they can, if they see fit, answer any suggestions.

Senator Owen, the committee will be glad to hear you now.

STATEMENT OF HON. ROBERT L. OWEN, WASHINGTON, D. C.

Mr. OWEN. Mr. Chairman and gentlemen of the committee, I feel it a duty to the country and to the soldiers of the late war to appear here when they invited me to do so; and I am here under a sense of very deep obligation—to these young men who were taken from their homes, put into concentration camps, shipped to the battlefields of Europe, and went through the scenes of unspeakable horror in defense of the interests and welfare of the people of the United States. It is impossible to express in adequate terms the obligation of the people of the United States to these men. I speak of them with great respect and with the greatest affection. My familiarity with a certain branch of this question—the financial system—was probably the occasion of my being invited to appear.

I founded the First National Bank of Muskogee in 1890, and I was president of it for 10 years. I was for eight years chairman of the Committee on Banking and Currency of the United States Senate, in the first year of which service it became my duty to frame the Federal reserve bill adopted by the Senate, which was substituted for the House bill and accepted by the House. The first draft of the bill drawn by me and printed in May, 1913, and a draft made under direction of the chairman of the Banking Committee of the House were reconciled, redrawn, and simultaneously submitted in identical form to the two Houses.

In that act was established a system of currency which has become the standard of the world. We are no longer on the old gold basis, gentlemen of the committee. We are supposed to be on a gold basis. But the American dollar is based on commodity value, and the gold is only used for purposes of redemption, and the redemption feature does not take place as a physical fact. It is merely a bookkeeping entry to preserve the relationships to each other of the 12 reserve banks.

Not long since—several months ago—the public press announced that Reginald McKenna, formerly Chancellor of the Exchequer of Great Britain, and for a long time president of the London City and Midland Bank, one of the very great banks of the world, with 3,000 branches and with over two thousand millions of deposits, said in an address that the gold dollar was no longer the standard in the world; it was the American Federal reserve bank dollar. And the reason for that was that the Federal reserve system has required these Federal reserve notes that now constitute the bulk of our currency to be issued against commodity bills. The structure of that act is such that a farmer with a thousand bushels of wheat could go to his bank with a warehouse receipt for that wheat as security to his note—his personal promise to pay—and that note, indorsed by his member bank, would be transferred to the reserve bank, the reserve bank would transfer it to the Federal reserve agent, the Federal reserve agent would hand back a thousand dollars of United States Treasury notes, promises to pay. That thousand dollars in effect would be transferred from the Treasury of the United States to the farmer at the point of production. In other words, that money was emitted against actual value produced in the country for the purpose of moving that commerce to market and to the point of consumption.

This is a very important consideration, and one which has a very great bearing upon the question before you; because I take it that there is no member of the committee, or of Congress, who would not be glad to pay these men the amount which they, I think, very justly claim, if it could be done advantageously to the United States, at a profit to the United States, and not at a cost to the United States.

I wish to show to the committee, if I am able to do so, that the payment of the soldier compensation at this time would be a veritable godsend to the people of the United States, entirely independently of any soldier who receives it—the so-called bonus. It should not be called a bonus, I take it. It is a just obligation, not a bonus.

There are pending before the Congress of the United States a number of bills proposing to stabilize commodity values in this country. That is another form of saying "to give stability to the purchasing power of the dollar in this country." I need not tell this committee that the dollar, which we supposed to have great stability, being based upon the gold standard, so called, is now buying $1.50 worth of commodity values measured against the average of 550 commodities in the wholesale markets. But when you come to deal with the dollars in terms of other forms of property, it is not an increase of 50 per cent in purchasing power, nor an increase of 100 per cent in purchasing power, or of 200 per cent, or 300, or 400. The average value of stocks on the New York Stock Exchange now, taking the 90 standard stocks ordinarily used with the Dow-Jones index, shows that the dollar to-day will buy approximately 500 per cent of what it did two and a half years ago. United States Steel, one of the greatest of all of our industrial companies, has its stock now selling so that the dollar will buy six times as much, or seven times as much, United States Steel stock as it did two and a half years ago. It is buying more than ten times as much National City Bank stock—one of the greatest banks in the world—as it would buy in the summer of 1929.

These facts are of very great importance. Something happened to the United States and its financial structure, its credit structure, in the fall of 1929—a colossal misfortune. There had been an era of great construction of factories, residences, etc., of all kinds from 1922 to 1929. Probably fifty or sixty billions were expended in actual construction during those years, and during those same years the industrial companies, taking advantage of a prosperous condition, when credit was at a low interest rate, and easily obtained, sold their stocks and bonds to the public under conditions of high-powered salesmanship, this vast advertising, embracing from 10 to 30 per cent of the entire columns of the leading papers in the United States, so that they sold, as Doctor Goldenweiser testified before the Committee on Banking and Currency, over $50,000,000,000 of securities, not including refinancing, between the years 1922 and 1929. They accumulated over twenty billions of cash reserves, and they loaned these cash reserves to the public, in order that the people might obtain the credit with which to buy these stocks and bonds on margin. The people were led by the lure of the rising market to come in in increasing numbers, until finally there were from fifteen to sixteen million shareholders who had bought shares of the industrial properties of this country. These stocks were issued in increasing volume, from about 300,000,000 shares in 1923 to over 1,200,000,000 shares in 1931.

Shares were very abundant, but on the bull market they were selling far above their intrinsic value; selling at 20 times their earnings—30, 40, 50 times their earnings—Radio, having no net earnings at all, from a speculative fever, was selling at $550 a share. Split five times, it is now selling for $7 a share. International Combustion Engineering, which was selling at 103, and declared by its proponents to be a stock that was going to 500, with great prospects of earnings, collapsed under this debacle, until now it is selling for less than $1 a share.

Something happened to the purchasing power of the dollar, in terms of stocks and bonds, that deserves the critical consideration and the microscopic examination of those charged with the preservation and protection of the business of this Republic.

The market became increasingly vulnerable because of the expansion and inflation of the values or prices of these stocks and bonds, because of the expansion of credit in the form of brokers' loans, which finally reached the colossal figures of eight billion five hundred and odd millions of dollars, 90 per cent of which was subject to summary call and liquidation within 24 hours. It is impossible to conceive of a credit structure made more vulnerable than that.

It was testified by Mr. Harold Aron before the Committee on the Judiciary in the House of Representatives, in considering short selling, on H. R. No. 4, Mr. LaGuardia's bill, that he knew of 20 great bear operators who cooperated in the fall of 1929 for the purpose of raiding that market. The records show a very remarkable circumstance to which I have the honor to call your attention. It was this: That in the week beginning October 23, 1929, there was withdrawn on account of "out-of-town banks" and "on account of others" (principally the great industrial companies and great individuals who had accumulated vast holdings of cash) $2,380,000,000 requiring the summary sale within 24 hours of the stocks held on margin behind those loans. Approximately, it meant that within that week there had to be sold and buyers found, for cash, stock of somewhere around thirty-five hundred million dollars. New York banks had to come to the relief of the stock market to prevent a collapse. There were 68,000,000 shares sold in the eight days beginning October 23—an average of nearly 10,000,000 shares a day. Within five weeks there was withdrawn from that market $4,500,000,000 of credit, which was destroyed and vanished, which ceased to exist, by the simple process of requiring the loans to be paid and summarily liquidated. It involved a huge transfer of property and property rights under forced sales.

The loss from the high to the low under that particular movement, at that particular time, amounted to over $24,000,000,000, distributed among fifteen or sixteen million stockholders scattered throughout the United States, affecting moreover the property value of men who had no part whatever in speculating on the stock exchange—men who had bought the stock with their savings, under the advice of their bankers that it was a good purchase.

Up to this present time over eight thousand millions of dollars of credit has been withdrawn from behind those margined stocks, and the loss of value in the stocks listed on the New York Stock Exchange alone amounts to more than $60,000,000,000, divided among fifteen or sixteen million stockholders from the Atlantic to the Pacific.

The effect of these credit contractions breaking down the credit structure of the United States was visited also upon every other stock exchange in the United States—The Consolidated Stock Exchange in New York, the Curb in New York, the exchanges of Boston, Philadelphia, Baltimore, Pittsburgh, Cleveland, Chicago, and others to the extreme end of this country. The losses in property values due to the breaking down of the credit structure of America will amount to not less than $150,000,000,000. It is not a permanent loss. It does involve permanent losses to the individuals who are compelled to liquidate. Those losses to them will be transferred in actual property to others who have stronger hands. It is a common phrase on Wall Street to speak of stocks being transferred to "stronger hands," which means the creditor, the sagacious trader, the one who knows how to play that game skillfully and who commands cash and credit.

The total debts of the United States are now estimated to be about one hundred and fifty billions. The total property of the United States was estimated in January, 1929, to be about four hundred billions. It would now be about two hundred and fifty billions, allowing for these losses. With the one hundred and fifty billions of debts remaining, with the dollar increasing its purchasing power, not 50 per cent but 100 per cent, 200 per cent, in ordinary property such as real estate—it is a question whether or not the debts which are owned do not cover substantially the values that remain.

But this is a transitory period, and must not be taken as a finality, because the property of the people of the United States at last—their fields, their forests, their mines and their factories, and their intelligent, industrious workers—are all here. The thing which has happened is that the purchasing power of the dollar has been interfered with in the most serious way. I want to call your attention to what is really "the dollar" that we should consider. The stabilization bills proposing to stabilize the value of the dollar found it necessary to consider that question.

What is the "dollar"—"the means of payment," the means by which the business of this country is transacted? Is it the gold dollar or the paper money that we use?

That money, currency, which is pocket money, and till money, and vault money, only functions in a small way. It probably does not transact more than thirty-five or forty billions per annum. But the check on the deposit in 1929, which was recorded as interbank checks, represented seven hundred and thirteen billions—seven hundred and thirteen times as much, and more, than the actual currency which all the banks of the United States at that time possessed. The real dollar of the country is the check on the deposit. That check dollar has shrunk at this time over three hundred billions per annum—or over a billion dollars a day of our ephemeral check money. These exchanges only represent however the interbank checks. The intrabank checks and the obviated checks would raise that volume to approximately nine hundred billions in 1929—in other words, about $3,000,000,000 a day for every working day in the year. That has now gone down to probably not much over half of what it was then. So we have suffered a loss of check currency of fifteen hundred millions a day—assuming the average life of a check is two days our loss of money circulating as checks would reach $3,000,000,000.

The check functions as money. It is money, in the true sense of the word. When I take a check of a hundred dollars and give it to the hotel in payment and that hotel puts it in its accounts, it goes to the various banks; it functions as money. There is no charge under the Federal reserve system for collection of checks except in special cases, and the check is the money of the country that transacts 95, 96, to 97 per cent of all the business in this country; and anything which interferes with the freedom of the check and its issue is responsible for the conditions which we are now afflicted with in this country.

What has happened to the checking account? The banks, all told, have twenty-nine billions of time deposits, which may be converted into demand deposits but ordinarily are not, and may be disregarded for the purpose of this discussion. They have about twenty-one billions of demand deposits subject to check. But the colossal losses due to the credit hurricane or tornado that struck the stock exchange, and interfered with the credit structure of the United States, have made every depositor in every bank apprehensive about his affairs.

He does not feel free to spend his money or use the check. He does not want to spend it beyond the amount that his necessities require. Many of them became apprehensive of the banks. Indeed, over 4,000 of the banks failed as an immediate consequence of this breakdown of credit in New York just described. The banks were frightened by the depositors withdrawing money for hoarding and the terrible shrinkage of property value and personal worth. The depositors withdrew over $1,200,000,000 for hoarding in 1931, and that money was supplied by the Federal reserve system.

The banks are afraid now to lend their money. They have less than $1,000,000,000 against $50,000,000,000 of deposits.

There was a man in Tupelo, Miss., named Clark, a banker. His depositors began to come in and demand their money and he saw that it meant the ruin of that bank. It had ruined several banks in his neighborhood. He had the courage and the American common sense to take the leading newspaper of his city and put out an "ad" in big heavy type to the effect that he did not intend to pay any depositor in cash upon his checks except for the purpose of paying taxes, buying groceries, and the other normal uses of money; that he was not going to allow a small number to take all the cash out of his bank and leave his other depositors without any cash. He was going to conduct that bank in a common-sense way and protect all the depositors and unless they supported him in that, he would close the bank. The people supported him unanimously and Mr. Clark won a victory of common sense and carried on his bank business without interruption.

A great many of these banks which failed, failed because of the lack of confidence on the part of the depositors. So we have had created a condition where the banks are refusing to lend, where the depositors are refusing to spend, where people who have currency in their pockets are unwilling to part with it or issue "check money" and we have so serious a congestion and so serious a lack of currency to carry out the transactions of the country that this Nation is in a state of partial industrial paralysis, in part—but not altogether. This country is still producing approximately $60,000,000,000 annually of value. But that is a far cry from what this country was producing in 1928 and 1929, when they were producing $90,000,000,000 of values.

Now, I have made this preliminary sketch, a sort of a charcoal sketch, to show the reason why I regard the payment of the soldier bonus as a Godsend to this country. We have made vain efforts to restore prosperity in this country by the organization of the Finance Corporation last fall. It served a useful purpose in helping those who are in distress for debt and it served the purpose of a moratorium to that extent, just as we extended a moratorium to the European nations. And they had a right to demand it. Europe had a moral right to ask it because our own action in this country had increased their debt to us (in terms of commodities) approximately $11,000,000,000. That is why they went off the gold standard. It is perfectly easy to understand. They were entirely justified in going off the gold standard.

I am strongly opposed to yielding $1 to Europe on the war debts. But I do not want to take from Europe dollars that are worth $1.50 in commodities as a result of our own conduct in this country. I regard that as unfair and unjust and it will not be done, because these things are going to correct themselves. They are going to be corrected now, I hope, by the Congress of the United States. They can be corrected and they can be corrected quickly.

It is my deliberate judgment, and I say it under a sense of solemn responsibility, that the most important way in which you can reach this difficulty now is to emit this money in payment of the soldier bonus, not for the mere sake of the soldiers, although they deserve every consideration, but for the sake of the business men of this country, for the sake of the banks and the debtors, for the sake of balancing the Budget that has given us so much trouble. In emitting such currency clear cut provision should be made by statute for withdrawing and canceling such money when the immediate emergency has passed.

What is the trouble with the Budget, I pray you? Is it not because the income of the people of the United States has dropped from $90,000,000,000 to $60,000,000,000 and therefore all forms of revenue have been cut off? If you had a production now of $90,000,000,000 instead of $60,000,000,000, you would have an income making it unnecessary to-day to pass these taxes which have so distressed and disturbed the Congress in their effort to adjust the situation conscientiously and wisely.

How can you restore this country to activity until you remove the fear on the part of the banker, on the part of the depositor, whose check constitutes 95 per cent of the money in this country? How can you do it unless you remove the fear?

Well, we have attempted to remove the fear by putting on a campaign of exhortation. I am in favor of exhortation. I have tried "to exhort" a little in that direction, but I never thought that exhortation was sufficient. It is not enough to tell a man who is about to drown to take courage; but, for God's sake, throw him a life preserver. That is what is needed right now—more money.

There are various ways in which that can be done. It can be done by emitting notes from the Treasury, as is proposed by the bill under discussion for current expense, or for construction of public works. It can be done in another way which I think would be more judicious I mean by that, the issuance of and the payment of these bills and accounts by Federal reserve notes secured by United States bonds, retained by the United States but put in the hands of the reserve banks and pledged as security for the Federal reserve notes.

(See Exhibit 1.)

Another way which has been suggested in the Senate of paying it is by requiring the Federal reserve banks to emit Federal reserve bank notes against 2 per cent bonds. I think that that should be examined very critically, because to ask Congress to compel a bank owned by the member banks to incur the obligation of emitting two billions of its own notes, its "promises to pay" secured by 2 per cent bonds is liable to raise a controversial question. The question is apt to arise whether or nor under the fifth amendment to the Constitution, the Congress of the United States would have the power to require this corporation owned by the member banks to assume such special obligations. But those banks could, as agents of the United States, be required to receive bonds they should be 3 or 4 per cent bonds and to deliver those bonds to the Federal reserve agents and receive (on those bonds as security, Federal reserve notes. Those Federal reserve notes are not bank notes. They are far from being bank notes. They are promises of the United States to pay.

This note [indicating note] says: "The United States of America will pay to the bearer on demand $10." It is a Treasury note but called a "Federal reserve note." But it is a Treasury note that has the safeguard of being handled through the reserve banks. It is a Treasury note that under the terms of the Federal reserve system requires a backing of gold. I wish to say to the committee that I do not regard the question of gold as having any serious importance in this matter, and if you will pardon me, I will with extreme brevity give a reason why.

To start with, there are eleven billions of gold in the world and the United States has five billions of it; not four billions, as Mr. Patman said, but five billions, approximately. France has three billions, and the other 52 nations of the world have about three billions.

The real value of gold, which is primarily a commodity, is the monetary demand on gold. The industrial demand on gold is only about $20,000,000 per annum. The actual output will average somewhere around $300,000,000 per annum. About $280,000,000 per annum is required by the monetary demand for gold.

Well, with various nations going off the gold standard and others following suit, gold is not in the same urgent demand as it was before. If you will examine the extent to which we employ gold in this country, you will observe that it has vanished as pocket money. It no longer exists for ordinary currency uses, nor is it used to any extent even by the banks except to furnish the means of sending balances to Europe.

We have had occasion to remit some gold balances because of the speculative fever that took place in this country in 1929, during which Europe, participating on a large scale sent over large amounts of money for that purpose. When the "seance" was over, that foreign money remained in New York, earmarked, ready to go back, and a large part of it has gone back and I hope that it will all go back and stay there.

But we have the balance of trade always in our favor. The world owes us $22,000,000,000 upon which they are paying interest, and that indebtedness is increasing. We are in no danger of losing gold. We have got the greatest gold hoard in the world and we have got also in the Federal reserve system an automatic means of preventing any gold from going out of this country, if we want to. I merely mention that in passing. The Federal reserve act only compels the redemption of Federal reserve notes in gold in Washington. Those notes do not have to be redeemed in gold by a reserve bank. They may be redeemed in gold "or lawful money."

In other words, gold or lawful money may be employed, and therefore gold itself is not necessary for redemption in any of these banks, if we chose not to have it done.

But there is no reason why we should raise any point about that, because there is no demand on this gold and there can be no demand on this gold that will disturb our financial system a particle.

I refer to that because some have thought that if we were to expand our currency, it would result in people having a fear that our money was going to be "inflated," so called, and they might attempt to redeem it in gold and take the gold away. There is no danger of that. Moreover nobody wishes to inflate the currency—we have enough gold to inflate it, if we wished even on a gold standard—we have in the United States, so called "in circulation," five and a half billions, of which the banks have approximately one billion. About a half billion is abroad or destroyed, burned up, or lost, and is merely kept on record because its loss can not be identified. But there remains in the hands of the people about $4,000,000,000 of which one and a half billions are hoarded and a part of the balance very inactive.

A great many people do not use the banks. They do not want to use the banks. They want to keep the money in their own pockets, in their own control. Those people naturally are disposed to hoard.

Then, when the fear of the banks came on, there were $1,200,000,000 of extra money distributed and hoarded through the Federal reserve banks and the member banks, passing out to individuals.

So that there is available about two and a half billion of dollars, a part of which is hoarded and a part of which is in circulation. If you will add $2,000,000,000 or whatever is necessary to pay the soldier bonus, you will immediately put into circulation a volume of money sufficient to compel a raise in commodities in the United States—not only in the United States, but in the world, for I wish to say to this committee in the most solemn manner, that the American dollar, secured by commodities redeemable daily in gold, is now the monetary standard of the world and on a good redemption basis. Sir Reginald McKenna spoke the truth. He understood what he was talking about and he was confirmed in that opinion by Sir Edward Holden, who was the former Chairman of the Board of the London City and Midland Bank, and a man who thoroughly understood these questions.

Therefore, I say that the payment of the soldier bonus is the quick way to restore prosperity in this country, and you are not going to do it by these other measures.

I say that the Reconstruction Finance Corporation, while useful, very useful to stop a series of bankruptcies about to take place, was at last but a moratorium, extending credit in dollars, but requiring those dollars to be paid back again; and if the dollars are just as difficult to get, or more, as they appear to be getting more and more difficult, for the commodity market is not going up—it is going down—and even the stock market is not going up—it is going down—what good will be done except to delay the date of "execution" and final bankruptcy or ruinous liquidation?

There is only one way to increase the value of commodities and to put this country back in a normal condition, and that is to remove the fear of the depositor and the banker and to put the money in circulation from one end of this country to the other.

There is no more equitable way in which to accomplish it than through these soldiers who are distributed from Maine to California, and in a fair percentage of the population everywhere. It is a nation-wide distribution.

Now, these are the considerations that moved me to appear before the committee, because I regard it as one of the first steps toward the stabilization of the commodity value, bringing commodities back to their normal value, and bringing down the fantastic purchasing power of the dollar, thus dealing fairly with the debtor class in this country, upon whose welfare to a very serious extent depends the welfare of the creditor class.

And more than that, gentlemen, I want to say to you most earnestly that 8,000,000 people are not going to remain silent and content under a political system that deprives them and their families of the opportunity of life. That is a political consideration to reflect on. The thing which is needed in this country now is to correct the contraction of credit and currency which has taken place as a result of the volcano in finance that took place in October and November, 1929, and whose flames have not yet died out. The best way to do this is to expand currency and thus expand credit.

I would be glad to answer, if I can, any questions that any member of the committee might care to ask me. It is easier to ask questions than to answer them always with intelligence and accuracy; but I should be glad to answer any questions that might be asked me about this matter.

Mr. RAINEY. Mr. Chairman, I believe I shall ask the Senator some questions. Senator, you are recognized nationally as an expert in these matters and I am not. I have no reputation at all in that direction.

Mr. OWEN. I do not claim any, Mr. Rainey.

Mr. RAINEY. Well, everybody else does for you, Senator, and so do I. Now, in order to clear up some matters in my mind, as well as to get some figures in the record, I would like to ask you some questions. How much is our gold reserve at present?

Mr. OWEN. It is about three billions. There are about one thousand four hundred millions of gold available in the Federal reserve system to support reserve notes and deposits.

Mr. RAINEY. Before we got to free gold, I want to ask another question to lead up to that.

Mr. OWEN. The words "free gold" have a double meaning.

Mr. RAINEY. My information is, from data that I have checked up for myself, that on the 29th day of February last our gold reserve amounted to $3,448,011,378. It has been shaved somewhat since then, but I presume that is substantially correct.

Mr. OWEN. It is fluctuating from time to time.

Mr. RAINEY. But that is substantially correct. How much of that amount is held for Federal reserve banks and agents, and how much of that amount can not be touched for any other purpose?

Mr. OWEN. The law requires a 35 per cent reserve against the deposits of member banks, but that reserve may be in "gold or lawful money." It need not be in gold.

Mr. RAINEY. Is not that 40 per cent, Senator?

Mr. OWEN. No, sir; it is 35 per cent. It is 40 per cent against the reserve notes that are issued.

Mr. RAINEY. Oh, yes; that is true.

Mr. OWEN. That 40 per cent against the reserve notes issued, together with the 35 per cent against the member-bank deposits or the member-bank reserves, so called, leaves about one thousand four hundred millions of available gold as security against the issue of additional Federal reserve notes.

Mr. RAINEY. My data is that on the 29th day of February the amount would be $1,769,600,717. I think that is substantially correct. That amount is the actual gold reserve of the United States against the United States notes and gold certificates.

Now, the amount held in trust against the gold and silver certificates and Treasury notes of 1890, as I have it here, is $1,613,569,629. I think that is substantially correct, is it not?

Mr. OWEN. It was $1,877,000,000 June 30, 1931. You are speaking of the Treasury not of the reserve banks.

Mr. RAINEY. This amount, as I understand under the law, must be held intact and we can not touch that at all?

Mr. OWEN. Under the law of 1891, under the Federal reserve act, all moneys are exchangeable in the United States Treasury and those reserves substantially are there as a backlog against our entire currency system and under legislative control.

Mr. RAINEY. Yes. Now, we had a circulation on February 28 of $346,661,018, and against that we had a gold reserve of $155,039,028. That is substantially correct, is it not?

Mr. OWEN. I think so, but the physical existence of these notes is largely mythical.

Mr. RAINEY. Now, if we add to these United States notes—and on this we now have a 45 per cent coverage, a 45 per cent gold base—now, if we add to that $2,000,000,000 of Treasury notes—and that is the proposition, as I understand it—the coverage of gold would drop to 6.7 per cent, according to my figures.

Mr. OWEN. Yes; your arithmetic is right, but we are talking of two entirely different things. You can retire the gold certificates as they pass through the Treasury and substitute United States notes and then put this gold behind all notes without legislative difficulty.

Mr. RAINEY. In other words, as against these United States notes which are in circulation and to which it is proposed now to add $2,000,000,000, if the $2,000,000,000 be added, we will then have a coverage of only 6.7 per cent. Do you think, Senator, to keep these United States notes an international standard from the Orient and the South Seas to Washington and back again, that that would be sufficient?

Mr. OWEN. I think this, that your suggestion appears to put the new issue upon the basis of those Treasury notes against which there is $150,000,000 of gold as a reserve, and I think that gold reserve is purely artificial and can be easily changed, even as to those rates, if desired and the gold which is available in the United States Treasury for any purpose can be made available for the purposes of this legislation, if the Congress in its wisdom sees fit to pass the legislation.

Mr. RAINEY. Under existing law, though——

Mr. OWEN. I am talking about the power to change the law, if necessary. I am talking about the remedy, if Congress desires to make a remedy. That answers your question, I think.

Mr. RAINEY. Under existing law, and unless we change the law, we could not take that $1,700,000,000 and make that security——

Mr. OWEN. Oh, any gold reserve which has been fixed under a a rule of Congress will, of course, remain there until the rule is changed. That is obvious. You are talking of gold certificates and Treasury notes of 1890. I am talking about Federal reserve notes——

Mr. RAINEY. Do you know what the gold coverage is in England?

Mr. OWEN. It was 8 per cent during the war.

Mr. RAINEY. I mean now. It is now 35 per cent.

Mr. OWEN. And they got along very well with it during the way by just simply taking the position that anybody who wanted to redeem the Bradbury notes in gold was "simple minded" and they would arrest him.

Mr. RAINEY. How much is it now?

Mr. OWEN. I think it is about forty; I have not noticed it lately.

Mr. RAINEY. My information is that it is only thirty-five.

Mr. OWEN. It fluctuates.

Mr. RAINEY. Do you know what the gold coverage is in France at the present time?

Mr. OWEN. It is very high. They have got about three billions of gold there.

Mr. RAINEY. Seventy per cent?

Mr. OWEN. It is very high.

Mr. RAINEY. Seventy per cent, according to my figures.

Mr. OWEN. Yes; it is very high, but their currency is completely flexible, which is of very great value in giving stability to currency and credit when wisely used.

I want to say this with regard to the question of gold: We have adopted a 40 per cent rule, which can be relaxed, of course; but I wish to say to the committee that the demand upon our gold, as I have stated, is so small that there is no real necessity for keeping so high a reserve, except, perhaps, a sentiment of national pride.

I submit in writing the remedy I propose for the depression and pray for sincere criticism.

The ACTING CHAIRMAN. Senator, on behalf of the committee, we thank you for your presence.

(Mr. Owen submitted the following statement:)

A PROPOSED REMEDY FOR THE DEPRESSION SUBMITTED BY HON. ROBERT L. OWEN, FROM 1913 TO 1920 CHAIRMAN OF THE COMMITTEE ON BANKING AND CURRENCY, UNITED STATES SENATE

Let the United States issue 4 per cent bonds for $2,400,000,000, payable in 20 years with right of redemption at par after 10 years from date of issue.

Place these bonds with the Federal Reserve Banks as agents of the United States, proportioned to their respective resources.

Instruct them to place these bonds to the extent and as required with the reserve agents and to receive from the reserve agents at par Federal reserve notes to be used—

1. Either in paying the compensation to the soldiers of the World War now requested by them;
2. And/or to pay for the buildings now authorized by the Government amounting to a billion dollars for which no appropriations have been made;
3. And/or other current expenditures.

The effect of this emission of currency would be to expand the currency which is now dangerously contracted by hoarding and by lack of confidence and fear.

The immediate effect would necessarily be to raise the price of commodities, of property, of stocks and bonds, now dangerously depressed by credit and currency contraction.

The coincident, collateral, and equivalent effect would be to decrease the unnatural and dangerous excess purchasing power of the dollar.

It is proposed that this operation shall cease the moment commodity values rise to the average wholesale market prices prevailing between the years 1922 and 1929 as recorded in the general commodity index of commodity prices in the wholesale markets of 1926 measured by the index number 100 of the Bureau of Statistics of the Department of Labor.

It is proposed that in the event the market value rises above 100 aforesaid and the dollar should begin to depreciate in purchasing power below the normal 100 of that date any depreciation of the dollar shall be prevented by the sale of such bonds for cash and the cancellation of the money received therefor.

This proposed remedy would have the immediate effect of overcoming the shock to the credit system from which the country is suffering, will relieve the banks and their depositors of fear, will check and correct the depression now grievously afflicting the Nation.

The passage of the so-called stabilization bills in form or substance set forth by the House bills introduced by Keller, of Illinois, and Goldsborough, of Maryland, and others would make effective as a principle the remedy above set forth and the stability of commodities and of the dollar and of business a permanent policy of the United States.

It would cause the return of hoarded money and restore to activity the chief credit source and supply of dollars by causing the bank checks of bank depositors to return to normal activity.

It would restore individual, corporate, and national income and the normal revenues of counties, cities, States, and of the United States, and automatically balance their budgets without further borrowing and without further special taxes.

The United States has approximately five billions of gold and far more than sufficient to put an abundant gold reserve behind every dollar issued by this proposed remedy.

It would require suitable legislation to make the remedy effective.

The failure of existing attempted remedies through the Reconstruction Finance Corporation and the Glass-Steagall bill to restore prices is due to the fact that under these acts no addition to the currency has taken place.

The author of this proposal requests the thoughtful and conscientious consideration of men and statesmen who are informed in this field and respectfully suggests to the American press that publicity be given to the plan in order that its merits or demerits shall be disclosed.

STATEMENT OF HON. WILLIAM P. CONNERY, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

Mr. Connery. Mr. Chairman and gentlemen of the committee, first of all I would like to say that these stories that we have read in the newspapers recently, to the effect that the soldiers should be patriotic enough not to ask the Government to-day to pay the soldiers' bonus—in other words, trying to teach the soldiers patriotism—seem to me like carrying coals to Newcastle. The gentleman from Texas, the gentleman from Mississippi, and myself, and others in the House who have sponsored this legislation, and who favor this legislation at this time, have no intention of doing this for the purpose simply of helping the American service men. It really angers one after a time to be told that because you are a service man, because you are asking the Congress of the United States to pay these certificates in cash, that all you are thinking about is a graft on the United States Government, getting something out of the Treasury to give to the soldiers.

Now, we do not intend to be taught our patriotism by any of the great metropolitan newspapers or anybody else. We are doing this because we think it is the best thing for the American people. As chairman of the Committee on Labor, I have had the opportunity since Christmas, at hearings which we held on the Lewis bill, hearings on the Mississippi River, on the prevailing rate of wage bills, and kindred bills before our committee, to hear people from all parts of the United States, to hear their story of unemployment, to hear their story of trying to bring up a family—a man, for instance, with five or six children trying to bring up a family on $25 a week. We have heard the sorrowful tale of fathers and mothers of families trying just to get bread in the United States to-day. They are not service men; they are not service men's families. They are simply American citizens.

The gentleman from Texas (Mr. Patman) has given such a fine exposition of this matter, followed in such a brilliant manner by Senator Owen, that I am not going into the financial aspects of this question. This committee knows all about the gold in the Treasury, the 40 per cent reserve, the Federal notes, and how we propose to pay this. I am in favor of the Patman bill, H. R. 7726. But some of the things that the Senator said impressed me very deeply, and particularly when he said that 8,000,000 citizens of the United States will not sit idly by and go hungry. That is what he meant. Twelve and a half cents and hour, on the Mississippi River, paid by the United States Government for doing the work of flood control! That is from a letter I got from Louisiana yesterday. The Government took the contract away from the contractor, who was paying 20 cents an hour, and the Government is paying 12½ cents an hour. We had one man before our Committee on Labor who worked for 10 days on the Mississippi River. At the end of the 10 days, after they took out what he paid for his tent, what he got from the commissary of the contractor, and 45 cents for ice water which they charged him for—after 10 days he was discharged, and he owed the contractor $1.10.

The gentleman from Texas says that our veterans, many of them, in 1945 will owe the Government money on their adjusted service certificates, with the 4½ per cent now—the million of men who have borrowed from the United States Government. Congressman Perkins of New Jersey, who is an insurance expert, told me one day that less than one-half of 1 per cent pay back loans which they make from insurance companies—not the veterans, but in general throughout the United States. Well, if that applies to the soldier—and it must, because he lost his opportunities during the war and had a hard time getting back on his feet, and now is borrowing for his little family, for a house, or whatever it is—in 1945 we are going to have a million soldiers who have lost the rest of their bonus which they borrowed under this borrowing bill which we now have.

Now, I am appealing to you for the people of the United States; the people who are out of work; the people who want money to buy groceries, who want money to pay the interest on the mortgage on their homes, who want money to buy a dress for little Mary and a pair of shoes for little Johnny. And, gentlemen, I say to you, as I have said often before, publicly, you know all about your communists.

You can hit your communist on the head, as they did last week down here in Washington—we saw the picture of a girl laid out on the ground—you can knock them on the head on Boston Common, or in Union Square in New York, and you can say that the great menace of the country is the communist, the red, the Bolshevist. You can look into his mind and you know what he is thinking; but there is not a man here who can look into the mind of the man who is trying to raise his little family, who has five or six children, and who looks across the breakfast table in the morning, and his wife says to him, "There isn't any bread." There is nothing to eat for that little child of 4; there is nothing to eat for this little boy of 2; and we are living under the Stars and Stripes, representing liberty and equality—"life, liberty, and the pursuit of happiness."

They always call you "wild," Mr. Chairman, when you do not like to see little children suffer. I was in my home city last week. A man from the city of Cambridge, a friend of mine who is in the coal business came in. He had been out making collections. He had been to 25 of his customers trying to get some money for the coal which he had sold. He went into 25 homes. From three people he got a little here and there—a dollar, $2, or $3. Before he finished with his 25, he had given out grocery orders to 22 out of the 25 people. They could not pay him a cent. They would say, "Here is my family; here are my children; I haven't got anything to eat."

I made a statement a few weeks ago. I said that people were starving. When they found them in their rooms dead of starvation, they said, "It is pneumonia," or some other disease, and the Boston Transcript, said: "Congressman Connery is talking wildly; he is loose-tongued; he is making statements that impugn the good faith of the doctors of the country"—the doctors who said that men died of pneumonia when they died of starvation. Well, it does not take any great logic to find out that a man can get pneumonia, or can get any number of diseases, from malnutrition or going hungry.

There are actually people starving in the United States to-day. They are too proud to go to the poor departments and the welfare departments of their cities and towns. They look to the Congress of the United States. They saw us pass the reconstruction finance bill. As Senator Owen said, it was a good thing. I voted for it. It helps the banks. But we have had experience in the last few weeks as to where this money is going, a great deal of it—the Missouri Pacific, back to Kuhn-Loeb, or Pierpont Morgan in New York, and then the moneys filtering through the banks to pay debts; back to New York; back to the "stronger hands," as the Senator said. "Stronger hands," meaning the concentration of wealth in the United States in the hands of a few; and after every depression and every panic economists tell us that concentration becomes even more marked.

Gentlemen, we are living in the United States of America. If we want to represent our constituents; if we want to do something for those 8,000,000 men who are out of work; if we want to bring back prosperity to the United States, we can not do it simply by passing reconstruction finance laws, and we can not do it by cutting salaries of Federal employees. The quickest and surest way to do it at the present time is to pass the soldiers' bonus bill.

This goes into 48 States of the Union. It is not money that is going to the banks. It is money going directly to John Brown, John Jones, William Green; and it does not affect merely 3,000,000 soldiers. It affects their families; and taking an average family of three or four—because the old mother is not working; we have no old-age pensions; the old mother must be supported, the old father, and the little children, and sometimes brothers and sisters—multiply that by 3, or multiply it by 5, and you have 15,000,000 people in the United States directly affected by the soldiers' bonus.

In conclusion, Mr. Chairman, I want to say this: The commander of the American Legion gave out a statement recently in which he said that to his knowledge only 23 posts of the American Legion out of 10,000 in the country had gone on record in favor of the passage of the soldiers' bonus bill at this time. Well, I do not know where the commander got his figures, but I do know that there are 32 posts of the American Legion in Essex County—that is one county in Massachusetts, my own county—and those 32 posts absolutely and positively, without ands, ifs, or buts, went on record in favor of the soldiers' bonus. That is one little corner of Massachusetts. I have received so many letters from members of the American Legion throughout the United States—not just Massachusetts but throughout the United States—that my secretaries could not do the work of answering those letters on the typewriter, and I had to have it done by mimeograph.

I challenge the commander of the American Legion to make a poll of every Legion post. I am not talking about the Veterans of Foreign Wars. That organization—I belong to both of them—has gone absolutely on record in favor of the soldiers' bonus at their convention, and the American Legion convention would have gone on record last fall for it, except for the fact that they had to pull the President of the United States out there and request him to make a speech to stop this agitation for the soldiers' bonus. They would have gone on record, but they were told that they were going to be a danger to their country if they passed it; that it would be a menace to the country; that it would disturb the financial interests of the country if they passed it; and so they did not go on record. But I challenge the commander of the American Legion to make a poll of every Legion post in the United States, and he will find that 95 per cent of the American Legion in this country are in favor of the passage of this Patman bill now. I am issuing the challenge. If he wants to take it up, let him take it up. He has the power. He could do it in two days; and let him come in with Mr. Taylor and give this committee the result of that poll. I challenge him to do it.

That is all I have to say, Mr. Chairman, except that I feel that this bill should be passed; not for the soldier—and, as I say, we do not need to be taught patriotism—not for the soldier, but for the American people; to give that man who is out of work a chance to spend some money; to give him a chance to buy his groceries and to pay the interest on his mortgage and save his little home. That money goes into circulation—not to New York, not to Wall Street but into 48 States of the Union; and that is what we want to bring back prosperity.

Thank you, Mr. Chairman.

The Acting Chairman. Gentlemen, the committee will stand adjourned until 10 o'clock to-morrow morning.

(Thereupon the committee adjourned until to-morrow, Tuesday, April 12, 1932, at 10 o'clock, a. m.)

PAYMENT OF ADJUSTED-COMPENSATION CERTIFICATES

TUESDAY, APRIL 12, 1932

House of Representatives,
Committee on Ways and Means,
Washington, D. C.

The committee met at 10 o'clock, a. m., Hon. Charles R. Crisp (acting chairman) presiding.

The Acting Chairman. The committee will come to order.

Mr. Patman. Mr. Chairman, at a meeting yesterday at noon, in compliance with a request from the chairman, those assembled favoring the proposal for the payment of the adjusted-service certificates suggested that I have charge of the time for the proponents; and in compliance with their request we have arranged for certain ones to go on this morning.

The Acting Chairman. All right, Mr. Patman.

Mr. Patman. Father Coughlin, of Detroit, Mich., is here. He has been invited by those who are favoring the proposal to make a statement, and we would now like to present Father Coughlin.

The Acting Chairman. May I make this suggestion to you? The clerk of the committee informs me that Mr. George W. Armstrong, of Fort Worth, Tex.; Mr. Donald D. De Coe, of Sacramento, Calif., and Mr. E. Levin, of New York City, are present, and they were invited to be here to-day.

Mr. Patman. Yes, sir.

The Acting Chairman. Of course you gentlemen can take charge of the presentation of your witnesses in favor of the bill, because that action the committee authorized yesterday, and the committee appreciates the action of you gentlemen in selecting some one to take charge of the matter.

Mr. Patman. I will assure the chairman that these gentlemen have been conferred with in making the arrangements for this morning.

The Chairman. The first witness, then, is Father Coughlin.

Mr. Patman. I would like to have Senator Thomas introduce Father Coughlin.

Senator Thomas. Mr. Chairman, I will just say that Father Coughlin has a radio broadcasting station at Detroit. He has a nation-wide hook-up on every Sunday, and he will tell you about the response he is receiving to this identical proposition in the statement that he is now about to make.

The Acting Chairman. Father Coughlin, the committee will be glad to hear you now.

STATEMENT OF REV. CHARLES E. COUGHLIN, ROYAL OAK, MICH.

The ACTING CHAIRMAN. Father Coughlin, you may conclude your statement without interruption from the committee if you desire to do so.

Father COUGHLIN. Thank you, Mr. Chairman.

Mr. Chairman and members of the Ways and Means Committee: I am appearing before you to-day not through any personal desire of my own, but rather upon the request which originated with one of your own colleagues.

Appreciating the importance of the question which you are deliberating, and also realizing the manifold intricacies both of financial and of moral import which are associated with it, I do not pretend to make the ensuing remarks appear as if they are dogmatic and conclusive. Rather, they are my personal opinions based upon observations with which I am more or less intimate.

The question which you are considering deals with the practical wisdom of paying immediately the sum of $2,400,000,000 to the soliders who served in the World War.

That this so-called bonus is due not before the year 1945 is readily admitted. But that it would be to our national advantage to fulfill this financial obligation to the soldiers immediately appears to me to be of practical wisdom.

There are those who remind us that at the American Legion Convention held in Detroit last year the ex-soldiers went on record to have this payment of the so-called bonus deferred. Let us remember, however, that for the most part this Legion convention at Detroit was attended by veterans who were able to pay their fares and their hotel bills. The poorer class of veterans was forced to remain at home and to remain inarticulate. However, I feel quite confident that the decision arrived at in Detroit in 1931 would have been final; that the veterans would have believed they were playing a valorous part in heeding the advice of our honorable President, to the end that burdensome demands should not be imposed upon the current budget of the United States Treasury, had not a new circumstance altered their views.

Suddenly the Reconstruction Finance Corporation was hurried through both the House and the Senate. Suddenly the sum of $2,000,000,000 was appropriated from the funds of the American people for the purpose of financing the financiers and of strengthening the tottering railroads.

At this moment, the mental attitude of the American Legion and of the American public underwent a noticeable change. I am speaking of an absolute fact when I refer to this change of mind. I am not inserting this thought as a piece of rhetorical argument. I am offering it for your consideration, based upon over 1,500,000 letters which came to my desk within the short period of six weeks, reflecting the change to which I am referring.

To summarize the general character of this tremendous amount of mail, I may crystallize it in the following words:

> If the Government can pay $2,000,000,000 to the bankers and to the railroads, having had no obligation toward them, why can it not pay the $2,000,000,000 to the soldiers already recognized as an obligation?

It might be of interest to note that the letters to which I refer were written not only by veterans of the World War, but by citizens of every type, including thousands from professional men—doctors, engineers, lawyers, bankers, and clergymen. And I may further add, as those of you can attest who have listened to the national broadcast which weekly originates from the Shrine of the Little Flower, that in no wise were these letters solicited. They came spontaneously. In one sense they manifest the pulse of public opinion in an almost clearer and more efficacious manner than do the 2,000,000 and more signatures of American legionnaires and war veterans now in possession of this Government, and which petition the immediate payment of the so-called bonus.

In other words, honorable gentlemen, if the question has arisen for the immediate payment of the so-called bonus, it has come to the front chiefly due to the fact that doles of a financial nature have been extended through the Reconstruction Finance Corporation to the gigantic banks, insurance companies, and corporations of this Nation. At least that is what the American public thinks.

There is no necessity for my endeavoring to describe to you the present suffering of our Nation. May I briefly refer to it, in order to correlate the facts which will follow with the immediate payment of the so-called bonus.

There are approximately 8,000,000 men out of employment. Let us also be mindful of the fact that there are approximately 8,000,000 more men working only two and three days a week. Recollecting that there have been depressions in the past, let us not identify this present catastrophe with any of them. On this occasion the so-called "depression" is not national; it is universal. On this occasion it has not been caused by a lack of production or by famine or by any obvious action directly accountable to the Providence who guides our destiny. It is superfluous for me to mention that our granaries are filled, while millions of our unemployed and their dependents are underfed; that our textile mills are idle while millions of children shivered through the cold of this past winter; that our boats are rusting at anchor while foreign nations are begging for our surplus grain and for the products of our factories.

In other words, this is the first time in the history of civilization, to the best of my knowledge, that such universal suffering has resulted due to causes and to reasons attributable to the unintentional mismanagement and distribution of our national products and wealth, on the part of our leaders. Unintentional!

Well, so much for that thought.

What is its relation to the immediate payment of the so-called bonus? First of all, this immediate payment would enable many of these 8,000,000 idle men and 8,000,000 part-time workers, who are veterans, to purchase some of the necessities of life. That is the obvious thought which comes into the minds of most people. Secondly, the vast proportion of this $2,000,000,000, if it were paid immediately to the ex-soldier, would not find its way into savings deposits. Rather, it would be used to pay the grocer, the butcher, the physician, and the thousands of tradesmen and professional citizens who have been rendering service to their jobless fellow-citizens without having received pay. It would be $2,000,000,000 sent into the channels of trade and commerce. This thought is likewise obvious and has been mentioned many times before.

But I am in hopes that the immediate payment of this $2,000,000,000 and more will produce an effect more far-reaching than these obvious effects; namely, that it will compel us to revaluate the American dollar to the approximate level which it attained in 1929.

With this thought in mind, what are the current evidences in our midst which suggest it?

First of all, there is the real-estate situation viewed from the angle of mortgages or contracts or loans. If in the year 1929 I had purchased a small home for the sum of $10,000, having made only a $2,000 payment on it, and if my contract read that a monthly payment averaging $40 on the principal should be made, I would still owe on the principal of that house $7,000. Is it necessary for me, honorable gentlemen, to inform you that real estate has dropped to such a low price level to-day that it would be more advantageous for me to move out of the house; to let it fall back upon the hands of the seller, since it is now possible for me to build a 1929 $10,000 house for approximately $5,000?

The example which I have cited is but indicative of the catastrophe which, if not checked, is about to overthrow the real estate values of our Nation.

Secondly, I can view this real-estate collapse in another way: For example, in the county of Oakland, Mich., with a population of approximately 211,000, we have witnessed during the last 10 months of 1931 more than 71,000 home sites and farms being confiscated by the State government for nonpayment of taxes. This is the county in which the Oakland-Pontiac and Yellow Cab factories are situated. This is the county where many of the élite of Detroit have their princely estates, among whom is Senator Couzens. This is the county where the Shrine of the Little Flower is located, from whose shingled walls we are necessitated to feed and to clothe thousands of people every month. This is the county which, in many instances, reflects what is transpiring over the entire United States.

Bear in mind, gentlemen, that the residents of this county and those who own property in this county are forced to assume the tax burden of these 71,000 defaulters; and also remember that the tax levy was predicated not on 1932 values but on 1929 values.

No wonder there is an ugly movement on foot throughout our Nation to refuse to pay taxation on real-estate appraisals, which are as unreal to-day as they were when the Indians inhabited this Continent of North America.

It is not necessary for me to draw a conclusion; the acuteness of your own intelligence easily penetrates the meaning of these facts in their relation to the immediate payment of the so-called bonus, which, it is hoped, will compel us to revaluate the dollar.

I make this statement in view of the fact that many opponents to the immediate payment of the so-called bonus maintain that such payment would so embarrass the American dollar that it would be necessary to revaluate it. To my mind, this is exactly what is hoped will eventuate for the purpose of alleviating our national financial condition.

It might be well for me to pause for the purpose of recollecting that our total indebtedness, both as a Nation and as private citizens, surpasses $150,000,000,000, all of which is detailed in the Congressional Record of March 31, 1932, on page 7396, in a speech made by Senator Thomas of Oklahoma. This vast, incomprehensible sum of debts was accrued for the most part before the American dollar suffered the tremendous deflation since 1929. To-day, with cotton selling at 5 cents a pound, when its former price was 20 cents; with wheat going begging on the market at 30 cents a bushel, when but a few months ago it was well over a dollar; with oats offered at 11 cents a bushel, when in 1929 they were 50 cents; with corn just a quarter of what it was but a few years ago—how can the farmer pay his debts, his mortgages, and his obligations, which, in one sense and to all practical purposes, have quadrupled, due to the deflation of the dollar? To all practical purposes his 1929 debts have automatically increased three to four times in 1932.

Gentlemen, although such thoughts are not frequently expressed in the financially minded news journals of this Nation, nevertheless you would be astoundingly surprised to discover that they are latent in the minds of the American public, and that they have been made articulate through millions of letters which have come to my office.

In the presentation of the above paragraphs I see associated a very pertinent relation to the immediate payment of the so-called bonus. We are told by those who are opposed to this immediate payment that it would impair our credit. The fact of the matter is we are asking credit from no foreign nation at the present moment, and are likely to refrain from asking credit for the next few years. The foreign-credit argument is a contingency which does not exist. But the immediate payment might do one thing: Probably it would throw us off the gold standard, to which I will refer later. Probably it will force us to revaluate the dollar so that cotton, instead of being 5 cents a pound, will be 15 cents or 20 cents; so that the present $5,000 house to which I referred will be closer to its 1929 value, $10,000; so that the present $1 wage being earned to-day, at this hour, will multiply itself beyond $2, and perhaps to $3; so that the debts accrued in 1929 and thereabouts can be met with money which approximates in purchasing power the dollar of 1929.

And more than that, it will put us at least on speaking terms with England, Canada, and other foreign nations who have learned wisdom. They have proven to us that it is possible to conduct business independent of the conventional gold standard, while we who are clinging to it are barred from their markets.

I readily appreciate that such a suggestion is heresy to the vested interests of wealth who have their dollars represented by bonds, and which bonds will not automatically increase in value. I understand perfectly why the articulate and organized few are heartily opposed to the pre-payment of the so-called bonus, because it will seriously affect the value of these bonds. Others will term the suggestion radical and communistic. But the real radicals, to my mind, are those who have operated indiscreetly and selfishly during the past few years, with the result that one thirty-third of 1 per cent of our population controls 60 per cent of our wealth, according to verified facts in your own Congressional Record. These people are opposing the revaluation of the dollar, which they say will inevitably follow the payment of the so-called bonus.

For their own sakes, as well as for the welfare of the American public, and as well for the sakes of the ex-soldiers, these people must suffer a loss and share some of the hardships which have been borne so patiently by the American public. Eventually, the revaluation of the dollar will absolutely come, either legally or revolutionally.

Thus we can employ the stepping-stone of the so-called soldiers' bonus to get down from the dais of the unjustifiable gold standard, upon which a few have enthroned themselves.

For almost two years we have persisted in giving transfusions of financial blood to the sickly system which we are nursing. But we will soon have a corpse on our hands, because the last financial transfusion has certainly been given through the agency of the Reconstruction Finance Corporation, and in no wise has it removed the major cause of our troubles. The disease known as the concentration of wealth in the hands of a few still remains. It seems to me that if through the payment of the so-called bonus we can increase the value of the farm products, of the laborer's toil, of the 1932 earned dollar, even at the expense of decreasing the hoarded wealth represented in bonds and hidden gold, a mighty victory will have been won over the massed armies of depression and growing discontent. Let us remove the cause legally, lest this growing discontent in the minds of our people shall do it illegally. Remember Russia of 1917; remember the French Revolution; and remember, also, our own Revolution in 1776. These things have happened before; and if history has taught us one lesson, it teaches us this: that it perpetuates itself.

On the other hand, gentlemen, we are informed that approximately $31,000,000,000 is owed us by foreign nations, provided we fund both public and private debts.

As a matter of fact, the foreign nations borrowed this money from us when our dollar was inflated, or, in other words, before our 1929 dollar represented 33⅓ cents, as it does in 1932. In order for the foreign nations to pay back the $31,000,000,000 borrowed before 1929, it means that they, who likewise have suffered a deflation in their currency, will be forced to pay, according to their present money values, approximately $93,000,000,000. Of course, it is preposterous to expect the people of foreign nations to permit their governments to make such outrageous payment. It was on that basis that Hitlerism grew apace in Germany. It will be upon that same basis that our foreign debts will be renounced in their entirety, unless we give the nations of Europe and of South America and elsewhere an opportunity of doing what is equitable.

I repeat that the immediate payment of the so-called soldiers' bonus is not only a thing good in itself but will be good in its effects, both national and international, if it will force the inflation of the American dollar. The foreigners will be more likely to pay us what they owe, and then our own citizens will be better able to pay their taxes, their mortgages, and their other debts, which now they are gradually repudiating for reasons above mentioned.

A half a loaf is better than none.

Some one is apt to suggest that if we make immediate payment to the ex-soldiers by virtue of the printing press, we should also pay off all other debts through the agency of "fiat" money. Such a suggestion, in my opinion, seems ridiculous and absolutely unsound. Is it not possible for us to issue consols against the year 1950 or 1960? Is it not possible for us to let the future generations share our burdens despite the fact that we were responsible for them? If I recollect the Scriptures correctly, "the sins of the parents shall be visited upon their children, to the third and fourth generation."

Again, some one is liable to tell us that inflation is a very dangerous thing. They will point to Germany and to the events which transpired there when their printing presses worked overtime, and when their government artificially inflated the mark. Bear in mind that Germany had no gold with which to substantiate their policy of inflation. We, on the other hand, have approximately $4,500,000,000 of gold in our vaults, and can easily suffer a sane inflation, provided we cease shipping gold abroad and learn to keep intact what we have, in the face of the fact that nations are debating whether or not to pay us what they owe.

Governor Harrison of the New York Federal Reserve Bank made the following statement in February of this year regarding this very point. You will find it contained in a publication put out by the National City Bank of New York. Governor Harrison stated:

> That the gold reserves of the country would permit an expansion of some $3,500,000,000 of reserve bank credit before reducing the reserve percentage below the legal minimum. Such expansion would increase the loanable funds of the member banks by as much as $35,000,000,000. Evidently the United States is under no credit pressure traceable to the gold standard.

End of quotation from our most eminent and most learned financier.

Others are liable to interpose an objection on the ground that our national pride will suffer injury by going off the gold standard as a result of the immediate payment of the so-called soldiers' bonus. Well, it is better for our pride to suffer than for our industrialists, our laborers, our women and children to be forced either into bankruptcy or into starvation. Let pride find no place in our considerations when we are confronted with the fact that 451 farms every day of last year passed into the hands of receivers. Averaging each farm-family at four persons, it means that 658,460 indigents have been cast from their homes to join the ever-increasing throng, as they trek over the hills to the poorhouse. Is that something to be proud about?

Gentlemen, these are my opinions, which I hope are expressed simply as opinions and not as dogmas. I have come before you to-day not representing the Catholic Church, but merely as representing a sector of the American public who, unsolicited, in the past 27 weeks have written to me their thoughts and their views on our public conditions. More than 2,500,000 letters during that time have come to my desk. One hundred and eighteen clerks have been busy reading and compiling this mail. I hope I have condensed their aggregate views for your consideration.

Moreover, in nowise am I implying that the immediate payment of the so-called soldiers' bonus shall be a complete remedy to remove our present misery. However, it will act as a stimulant. It will manifest to the American public that the conscientious legislation which you have already inaugurated will not be satisfied with half-measures. It will indicate that you have adopted the policy that all true reconstruction begins from the bottom and not from the top. And, above all, it will revive in their minds the Jeffersonian principle that human rights take precedence over financial rights; will revive in their minds the immortal words of our immortal Lincoln that this country is "of the people, and for the people."

I thank you, gentlemen.

The ACTING CHAIRMAN. Gentlemen, are there any questions?

(There were no questions.)

The ACTING CHAIRMAN. We thank you, Father, for your contribution to the hearings.

Mr. PATMAN. Mr. Chairman, Mr. George W. Armstrong was to be a witness this morning. I had a telegram from him a few minutes ago saying that he had had an airplane accident in Little Rock, Ark., and would be delayed there. He is expected to be here this afternoon. The telegram was addressed last night.

At this time we would like to introduce Senator Thomas, who is interested in the proposal.

The ACTING CHAIRMAN. Senator Thomas, the committee will be glad to hear you.

STATEMENT OF HON. ELMER THOMAS, A SENATOR FROM THE STATE OF OKLAHOMA

Senator THOMAS. Mr. Chairman, gentlemen of the committee, I appear here at the suggestion of the proponents of this suggested legislation. Otherwise it might be presumptuous, knowing how busy you gentlemen are, for one engaged in the same building, so to speak, to come here and take your time. I remember quite well, however, that I stood in this place in 1924 urging the passage at that time of the original so-called bonus bill. I remember the many courtesies extended me by the then chairman of this committee, now the distinguished ranking member on the minority. I likewise remember well the courtesies extended me by the members on the minority at that time, but now on the majority.

It is, I might say, very gratifying to get back on this side of the Capitol, where I was initiated into the major league of legislation. When I come on this side of the Capitol and see that a change has taken place since I left it, and see this magnificent office building across the way, I am almost compelled to regret that I have left this side of the lawmaking body.

Mr. Chairman and gentlemen, in addition to having the invitation of those standing for this legislation, I appear here as the agent of one State—the State of Oklahoma.

I exhibit to the committee a number of telegrams, which I have not counted. These telegrams come from the individual American Legion posts of Oklahoma. There must be a hundred and fifty or two hundred here. You can take this list of telegrams from the Legion posts of my State, and you will find practically unanimous demand for the passage of this legislation. In some places there was one objection. Special meetings were called. The Legion boys turned out. I think 44 was the least number that I remember reading in the telegrams, and from that up to 600. Practically every telegram advises me that the motion in favor of the payment of the bonus was unanimous. Occasionally there was one objection, and occasionally there were two objections.

These are the telegrams.

Then I have here letters signed officially by the officers of the Legion posts, in additional number; and I will say that these give the vote of the legionnaires in the various posts of one State. Occasionally there was one objection; one soldier boy was not in favor of the full payment now. Sometimes there were two. The largest vote against the matter was in Bartlesville, Okla. One hundred and eighty-seven boys were present at the meeting, a few nights ago. Of the 187, 12 voted no; the balance voted yes. That is the largest number of any post reported to me, and here is the evidence.

So I appear here as what might be termed the agent or representative of the public sentiment of my State, which is better than 99 per cent, speaking for the soldiers, in favor of the enactment of some legislation making it possible for them to secure some benefit from their certificates.

Mr. McCormack. Mr. Chairman——

Senator Thomas. As I proceed, I shall be glad to have any questions asked me.

Mr. McCormack. I just want to make this suggestion, Senator: Will you include in your remarks at this time the names of those American Legion posts?

Senator Thomas. If it be agreeable, and I have the time, I will have the messages transcribed as to the name of the post and the person signing each message, and I will likewise have transcribed the other list of documents, which are the formal resolutions signed by the proper officials, with the seals of the various posts; and I will have that information transcribed to appear at this point in my remarks.

The Acting Chairman. Of course, Senator, I do not think that all those documents should go in this record.

Senator Thomas. I do not mean that, Mr. Chairman. I mean a statement simply giving the name of the post, with the names of the two or three officials signing the message.

The Acting Chairman. That will be all right. Without objection, the statement will be included in the record.

Senator Thomas. I did not ask to have these inserted, because I may want to use them later.

Mr. Ragon. Senator, how did you come to get those telegrams? Was it a meeting of all the posts in Oklahoma?

Senator Thomas. Here is what happened: The American Legion convention in my State, which met at Enid last September, on Labor Day passed this resolution; and if I may, I will read the resolution. It was sent me by Milt Phillips, department adjutant, and the letter is dated April 7. It is a letter of transmittal. Here is a copy of the resolution passed by the State convention in my State:

Whereas the unemployment situation in this country is very serious and affects a large part of our population, including many former service men and their families; and

Whereas greater distress is certain to result if the present depression is not relieved soon; and

Whereas, the immediate payment of the remainder of the Federal adjusted compensation and the refunding of interest on part payments of adjusted compensation already advanced would relieve to a considerable extent the deplorable conditions, we believe; now, therefore, be it

Resolved by the American Legion, Department of Oklahoma, in regular convention assembled at Enid, Okla., the 6th, 7th, and 8th of September, 1931, That the remainder of the adjusted compensation conceded to be due to our ex-service men be paid them without further delay, and as soon as possible, and that all interest paid by them on part payments of their adjusted compensation be refunded to them without further delay; and, in our opinion, the payment of such compensation and the refunding of such interest paid is a fair, just, and proper procedure, and much good will result from such action on the part of the Government.

After the State convention had passed that resolution, the national organization had its meeting in Detroit. The national organization went on record as being unwilling to ask the Congress at this time, for the full payment. Of course that raised an issue; and, being apprehensive of how my State would stand, and not desiring to appear before any committee and urge the full payment unless my State would back me up in it, I suggested to the Legion posts of my State that they take this referendum and at the proper time advise me. This is the advice.

Now, Mr. Chairman and gentlemen, I am not appearing before the committee with any new proposition, so far as I am concerned. I know the members of this committee will not remember what I said eight years ago; but I exhibit to the committee a publication containing the hearings on the soldiers' adjusted compensation of 1924, which contains, on pages 36, 37, and following, a copy of my remarks. I desire to read three lines from my statement made on either March 4 or 5, 1924. At that time I was a Member of the House, had a bill pending, and was urging the consideration of my bill. In support of my bill at that time I made this statement:

My bill proposes to raise this money in this manner: Congress authorizes a bond issue in the sum of $1,500,000,000. These bonds are not to be sold to the public, but they are to be sold to the Federal reserve banks in proportion to the demands made upon those banks.

That is the substance of the speech that I made then. It is the substance of the bill that I have pending in the other branch of the Congress. I have copies of this bill, and if any one should care to see it, I shall be very glad to have the members accept them.

I will say that when this Congress convened I introduced another bill, and further study and conference impelled me to introduce some amendments. The amended bill was introduced on yesterday. This bill which I now hand to the members of this committee is the copy of the bill introduced on yesterday. It is substantially the bill introduced in the Senate more than two months ago, but it contains amendments, and rather than have those marked on the bill, I simply reintroduced the bill so that it might appear exactly as I desire it to appear.

The ACTING CHAIRMAN. Do you desire to incorporate a copy of that bill in your remarks?

Senator THOMAS. If I may have that permission, I at this time offer for the record a copy of the bill as amended.

The ACTING CHAIRMAN. Without objection, it will be made a part of the record.

(The bill, S. 4350, above referred to, is as follows:)

[S. 4350, Seventy-second Congress, first session]

A BILL To provide for the immediate payment of World War adjusted service certificates, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That notwithstanding the provisions of the World War adjusted compensation act, as amended, the adjusted-service certificates issued under the authority of such act are hereby declared to be immediately payable. Payments on account of such certificates shall be made through the several Federal reserve banks in the manner hereinafter provided upon application therefor to the Administrator of Veterans' Affairs, under such rules and regulations as he may prescribe, and upon surrender of the certificates and all rights thereunder (with or without the consent of the beneficiaries thereof). The payment in each case shall be in an amount equal to the face value of the certificate; except that if, at the time of application for payment under this section, the principal and interest on or with respect to any loan upon any such certificate have not been paid in full by the veteran (whether or not the loan has matured), then, on request of the veteran, the administrator shall (1) pay or discharge such unpaid principal and so much of such unpaid interest (accrued or to accrue) as is necessary to make the certificate available for payment under this section, (2) deduct the same from the amount of the face value of the certificate, and (3) provide for making payment in an amount equal to the difference between the face value of the certificate and the amount so deducted. No interest shall be charged on any loan authorized by section 502 of such act, as amended, made after the date of approval of this act, and no interest shall be charged to the veteran after such date on loans heretofore made by the administrator; but in the case of any such loan made by the administrator out of the United States Government life-insurance fund, the fund shall be entitled to receive interest to the date of maturity of the loan at the rate agreed upon at the time such loan was made, but the amount by which such agreed interest exceeds the amount of interest payable to the date of approval of this act shall be paid out of the adjusted-service certificate fund created under section 505 of such act, as amended. Upon payment under this section the certificate and all rights thereunder shall be canceled.

SEC. 2. For the purpose of providing funds for making the payments authorized in section 1, all amounts in the adjusted-service certificate fund created by section 505 of such act, as amended, are hereby made available and, in addition, the Secretary of the Treasury is authorized and directed to provide for the issuance from time to time of bonds of the United States, to be known as "adjusted-compensation payment bonds," and to be delivered to the Administrator of Veterans' Affairs. An amount equal to the face value of all bonds so issued shall be credited to such fund and the bonds shall be distributed to the several Federal reserve banks as hereinafter provided. Such bonds shall be payable thirty years from their respective dates of issue; except that the Secretary of the Treasury may in his discretion provide for a later period of payment of any issue of such bonds if in his opinion it is necessary in the public interest. Such bonds shall be in such denominations as the Secretary of the Treasury may prescribe, shall bear interest payable quarterly at the rate of 2 per centum per annum, and shall have all the rights and privileges accorded by law to other 2 per centum bonds of the United States: *Provided,* That the rate of interest paid upon said bonds while on deposit with the several Federal reserve banks shall be an amount fixed and agreed upon by and between the Secretary of the Treasury and the Federal Reserve Board. and in no event shall such rate be more than the rate specified herein. The total amount of such bonds shall not exceed the total amount required for the purpose of paying such adjusted-service certificates.

SEC. 3. Upon the receipt by the Administrator of Veterans' Affairs of any such bonds he shall distribute them to the several Federal reserve banks in proportion to the number of applications received from veterans within the various Federal reserve districts for payment of their adjusted-service certificates. Each bank receiving any such bonds is hereby authorized to issue Federal reserve bank notes in an amount equal to the face value of the bonds received by it and such bonds shall be held as collateral security for such bank notes as provided by the Federal reserve act as amended by Public, Numbered 2, Seventy-second Congress, being an act to provide emergency financing facilities for financial institutions, to aid in financing agriculture, commerce, and industry, and for other purposes, approved January 22, 1932, and as further amended by Public, Numbered 44, Seventy-second Congress, being an act to improve the facilities of the Federal reserve system for the service of commerce, industry, and agriculture, to provide means for meeting the needs of member banks in exceptional circumstances, and for other purposes, approved February 27, 1932. Such notes shall be of such denominations (including denominations of $1 and $2) as may be authorized by the Federal reserve bank and except as provided in this act shall be subject to all the provisions of law relating to the Federal reserve notes. Payments on account of such certificates shall be made by means of such bank notes upon the order of the Administrator of Veterans' Affairs and in such manner as he shall prescribe: *Provided*, That the Federal Reserve Board shall have supervision over the payments to be made to the holders of such certificates and at any time in the discretion of the said board the best interests of the Government and the public demand that payment be made in actual cash be suspended in any Federal reserve district by resolution adopted and order made and served upon the Administrator of Veterans' Affairs, whereupon and thereafter the said Administrator of Veterans' Affairs shall cease payments in cash and shall begin payments by checks and drafts. Such bank notes shall be legal tender in payment of all debts, public and private, except where otherwise expressly stipulated by contract, and shall be receivable for customs, taxes, and all public dues.

SEC. 4. (a) An application for payment under this act may be made and filed at any time before the maturity of the certificate (1) personally by the veteran, or (2) in case physical or mental incapacity prevents the making or filing of a personal application, then by such representative of the veteran and in such manner as may be by regulations prescribed. An application made by a person other than a representative authorized by such regulations, or not filed on or before the maturity of the certificate, shall be held void.

(b) If the veteran dies after the application is made and before it is filed it may be filed by any person. If the veteran dies after the application is made it shall be valid if the Administrator of Veterans' Affairs finds that it bears the bona fide signature of the applicant, discloses an intention to claim the benefit of this act on behalf of the veteran, and is filed before the maturity of the certificate, whether or not the veteran is alive at the time it is filed. If the death occurs after the application is filed but before the receipt of the payment under this act, or if the application is filed after the death occurs but before mailing of the check in payment to the beneficiary under section 501 of such act, as amended, payment shall be made to the estate of the veteran irrespective of any beneficiary designation.

(c) Where the records of the Veterans' Administration show that an application disclosing an intention to claim the benefits of this act, has been filed before the maturity of the certificate, and the application can not be found, such application shall be presumed, in the absence of affirmative evidence to the contrary, to have been valid when originally filed.

(d) If at the time this act takes effect a veteran entitled to receive an adjusted-service certificate has not made application therefor he shall be entitled, upon application made under section 302 of such act, as amended, to receive, at his option, either the certificate under section 501 of such act, as amended, or payment under this act.

SEC. 5. Section 2 of Public, Numbered 44, Seventy-second Congress, entitled "An act to improve the facilities of the Federal reserve system for the service of commerce, industry, and agriculture, to provide means for meeting the needs of member banks in exceptional circumstances, and for other purposes," approved February 27, 1932, to read as follows:

"SEC. 2. The Federal reserve act, as amended, is further amended by adding immediately after such new section 10 (a), an additional new section reading as follows:

"'SEC. 10. (b) In exceptional and exigent circumstances, and when any member bank, having a capital of not exceeding $5,000,000, has no further eligible and acceptable assets available to enable it to obtain adequate credit accommodations through rediscounting at the Federal reserve bank or any other method provided by this act other than that provided by section 10 (a), any Federal reserve bank, subject in each case to affirmative action by not less than five members of the Federal Reserve Board, may make advances to such member bank on its time or demand promissory notes secured to the satisfaction of such Federal reserve bank: *Provided*, That (1) each such note shall bear interest at a rate not less than 1 per centum per annum higher than the highest discount rate in effect at such Federal reserve bank on the date of such note; (2) the Federal Reserve Board may by regulation limit and define the classes of assets which may be accepted as security for advances made under authority of this section; and (3) no note accepted for any such advance shall be eligible as collateral security for Federal reserve notes.

"'No obligations of any foreign government, individual partnership, association, or corporation organized under the laws thereof shall be eligible as collateral security for advances under this section.'"

SEC. 6. Section 3 of Public, Numbered 44, Seventy-second Congress, being an act "to improve the facilities of the Federal reserve system for the service of commerce, industry, and agriculture, to provide means for meeting the needs of member banks in exceptional circumstances, and for other purposes," approved March 27, 1932, is hereby amended to read as follows:

"SEC. 3. The second paragraph of section 16 of the Federal reserve act, as amended, is amended to read as follows:

" 'Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this act, or bills of exchange indorsed by a member bank of any Federal reserve district and purchased under the provisions of section 14 of this act, or bankers' acceptances purchased under the provisions of said section 14, or gold or gold certificates: *Provided, however*, That should the Federal Reserve Board deem it in the public interest, it may, upon the affirmative vote of not less than a majority of its members, authorize the Federal reserve banks to offer, and the Federal reserve agents to accept, as such collateral security, direct obligations of the United States. In no event shall such collateral security be less than the amount of Federal reserve notes applied for. The Federal reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. The said Federal Reserve Board may at any time call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it.' "

SEC. 7. There is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, such amounts as may be necessary to carry out the provisions of this act.

SEC. 8. This act may be cited as the "Adjusted compensation payment act."

Senator THOMAS. Mr. Chairman and gentlemen, I am not here in any sense to make a speech. I am here to answer questions, and if I may, to be helpful. I will take no time whatever to discuss with the committee the conditions throughout the country, because you know those as well as I do. I will take no time to discuss various forms of relief. You know what forms are now pending as well as myself. But it might not be out of place to recount that during this Congress we have undertaken to provide some relief and we have provided some relief.

It will be remembered that in the fall, before we convened, when the President announced his so-called credit corporation, voluntary bankers' pool, that gave us some encouragement. In our several districts we thought we could see that the country had some hope; the stock market rebounded and the public thought that the tide had turned, the bottom had been reached, and from that time henceforth times would improve.

The public thought that, gentlemen, in my judgment, on the theory that credits were to be expanded. In other words, there would be an inflation of credits, if not of money. And when I say inflation, I do not mean a German inflation. I mean bringing down the value of the dollar to where it was a few years ago.

As soon as the public ascertained that there was no credit expansion or inflation in the bankers' pool, the stocks began to fall and when we convened in December it was proposed to create the Reconstruction Finance Corporation.

That was advertised throughout the country, in the public press, as being a measure that would make money more plentiful, give us some new credits; and upon the announcement of that bill, the stocks began to mount. Times apparently began to get better. Commodity prices began to advance. Wheat went up, corn went up, everything went up somewhat. But it was shortly discovered that there was no money in the Reconstruction Finance Corporation—simply credit. In place of making money more plentiful, the public at large did not see any benefits from that, they have not seen any as yet, the stock market began to fall, commodity prices began to fall and they went down to their lowest level.

Then a little later, when the Glass-Steagall bill was proposed, we saw a duplication of what I have just described. The announcement of the bill caused confidence to rise, caused stocks to go up, caused the commodity prices to increase; but it was soon found that there was no expansion in the Glass-Steagall bill. And when the public found that, the wise boys—I will call them that, because that is what they are—started to sell and stocks began to fall again. And the stocks, gentlemen, have not stopped falling. At this time there is no plan, no program, so far as I know, to increase circulation. The facts are that circulation is being decreased daily. Notwithstanding the fact that we have passed all these bills, such as the Reconstruction Finance Corporation bill, notwithstanding this corporation has placed in circulation credit—not money—to the extent of $300,000,000 and in addition to that the Federal reserve banks are now buying bonds to the amount of $25,000,000 weekly—yet, notwithstanding these accumulations of bonds at the rate of $100,000,000 a month, and notwithstanding that the Credit Corporation is putting credit into circulation, circulation is decreasing daily. The month of March saw going out of circulation $147,000,000.

The actual amount of money in circulation has decreased more than $200,000,000. Now, I contend that money is controlled by the same economic law that controls wheat, that controls cotton, that controls livestock. When wheat is plentiful, wheat is cheap. When cotton is plentiful, cotton is cheap. When wheat is scarce, wheat is dear. When cotton is scarce, cotton is dear.

Money is controlled by the same economic law. When money is plentiful, money is cheap. When money is scarce, money is high.

To-day I make the assertion that we have the least amount of money in actual circulation that this country has seen since before the World War. During the World War and after the World War, when we had the best times that I have ever seen, when wheat was selling for two and a half and three dollars a bushel, and cotton was selling for 40 cents a pound, and oats and other things in proportion, we had six and a half billion dollars in circulation.

That statement may be challenged. If I may at this point, Mr. Chairman, I will offer for the record a copy of the circulation statement of February 1, 1921. This, I will say to the majority of this committee, was a statement published when our party yet had control of the Government, February 1, 1921, a month and three days before the change came. I read from this statement and it shows that on that date there was in circulation $6,340,436,718.

At that time we only had gold in this country to the extent of $2,853,480,649.

The ACTING CHAIRMAN. Without objection, the statement will go in the record.

(The statement referred to is as follows:)

Circulation statement—February 1, 1921

Circulating medium	I General stock of money in the United States: Includes gold held in the Treasury for the redemption of outstanding gold certificates ($459,727,105 on Feb. 1, 1921), Federal reserve gold settlement fund ($1,413,199,808.59 on Feb. 1, 1921), and standard silver dollars held in the Treasury for the redemption of outstanding silver certificates and Treasury notes of 1890 ($149,782,352 on Feb. 1, 1921). Does not include gold held with foreign agencies of Federal reserve banks. Amounts of Federal reserve bank notes and national bank notes are amounts issued by Treasury to banks		II Held in the Treasury as assets of the Government: Includes the gold reserve fund held against issues of United States notes and Treasury notes of 1890 ($152,979,025.63 on Feb. 1, 1921), and the gold or lawful money redemption funds held against issues of national bank notes, Federal reserve notes, and Federal reserve bank notes ($282,349,891.39 on Feb. 1, 1921). Does not include deposits of public money in Federal reserve banks, national banks, and special depositaries ($325,679,322.63 on Feb. 1, 1921), nor does it include funds held in trust in the Treasury for the redemption of outstanding gold and silver certificates and Treasury notes of 1890. (See column I, ante). For a full statement of Treasury assets and liabilities see daily statement of the United States Treasury and monthly debt statement		III Held by Federal reserve banks and Federal reserve agents against issues of Federal reserve notes: Includes the gold reserve held by banks against issues and gold or other funds deposited by banks with agents to retire Federal reserve notes in circulation and own Federal reserve notes held by Federal reserve banks		IV Money in circulation: Amounts of various kinds of money in circulation determined by deducting from the apporpriate item in the general stock of money (column I, ante) the amount held in the Treasury as assets of the Government (column II, ante) and the amount held by Federal reserve banks or Federal reserve agents against issues of Federal reserve notes (column III, ante). Gold and silver certificates and Treasury notes of 1890 in circulation are represented in the general stock of money by equal amounts of gold coin or bullion and standard silver dollars held in Treasury for their redemption. (See column I, ante). Amounts of Federal reserve bank notes and national bank notes are amounts of issues by Treasury to banks less amounts held in Treasury as assets of the Government			
	Feb. 1, 1921	Feb. 1, 1920	Feb. 1, 1921	Feb. 1, 1920	Feb. 1, 1921	Feb. 1, 1920	Feb. 1, 1921	Feb. 1, 1920	Jan. 1, 1921	Jan. 1, 1879
Gold coin (including bullion in Treasury)	$2,853,480,649	$2,762,905,481	$427,621,611	$365,779,472	[1] $1,005,907,276	$796,438,360	[2] $960,224,657	$961,329,559	$851,025,400	$96,262,850
Gold certificates					155,358,280	231,748,280	304,368,825	407,609,810	336,835,853	21,189,280
Standard silver dollars	269,746,326	284,784,505	22,243,794	57,514,086			97,720,180	88,233,067	98,328,278	5,790,721
Silver certificates							148,177,905	137,343,827	151,983,912	413,360
Subsidiary silver	271,511,384	251,307,010	7,836,848	5,263,797			263,674,536	246,043,213	265,590,222	67,982,601
Treasury notes of 1890							1,604,447	1,693,525	1,605,352	
United States notes	346,681,016	346,681,016	3,938,348	25,953,688			342,742,668	320,727,328	341,321,872	310,288,511

[1] Includes $933,879,860 credited to Federal reserve agents in the gold settlement fund deposited with Treasurer of the United States.
[2] Includes $479,319,948.59 credited to Federal reserve banks in the gold settlement fund deposited with Treasurer of the United States.

Circulation statement—February 1, 1921—Continued

Circulating medium	I General stock of money in the United States: Includes gold held in the Treasury for the redemption of outstanding gold certificates ($459,727,105 on Feb. 1, 1921), Federal reserve gold settlement fund ($1,413,199,808.59 on Feb. 1, 1921), and standard silver dollars held in the Treasury for the redemption of outstanding silver certificates and Treasury notes of 1890 ($149,782,352 on Feb. 1, 1921). Does not include gold held with foreign agencies of Federal reserve banks. Amounts of Federal reserve bank notes and national bank notes are amounts issued by Treasury to banks		II Held in the Treasury as assets of the Government: Includes the gold reserve fund held against issues of United States notes and Treasury notes of 1890 ($152,979,025.63 on Feb. 1, 1921), and the gold or lawful money redemption funds held against issues of national bank notes, Federal reserve notes, and Federal reserve bank notes ($282,349,891.39 on Feb. 1, 1921). Does not include deposits of public money in Federal reserve banks, national banks, and special depositaries ($325,679,322.63 on Feb. 1, 1921), nor does it include funds held in trust in the Treasury for the redemption of outstanding gold and silver certificates and Treasury notes of 1890. (See column I, ante). For a full statement of Treasury assets and liabilities see daily statement of the United States Treasury and monthly debt statement		III Held by Federal reserve banks and Federal reserve agents against issues of Federal reserve notes. Includes the gold reserve held by banks against issues and gold or other funds deposited by banks with agents to retire Federal reserve notes in circulation and own Federal reserve notes held by Federal reserve banks		IV Money in circulation: Amounts of various kinds of money in circulation determined by deducting from the apporpriate item in the general stock of money (column I, ante) the amount held in the Treasury as assets of the Government (column II, ante) and the amount held by Federal reserve banks or Federal reserve agents against issues of Federal reserve notes (column III, ante). Gold and silver certificates and Treasury notes of 1890 in circulation are represented in the general stock of money by equal amounts of gold coin or bullion and standard silver dollars held in Treasury for their redemption. (See column I, ante). Amounts of Federal reserve bank notes and national bank notes are amounts of issues by Treasury to banks less amounts held in Treasury as assets of the Government			
	Feb. 1, 1921	Feb. 1, 1920	Feb. 1, 1921	Feb. 1, 1920	Feb. 1, 1921	Feb. 1, 1920	Feb. 1, 1921	Feb. 1, 1920	Jan. 1, 1921	Jan. 1, 1897
Federal reserve notes	[3]$3,484,226,195	$3,125,885,275	$10,223,811	$35,641,195	$369,348,520	$245,353,675	$3,104,653,864	$2,844,890,405	$3,349,389,117	
Federal reserve bank notes	225,938,400	258,182,800	5,027,334	56,959,135			220,911,066	201,223,665	236,597,570	
National bank notes	719,653,927	733,108,190	22,467,063	78,031,376			697,186,864	655,076,814	707,759,142	$314,339,398
Total	8,171,237,897	7,762,854,277	499,358,809	625,142,749	1,530,614,076	1,273,540,315	6,141,265,012	5,864,171,213	6,340,436,718	816,266,721
Population of continental United States estimated at							[4]107,389,000	106,735,000	107,249,000	48,231,000
Circulation per capita							$57.19	$54.94	$59.12	$16.92

[3] Includes own Federal reserve notes held by Federal reserve banks.

[4] Revised figures.

Senator THOMAS. In other words, on February 1, 1921, $2,800,000,000 of gold kept us on the gold standard, when we had $6,300,000,000 in circulation.

Mr. MCCORMACK. How much was in the Treasury, if you can tell us?

Senator THOMAS. Held in the Treasury as assets of the Government on February 1, 1921, there was gold coin in the amount of $427,621,611.

Held by Federal reserve banks and Federal reserve agents against issues of Federal reserve notes, on February 1, 1921, $1,005,907,276.

If I may, Mr. Chairman, as a comparison, I ask permission to insert in the record the last statement that I have from the Treasury. It is of the date of February 29, 1932. May I put that statement in the record?

The ACTING CHAIRMAN. Without objection, the Senator is given that permission.

Senator THOMAS. I will read just two items from the statement. It shows on February 29, 1932, that we had in circulation $5,603,542,630. It also shows that on that date we had gold coin and bullion in the sum of $4,353,638,971; double the gold and a billion dollars less of money. I submit that as an answer to those who contend that this will of necessity throw us off of the gold standard.

Mr. MCCORMACK. May I suggest that you also give the figure of what was in the Treasury on that date?

Senator THOMAS. I will give you the total amount in the Treasury and then if you desire to have it itemized, I will itemize it for you. The total amount is $3,442,011,378.

(The statement referred to follows.)

Circulation statement of United States money, February 29, 1932

Kind of money	Total amount	Money held in the Treasury					Money outside of the Treasury				Population of continental United States (estimated)
		Total	Amount held in trust against gold and silver certificates (and Treasury notes of 1890)	Reserve against United States notes (and Treasury notes of 1890)	Held for Federal reserve banks and agents	All other money	Total	Held by Federal reserve banks and agents [1]	In circulation [2]		
									Amount	Per capita	
Gold coin and bullion	[3] $4,353,638,971	$3,442,011,378	$1,613,561,629	$156,039,088	$1,583,643,272	$88,767,389	$911,627,593	$505,289,145	$406,338,448	$3.26	
Gold certificates	[4] (1,613,561,629)						1,613,561,629	793,433,670	820,127,959	6.58	
Standard silver dollars	539,958,135	499,312,784	492,794,527			6,518,257	40,645,351	9,449,743	31,195,608	.25	
Silver certificates	[4] (491,566,977)						491,566,977	128,650,149	362,916,828	2.91	
Treasury notes of 1890	[4] (1,227,550)						1,227,550		1,227,550	.01	
Subsidiary silver	306,960,482	8,313,278				8,313,278	298,647,204	38,569,505	260,077,699	2.08	
Minor coin	126,541,520	4,515,239				4,515,239	122,026,281	7,785,463	114,240,818	.92	
United States notes	346,681,016	3,312,718				3,312,718	343,368,298	63,545,079	279,823,219	2.24	
Federal reserve notes	2,911,742,680	1,620,660				1,620,660	2,910,122,020	276,489,087	2,633,632,933	21.12	
Federal reserve bank notes	2,830,140	20,680				20,680	2,809,460		2,809,460	.02	
National bank notes	732,377,223	16,031,482				16,031,482	716,345,741	25,193,633	691,152,108	5.54	
Total Feb. 29, 1932	9,320,730,167	[5] 3,975,138,219	2,106,356,156	156,039,088	1,583,643,272	[6] 129,099,703	7,451,948,104	1,848,405,474	5,603,542,630	44.93	$124,716,000
Comparative totals:											
Jan. 31, 1932	9,378,002,702	[5] 4,027,791,449	2,164,930,770	156,039,088	1,580,633,136	126,188,455	7,515,142,023	1,873,936,977	5,641,205,046	45.26	124,636,000
Feb. 28, 1931	8,560,358,013	[5] 4,080,217,568	2,254,439,089	156,039,088	1,575,421,578	94,317,813	6,734,579,534	2,114,166,025	4,620,413,509	[7] 37.33	[7] 123,781,000
Oct. 31, 1920	8,479,620,824	[5] 2,436,864,530	718,674,378	152,979,026	1,212,360,791	352,850,336	6,761,430,672	1,063,216,060	5,698,214,612	53.21	107,096,005
Mar. 31, 1917	5,396,596,677	[5] 2,952,020,313	2,681,691,072	152,979,026		117,350,216	5,126,267,436	953,321,522	4,172,945,914	40.23	103,716,000
June 30, 1914	3,797,825,099	[5] 1,845,569,804	1,507,178,879	150,000,000		188,390,925	3,459,434,174		3,459,434,174	34.93	99,027,000
Jan. 1, 1879	1,007,084,483	[5] 212,420,402	21,602,640	100,000,000		90,817,762	816,266,721		816,266,721	16.92	48,231,000

[1] Includes money held by the Cuban agency of the Federal Reserve Bank of Atlanta.
[2] The money in circulation includes any paper currency held outside the continental limits of the United States.
[3] Does not include gold bullion or foreign coin other than that held by the Treasury, Federal reserve banks, and Federal reserve agents. Gold held by Federal reserve banks under earmark for foreign account is excluded, and gold held abroad for Federal reserve banks is included.
[4] These amounts are not included in the total since the money held in trust against gold and silver certificates and Treasury notes of 1890 is included under gold coin and bullion and standard silver dollars, respectively.
[5] The amount of money held in trust against gold and silver certificates and Treasury notes of 1890 should be deducted from this total before combining it with total money outside of the Treasury to arrive at the stock of money in the United States.

[6] This total includes $55,743,036 gold deposited for the redemption of Federal reserve notes ($1,083,085 in process of redemption), $30,[illegible]0,129 lawful money deposited for the redemption of National bank notes ($15,978,315 in process of redemption, including notes chargeable to the retirement fund), $1,350 lawful money deposited for the retirement of additional circulation (act of May 30, 1908), and $16,182,757 lawful money deposited as a reserve for postal savings deposits.

[7] Revised figures.

NOTE.—Gold certificates are secured dollar for dollar by gold held in the Treasury for their redemption; silver certificates are secured dollar for dollar by standard silver dollars held in the Treasury for their redemption; United States notes are secured by a gold reserve of $156,039,088 held in the Treasury. This reserve fund may also be used for the redemption of Treasury notes of 1890, which are also secured dollar for dollar by standard silver dollars held in the Treasury; these notes are being canceled and retired on receipt. Federal reserve notes are obligations of the United States and a first lien on all the assets of the issuing Federal reserve bank. Federal reserve notes are secured by the deposit with Federal reserve agents of a like amount of gold or of gold and such discounted or purchased paper as is eligible under the terms of the Federal reserve act. Federal reserve banks must maintain a gold reserve of at least 40 per cent, including the gold redemption fund which must be deposited with the United States Treasurer, against Federal reserve notes in actual circulation. Lawful money has been deposited with the Treasurer of the United States for retirement of all outstanding Federal reserve bank notes. National bank notes are secured by United States bonds except where lawful money has been deposited with the Treasurer of the United States for their retirement. A 5 per cent fund is also maintained in lawful money with the Treasurer of the United States for the redemption of National bank notes secured by Government bonds.

Senator THOMAS. Now, Mr. Chairman and gentlemen, if you will permit me to make some references——

Mr. ALDRICH. May I ask a question at this point?

Senator THOMAS. I shall be glad to answer it.

Mr. ALDRICH. Have you the figures of the amount in circulation in the intervening years between 1921 and the present?

Senator THOMAS. Here is the 10-year period, not all the months are there, but most of them.

Mr. ALDRICH. They include some of the most prosperous years we have had in this country.

Senator THOMAS. Will you suggest some year?

Mr. ALDRICH. I have the figures here. There is a table in the annual report of the Secretary of the Treasury. I simply want to point out that in some of the years that we considered prosperous, such as 1927, 1928, and 1929, the total amount of money in circulation was very much less than it is now or than it was in 1921.

Senator THOMAS. Let me give you then the month that shows the lowest amount in circulation. That is July 31, 1930. A similar statement showing at that time the circulation had gone down to this point of $4,426,493,631, and at that time we had gold in the Treasury in the total sum of $4,516,509,645. In other words, we had over $100,000,000 of gold in the Treasury more than money of all kinds in circulation.

Mr. ALDRICH. But in 1928 we had $4,796,000,000 in circulation, and conditions were prosperous at that time. That was the only point I wanted to make.

Senator THOMAS. In answer to the suggestion made—I think it is an entirely appropriate one—in good times money is of no particular value, because nobody cares for money and by money I mean gold, silver, and currency. They have plenty of checking accounts and plenty of credit. Until the slump came two and a half years ago, money did not serve a very large part in the life of the people, because the work was done by checks. When we have confidence and credit our bills are paid by check. It is only when you have to have money to pay your carfare or patronize some strange individual that it takes actual money. For that reason, in good times, the business can be transacted by checks and credit; but in bad times like these, when credit is frozen and there is not any, we must then fall back to actual money.

Mr. ALDRICH. Have you the figures of the total bank deposits of this country at the present time?

Senator THOMAS. I can give them to you.

Mr. ALDRICH. It is something like fifty billions.

Senator THOMAS. Let me make my statement for the record. In 1924, when I appeared before this committee, we had $55,000,000,000 on deposit. In June of last year, we had just a little less than $60,000,000,000 on deposit. That is June of 1931. Since June, 1931, we have lost approximately twenty billions of bank deposits. The gentleman suggests that there are now forty-six billions on deposit?

Mr. ALDRICH. I do not know exactly. I think it is in the neighborhood of fifty billions.

Senator THOMAS. The last time I made a tabulation and made inquiry was in February and at that time they were down to forty-six billions. That is the information I received from the comptroller's office. So we have lost approximately twenty billions of deposits in the past several months.

Now, while we have five and a half billions of money in circulation I want to give you an idea where this money is.

There are $500,000,000 of this money in foreign lands; $100,000,000 in Cuba alone. The only money in circulation in Cuba is American money. This money is in the big banks of Cuba. By the way, they are American banks. The National City Bank has 24 branches in Cuba. So Cuba, while it has an independent government, is practically altogether American.

The American Telephone & Telegraph Co. has 451 exchanges in Cuba. Everything in Cuba worthwhile that you would have is owned by some American already. It takes $100,000,000 of our money to transact the business of Cuba.

The banks are required to keep in their vaults as a reserve almost $1,000,000,000. There has not been a time in 10 years when they have had $1,000,000,000 in their vaults at one time. The number of banks have now dropped until we only have about eighteen or nineteen thousand of them, and the last statement I saw was that they had cash in their vaults of $888,000,000. So the banks on June last had on deposit approximately sixty billions of money when they did not have in their vaults a billion dollars. That is a ratio of less than 1 to 60.

Now, of this $5,500,000,000 we have now outside of the Treasury, $500,000,000 in foreign countries, and the banks have $1,000,000,000 approximately. Of course, that is theoretically in circulation, but not practically. You can not get it out of the banks, because if you take it out, they have got to get more to put back in the banks to keep up their reserves in accordance with the law. So that that $1,000,000.000 which is theoretically in circulation is not where people can get it.

Then the President told us not so long ago that the people of the country had hoarded a billion and a half dollars.

Add these three amounts that are not in circulation, the money in foreign countries, $500,000,000, the money in the banks, $1,000,000,000; that makes a billion and a half; and then a billion and a half dollars which is being hoarded. That makes a total of $3,000,000,000 that you can not get to. Take that from five and a half billion dollars and its leaves you two and a half million dollars of money to transact the business of the United States, the largest, the strongest, the richest Nation on the face of the earth.

I contend that is not enough. I contend that because this money in circulation has shrunk and because credits have ceased to exist through being frozen, that the cause of the high price of the dollar to-day is the scarcity of that dollar. It is my contention that no relief is possible until we bring that dollar down within the reach of the masses of the people of this Nation.

Mr. Ragon. May I ask you a question?

Senator Thomas. Gladly.

Mr. Ragon. If Mr. Owen's statement is correct that there was less money in circulation in 1928 than there is now or there was in 1921, how is that consistent with the statement that you are making now?

Senator THOMAS. He goes by the figures. I have tried to show you that at that time there was four and a half billions in circulation according to the statement and it was all in circulation; I mean, easily gotten at, the banks would loan it.

Mr. RAGON. In other words, this billion dollars that the banks have tied up was liquid at that time?

Senator THOMAS. A dollar in the bank is the basis of $10 of credit. While the banks have a billion dollars, that is the basis of $10,000,000,000 of credit but they are not exercising that potential liquid credit.

In good times the money we had in circulation was ample, because we had more gold than we had all kinds of money in circulation. We had vast deposits and everybody had confidence. You could get loans any place. Probably one of the troubles was that it was too easy to get loans. Now, things are changed. Credit does not exist. Money is being hoarded, a billion and a half dollars of it, and what is in the bank is not liquid but is kept there as a reserve through fear.

Mr. RAGON. Right along that line, let me ask you this question. Perhaps you can give me some light on it. This money that is frozen in the banks as a practical proposition is held largely by the banks for self-protection against runs and things of that kind; is that true?

Senator THOMAS. I agree with you.

Mr. RAGON. In back of an issue of any kind of Federal reserve notes you have to have a reserve of 40 per cent of gold?

Senator THOMAS. I am going to come to that in a few minutes, if you will allow me to postpone that discussion for just a little while.

Mr. RAGON. You are coming to that?

Senator THOMAS. Yes.

Mr. RAGON. That is what I want to hear discussed.

Senator THOMAS. I am trying to lay a foundation for it.

Mr. RAGON. But it seems to me this is significant. You say this billion dollars is tied up in the banks. It seems to me that that is a matter that affects the elasticity and the velocity of the money in circulation. Will you explain that?

Senator THOMAS. I shall be glad to take that up.

Mr. ALDRICH. A billion dollars is not very much against fifty billion dollars of deposits.

Senator THOMAS. Well, it is more than $1,000,000,000 as against $60,000,000,000 deposits. Six months ago we had $20,000,000,000 or more greater deposits than we have now and the circulation is practically the same. In effect, it is less because, as I say, this money is hoarded. While theoretically it is in circulation, it is outside of the Treasury and you can not get it. It is locked up in safe deposit boxes and it is hidden in secret places and the folks who have it see fit to keep it there. It is their property and there is no power that we can exert over the owners of this money to get them to divest themselves of it.

I will admit that the President's program of antihoarding has produced some good results. But here is another result that it has produced. The pleading of the Government has induced men and women who had money to bring that money forth and expend it or deposit it. But what have the banks done when they have gotten the money?

As soon as the money reached the banks, the banks have done this: As soon as they get a little money on hand, money for which they do not see an immediate need, they owe the Federal reserve and they bundle up this money and send it down to the Federal reserve to pay their obligations and to reduce their overhead. So, as a result of the President's antihoarding campaign, I make the statement that he has reduced the actual money in circulation by over $200,000,000.

Mr. HILL. May I ask a question?

Senator THOMAS. Surely.

Mr. HILL. If you had all of this $5,500,000,000 in circulation and did not have circulating credit, the effect on the prosperity of the country would be rather slight, would it not? The point is, you have to restore the circulating credit in order to restore prosperity.

Senator THOMAS. I agree with you, Judge, that if we were to fill the banks running over with money—that is an exaggeration, but if we were to put another $1,000,000,000 into the banks, it might not help the situation a particle and for this reason. There is no property now that I know of on which the banks will loan, not even Government bonds. There is nothing now that I know of that is making money. Banks will not lend on collateral and on farm lands, or factories, unless those farm lands and those factories are operating at a profit. Now, farms are not operating at a profit. Factories, many of them, are not operating at all and those that are running, are not running at a profit. For that reason banks have no outlet for loans. Until something is done to reinvest the public, the masses, these millions, with buying power the banks can not take any collateral that is worth anything. Until a farmer can get more than 5 cents a pound for his cotton and more than 30 cents a bushel for his wheat, his land will not be worth anything as collateral.

Factories will be worthless as collateral until orders commence coming in to them. It is my contention that if we will pay these soldier boys—and that is only an incident; I stand on the statement made by Mr. Patman yesterday that unless we can convince the committee and the Congress that the payment of this bonus will help the country at large, the millions and the tens of millions—not soldiers—as much as if not more than it will help the soldier boy, I would not take your time to make this presentation.

I contend that the only way you can help the country, all of it, is to get the buying power back in the hands of the 120,000,000 of our people. If you put buying power in their hands, they will begin to spend their money. They will fill some empty stomachs, their own and their families. They will buy some better clothes, they will pay their bills. That puts this money in circulation. It gets it into the banks eventually, but when it does the banks will have renewed confidence, because bills will have been paid, credit will be reestablished in the folks who have liquidated their indebtedness; and so I am presenting this matter on the theory that the passage of this bill, paying this out in cash, not in credit, not by checks, but in cash, will do the thing that we all want done. If it will not do that, our case fails.

The boys need the money. We all admit that.

Mr. WATSON. Will the gentleman yield?

Senator THOMAS. Gladly.

Mr. WATSON. What effect did the seven or eight hundred million dollars that we paid the soldiers a few years ago have upon the prosperity of the country? Why would this proposed $2,000,000,000 issue have any greater effect?

Senator THOMAS. That money was paid last year by credit, by checks. There was not a dollar paid to the boys that would be the basis of additional credit. It is my contention that if it had been paid last year in currency, the circulation would have increased to the extent of the payments made and every dollar placed in circulation would have been good for $10 of expanded credit.

We did not pay them that way. They were paid by checks, just like the Reconstruction Finance Corporation is paying to-day. They are not paying out currency. They are paying by checks and while they put $300,000,000 in circulation, the currency has not been expanded a single dollar.

Mr. WATSON. But the same argument was made then as is made now, that the payment then would be of great advantage to the country.

Senator THOMAS. I will make the further statement, and I have many letters to sustain my position, that the payment last year to the soldier, to the extent to which they were paid, saved sections of the country. This information comes from my State, localities that I have heard from, to the effect that had it not been for those payments banks would have failed and chaos would have reigned.

Mr. WATSON. Then it did put money in circulation?

Senator THOMAS. Credit money, true. If you were to go to the bank to-day and say, "Mr. Banker, I want $10,000," the banker would give you a note, you would sign the note for $10,000 and he would give you a credit on your passbook or a credit slip, and immediately you have converted your credit into $10,000 of deposit money. That is in the bank. The deposits of that bank would jump up $10,000, but you have not put a penny in the bank. Circulation has not been increased a single red penny.

Mr. Chairman, I will not take up very much more of your time, but let me call your attention to an article that appeared in the Washington Post yesterday. It is their leading editorial, and I want to read only a few lines because they are pertinent. This editorial voices my viewpoint entirely. The article is headed, "The Underlying Problem." The first paragraph reads as follows:

> A fresh wave of deflation swept over the country last week, leaving the people in a confused and uneasy state of mind. For a time the forces of depression were checked by the new blood poured into the veins of commerce by the Reconstruction Finance Corporation and other constructive measures. But these factors were not sufficient to turn the forces of deflation into a positive movement toward recovery. It is well for the public to face the fact that heroic measures are necessary to turn the tide of depression.

A little further on:

> All chance of recovery seems to hinge upon a turn in commodity prices. On April 1 a group of 110 representative commodities were selling for 17½ per cent less than they brought a year ago. This is superimposed upon a decline of 20 per cent in the previous year. So long as this condition remains unchanged business will be paralyzed. All the credit in the world can not induce business to go deeper into the red.
>
> Value in the United States is being slowly concentrated into money. The dollar increases in value every day, while everything else loses some of its relative worth.

Reading further:

The value of the dollar has reached such a high point that the people are tempted to convert all their holdings into dollars to avert further shrinkage. Unless this vicious movement is checked it will result in panic.

That was prophetic, because yesterday the stock marked continued to decline.

Mr. BACHARACH. What paper is that?

Senator THOMAS. This is the Washington Post dated April 11, 1932.

Mr. BACHARACH. I would like to ask you a question, but I do not desire to interrupt your statement.

The ACTING CHAIRMAN. The Senator has said that he is willing to yield.

Senator THOMAS. For any question. I would not want to get into any argument.

Mr. BACHARACH. I do not want any argument myself. I wanted to find out what you were thinking of when you said that the boys should be paid in cash rather than by check. I would like to understand your viewpoint on that. It seems to me—this is just my viewpoint—that what we want these boys to do when they get this money, of course, is to help themselves to the things that they require. It seems to me that if we give these boys, a great many of whom are not accustomed to bank accounts, all of this money, they will probably waste a good deal of it. I do not suppose that was your thought.

Senator THOMAS. Not at all.

Mr. BACHARACH. That is the way it struck me.

Senator THOMAS. Let me make this statement, if I may, in explanation of what I said. There is just as much difference between the Government putting out a million dollars in currency and putting out a million dollars by check as between day and night.

The Reconstruction Finance Corporation has put out $300,000,000 by checks, in credit, and circulation has not been increased a single penny; $200,000,000 have gone out of circulation at the very time that they were putting out $300,000,000 in credit circulation. But if the Reconstruction Finance Corporation had put out $300,000,000 in currency, immediately that currency would have been reflected in the circulation statement of the Treasury.

Mr. BACHARACH. You said something about banks not having the opportunity to loan money to manufacturers. As a matter of fact, the banks will not lend money and I believe that has caused a great deal of the trouble in a great many manufacturing industries.

Senator THOMAS. Do I understand you to say that the banks will not loan money?

Mr. BACHARACH. I think as a general statement that is pretty nearly correct. At the present time it is very difficult, as you said, to borrow money from banks, no matter what the security is that is offered.

Senator THOMAS. You are exactly right. They will not loan money for the best reason in the world. There is nothing to-day on which to loan money.

Mr. BACHARACH. Well, I happen to know of a concern located in New Jersey which to-day is running 24 hours a day. It has 4,200 employees. It has very substantial bank connections and yet they can not borrow money from their bank, and they were compelled to pass dividends on their bonds for that very reason. It is a very substantial concern and doing a profitable business.

Senator THOMAS. Let me continue with this editorial just for one or two further sentences, because the editorial states exactly my viewpoint. If I am wrong, the Washington Post is wrong. If the Washington Post is right, Mr. Chairman and gentlemen, I am right. I invite your attention to the next statement. I quote:

> The extension of credit will not be sufficient. Heroic emergency measures that will arrest the fall of prices seem to be in order. How that can be done without unwarranted inflation of the currency is not clear, but every fresh wave of deflation makes more urgent the necessity of restoring some measure of balance between money and commodity prices.
>
> Palliatives will not yield the desired effect. Business can not turn toward stability unless the whole tendency toward lower price levels is reversed. Some powerful agency must be thrown into the breach to restore the value of goods and services against the exaggerated value of money.
>
> But some method of currency expansion on a sound gold basis might be necessary. Emergencies of this kind call for drastic action which goes to the heart of the problem. All the benefits which have accrued through bank stabilization will be lost unless the forces of deflation are arrested. It is time for the leaders in Government and financial circles to focus their minds upon a realignment of values.

That states my conviction entirely, Mr. Chairman. Now, as I stated a moment ago, after the American Legion convention met and decided not to ask the Congress for an extension of loans or the payment of the balance due, there was no demand, so far as I know, audible that the balance of this payment should be made.

When Congress convened, we were kept in the Senate one night until 11 o'clock to pass a bill to provide for $2,000,000,000 to be loaned to railroads and banks, life insurance companies, and other forms of corporations.

The ACTING CHAIRMAN. Senator, did not that also authorize a loan of $200,000,000 to the farmers?

Senator THOMAS. Exactly so; $50,000,000 directly. Three times fifty millions, possibly amounting to $200,000,000. Let me say in passing that in my section of the country the farmers not only can not get that money, but they can not even get the blanks upon which to make the applications. So, as a practical relief measure, it did not reach those whom we expected it to reach.

The ACTING CHAIRMAN. I am sure the Senator will agree that the legislative branch of the Government has no control over that. When they pass the law, that is all the legislative branch can do.

Senator THOMAS. I agree with the Chairman entirely. The bill I have pending before the Senate and which has been made a part of this record provides for the immediate making due and payable the balance of these certificates. It does not provide for the issuance of any bonds to be sold to the public. We can not sell bonds to the public now and I would not be so untrue to my convictions as to propose a bond issue that I am convinced could not be sold to the public.

This bill proposes not a single new theory of financial legislation. It does not even suggest a new section of law.

Under existing law—and I refer to the Reconstruction Finance Corporation; I have the bill here and I will refer to it just briefly; we passed this bill this winter—the Reconstruction Finance Corporation is not selling its bonds, yet it either has or will get the money on its bonds to loan to these institutions that I have mentioned.

How does the Reconstruction Finance Corporation expect to operate? Under the law, they have the right to issue a billion and a half of debentures, notes, or bonds. Under the law, those debentures are the direct obligations of the Government. Every dollar in the Treasury is pledged to pay the interest on those debentures. Every dollar in the Treasury is pledged by law to pay the principal of those bonds when they become due. Thereby, they are the direct obligations of the Government.

When the bill was passed, objections were made to making these bonds rediscountable at Federal reserve banks. So when the bill was finally passed and signed by the President, the only avenue the board had of disposing of these bonds was first to the public and second to the Treasury.

Now, they soon found that they could not sell these bonds to the public at par when Liberties were selling at 89 or 90. The Treasury did not have the money to advance upon this one billion and a half of bonds and the board found itself with $500,000,000 of appropriations, and with a billion and a half dollars of bonds that it could not handle. The Federal reserve banks could not use them.

So, at another meeting, those who were responsible for initiating this financial legislation decided that the Reconstruction Finance bill would have to be amended, the clause prohibiting these bonds from being handled by the Federal Reserve Board would have to be amended. That was one of the main provisions in the Glass-Steagall bill, to make the Reconstruction Finance Corporation bonds rediscountable and subject to purchase by the Federal reserve banks.

Now, here is the way they operate, if they are operating. This board that we created this year, will issue its bonds. It will either take these bonds to the Treasury and deposit them—not sell them to the public, but put them in the Treasury and the Treasury is authorized to issue its credit upon those bonds.

Secondly, under the Glass-Steagall bill, the board can take those debentures to the Federal reserve bank, lay them on the desk in front of the Federal reserve officials, and the Federal reserve officials are directed to present those bonds to the Federal reserve agent in the bank and the Federal reserve agent is directed to advance the notes for these bonds. They are not sold to the public. It is nothing more than a camouflage way of the Government issuing its notes, with nothing behind them save the promise of the Government to pay.

Now, I know Mr. Aldrich suggests that these bonds are backed by gold.

Mr. RAGON. Senator, why is not that sufficient? Why does not that have the effect of inflating the currency?

Senator THOMAS. Because they are not putting out the money. They are putting it out in credit.

Mr. RAGON. You said a while ago that the Government would issue credit on those bonds. What character of credit do you mean? What did you mean by that?

Senator THOMAS. The Reconstruction Finance Corporation, when it makes a loan to the B. &. O. or the Pennsylvania, or what not, does not give them the currency. They write them a check. There is no currency involved in the transaction, not a penny. If this board continues its present policy and puts out the entire $2,000,000,000 that we have authorized in the form of checks, circulation will not be extended a single dollar.

Mr. ALDRICH. You said there was nothing back of these bonds. Of course, there is the credit of the people to whom they loan the money, the railroads and the banks, in back of the bonds.

Senator THOMAS. If they do not pay, then what?

Mr. ALDRICH. We hope they will.

Mr. HILL. You say that the Reconstruction Finance Corporation can take its debentures and present them to the Federal reserve agent and as I understood you get currency for these in Federal reserve notes. Is that true?

Senator THOMAS. Absolutely.

Mr. HILL. Does not that expand the currency to that extent?

Senator THOMAS. If they will do it; yes. But they will not do it. The Federal reserve bank has the power to-day to put $1,000,000,000 in circulation through the purchase of bonds. They will only buy $25,000,000 weekly. They could buy $100,000,000 weekly and increase the circulation that much faster. But to-day, as fast as they are going, or as fast as they are willing to go, the money is going into the banks, it is being retired faster than all these agencies are putting it out.

Mr. HILL. What is the form of this credit that the Treasury is putting out?

Senator THOMAS. It is in the form of Treasury checks. They make them available to the credit of the Reconstruction Finance Corporation. The Reconstruction Finance Corporation, of course, writes its draft upon the Treasury and it is honored. It is all credit, just as in the instance of the gentleman who interrogated me a while ago; after he is credited with his $10,000 which he deposits in the bank, he can write checks against that to the extent of $10,000, but not a penny of money is involved necessarily.

Mr. HILL. Who pays these checks, where are they paid?

Senator THOMAS. The banks pays them.

Mr. HILL. They get back to the Treasury some time?

Senator THOMAS. Yes; but it is all credit. There is no money involved.

Mr. HILL. There are no Treasury notes issued?

Senator THOMAS. Not a penny's worth necessarily; not a penny. So, the Congress has provided for the issuance of a billion dollars and a half by the Reconstruction Finance Corporation of so-called fiat money.

Mr. RAGON. Senator, as I understood you a while ago, you said that under the terms of the Glass-Steagall bill it was possible for them to place the bonds in a Federal reserve bank?

Senator THOMAS. Correct.

Mr. RAGON. And that the Federal reserve bank would take that and treat it as eligible paper?

Senator THOMAS. Yes.

Mr. RAGON. And would issue Federal reserve notes?

Senator THOMAS. They could do that.

Mr. RAGON. At whose instance was that provision put in the Glass-Steagall bill, if it was not done at the instance of the Reconstruction Finance Corporation? I understood you to say a while ago that it was put in at somebody's request.

Senator THOMAS. I am not a member of the Banking and Currency Committee of the Senate and I can not answer that.

Mr. RAGON. I thought you made the statement that they found they could not sell their bonds and therefore there was incorporated in the Glass-Steagall bill provisions to enable them to do what you have just described.

Senator THOMAS. The Reconstruction Finance Corporation could not sell its bonds to the public. It did not try to, because it knew it could not do it. The Treasury was not prepared to finance this one billion dollars and a half because the Treasury is having difficulty now financing the payment of your salary and the payment of mine. It is going in the hole. So the Treasury could not take the money out of its vaults and advance this amount. The Reconstruction Finance Corporation was forced to do something. There was the Federal reserve bank with plenty of money, plenty of credit, plenty of gold. But the Reconstruction Finance Corporation could not get its bonds in the Federal reserve bank because of an inhibition in the original finance corporation act. Then the Glass-Steagall bill made it possible for the Reconstruction Finance Corporation to take any direct obligation of the Government and pledge it with the bank for the issuance of notes, of course, or credit. The Reconstruction Finance Corporation could get the notes, but it does not want the notes. The credit serves its purpose. It is not interested in inflating the currency or deflating the currency.

Does that explain what I am trying to say?

Mr. RAGON. They have the power, though, it seems to me, to inflate the currency by a billion dollars and a half.

Senator THOMAS. They have the power. So has the Federal Reserve Board the power to-day to put $5,000,000,000 in circulation, if they would do it. But there is some power, some place, that keeps them from it.

Mr. RAGON. Assuming that they were to do that, assuming that the Reconstruction Finance Corporation did that—and there are members of the Federal Reserve Board on the Reconstruction Finance Corporation Board—I say, assuming that they were eventually to do that, and issued notes to the extent of $1,500,000,000, how would that affect this $2,000,000,000 proposal here, if it would affect it in any way?

Senator THOMAS. If the Reconstruction Finance Corporation would go to the Federal reserve bank and hypothecate its bonds and take out of the bank actual Federal reserve notes and then make the loans with notes, they would assuredly place that much money in circulation, which would be reflected in the statement of the Treasury. But here is what would happen. It would give millions to one corporation and two millions to another corporation and two millions to another corporation. What would they do with the money? They would take it and put it in the banks and pay their bonds or their overhead expenses. There would be no wide circulation of that money. It would be piled up in some bank here or some bank there in the millions. To an extent it would increase circulation, but it would be a slow process to get that scattered over the whole United States.

This proposal provides immediately for the spreading of this $2,400,000,000 into every State, county, hamlet, and nook of the United States and puts it in the hands of the person who will spend it.

I made the statement a few days ago that it would be better for the Government to appropriate $1,000,000 and give a dollar to each one of a million persons that it would be to appropriate a million dollars and put it in the hands of one person.

Mr. RAGON. My point is this: If they should issue one and a half billion dollars in notes, and then we should make provision for placing an additional issue of $2,400,000,000 to take care of the adjusted service compensation certificates, do you think that would hurt us in any way with reference to the gold basis?

Senator THOMAS. Absolutely not; because in 1920, as I showed awhile ago, we had over a billion dollars more in circulation than we have now. It is not on my opinion alone that I rely when I say that inflation is necessary, and by "inflation," I mean a reasonably controlled inflation.

Now, I want to read from an address by the present Secretary of the Treasury. This address was made on January 26 before a group of bankers in New York. The Secretary of the Treasury being a competent man and addressing those who understood what he was talking about, did not make any mistakes, and he told them at that time exactly what he thought. I want to read one or two paragraphs from his address. At one place he said:

> The essence of the problem is to arrest deflation, to make available the credit needed by American business, industry, and commerce, and to encourage its use.

Of course, Mr. Mills and the others will not admit that they are in favor of inflation, but they are in favor of arresting deflation. A little bit later in his address, he made this statement:

> Some overtimid critics claim to have detected in this program the germ of inflation. They fail to distinguish the unmistakable dividing line between inflation and the arresting of a deflationary process which has gone to extreme lengths. When reporting member banks credit has been deflated by over $1,500,000,000 in three months, or at the rate of more than 25 per cent a year, and when through fear the existing volume of credit is not used to anything like its capacity, I do not know of anyone except perhaps the cartoonist Webster's "Timid Soul" who could be seriously troubled by the specter of inflation.

Then, a few days ago in the Senate the author of the Reconstruction Finance Corporation bill, in speaking on the Glass-Steagall bill made this statement, and I refer to Senator Walcott:

> Consequently, our dollar, always backed by gold, became unduly valuable. Our dollar to-day buys too much, because commodity prices are lower than they should be.

Again he says:

> So we find ourselves in the predicament that we had commodity prices much too low, the dollar corresponding too valuable, the purchasing power of the dollar too great, strange as it may seem, and business very largely paralyzed. What are we going to do about it?

In connection with the same discussion, that is, of the Glass-Steagall bill, Senator Glass made this significant statement:

> Who will say that if we might expand to-day to the extent of $4,000,000,000 the situation would not be cured?

Senator Glass told the Senate that if we could expand to the extent of $4,000,000,000, the situation would be cured. The Glass-Steagall bill was intended to have some inflation about it. Senator Glass submitted a report, and he says in one line:

> The bill is not intended nor should be used for undue inflation.

He admits that inflation to some extent might be due inflation.

Now, a few days ago the distinguished Senator from Mississippi, addressing himself to the Senate, made this significant statement:

I am not advocating that this country should go off the gold standard or suspend it. I do think, however, that something ought to be done by those who direct the Federal reserve system or the fiscal policies of the country, if it be possible, to put a stop to further decline of commodity prices. What we need now is—I will not say inflation, but, as Irving Fisher said, reflation—or something so that prices can at least go up to some measure of what they should be.

Again, Senator Harrison said:

I then voted for the so-called Glass-Steagall bill as a temporary measure. I hoped that the Federal Reserve Board would heed the admonition, because it appeared at that time that the administration was strongly in favor of such legislation and that it was going to use it as a means of putting more money into circulation and causing some inflation. I do not mean radical inflation; I do not mean skyrocketing inflation, but I mean reasonable, rational inflation; because I realize, as every Senator and every American citizen must realize, that no one who incurred indebtedness in the flush times of four or five years ago and who to-day is in debt the value of his property, whatever it may be, whether stock or land or commodities, or whatnot, having declined to the present figure under the enormous deflation which has occurred, can ever expect to see the light of day so far as being removed from under the burden of debt is concerned. So we have got to inflate in some rational way in order to increase the prices of commodities in this country.

Again he says:

I believe yet that those who direct the fiscal policies of this Nation can work out some policy through the Glass-Steagall law which may give us a little inflation; at least, I hope so.

Now, Mr. Chairman, just a moment further, and I will be ready to answer questions. This bill provides for making these policies due now; it provides for the issuance of 2 per cent consols, exactly like we issued in 1862 to try to get back on the gold standard, following the Civil War, and exactly like those we issued at the time we built the Panama Canal. Those bonds draw 2 per cent interest; they have the circulating privilege, and national banks can take over those bonds with the privilege of depositing them, having the full amount in currency issued against the bonds, getting the 2 per cent interest all the time, and getting the money free all the time without interest. Therefore, I propose the issuance of $2,400,000,000 in 2 per cent consols; I propose that the Veterans' Administration shall take those bonds and deposit them with the Federal Reserve Board, and the Federal Reserve Board, in turn, would distribute those bonds to the 12 member banks in proportion to the demand made upon those banks for the money. General Hines knows exactly how many soldiers reside in my district, and he knows exactly how many soldiers reside in every one of the 12 Federal reserve districts. The bill provides that the various Federal reserve banks receiving those bonds, shall issue Federal reserve bank notes in an amount equal to the face value of the bonds received by it, and those Federal reserve bank notes are placed to the credit of the Veterans' Administration, under this fund, in the full amount of those Federal reserve bank notes. They are not Federal reserve notes, but Federal reserve bank notes.

Now there is no new principle in this legislation. I have here the Federal reserve act, and there is a section of the Federal reserve act that provides now that Federal reserve banks can acquire these 2 per cent consols. They could take those 2 per cent consols to Federal reserve banks and get money to-day. There is nothing back of this money, or these Federal reserve bank notes, except the 2 per cent consols.

Mr. HILL. Would those consols come into competition with other obligations of the Government in the form of the 3¼ or 4 per cent bonds?

Senator THOMAS. In no sense; because the public now gets their true value.

Mr. HILL. There is nothing obligatory upon the Federal reserve system to take those bonds and distribute them, is there?

Senator THOMAS. It is true the Federal reserve banks are not governmental agencies. They are only quasi so, but they would not fail or refuse to obey the mandate of Congress. The present banking system has fallen down. They are not making loans to enable us to get over the ridge. The banks in the country are not making loans, and what has happened within the last few years? Well, we first provided a system of banks to make loans to farmers. We provided the Federal land bank system, and there we have national banks making loans to farmers. Then we have the Federal Farm Board, which is nothing more nor less than a bank making loans to cooperatives. Then we have the Shipping Board, which is nothing more nor less than a bank under one provision, making loans to the shipping interests. When the entire banking system had fallen down, we created a new supernational bank system, called the Reconstruction Finance Corporation to make loans to the banks themselves. Our banks have fallen down, and we are adopting new forms and creating new banks to take the place of the old ones. There is now pending in the Senate, and it is probably pending here, a bill called the home loan aid bank system, which proposes to put branch banks throughout the United States. Then a bill was introduced a few days ago providing for some system of loans to agriculture throughout the United States.

Now, if the Federal reserve banks are not willing to do the things that Congress directs it to do, how long would they continue to live? I am apprehensive that it is on the decline.

The ACTING CHAIRMAN. May I ask a question at this point about the practical application of your bill?

Senator THOMAS. Certainly; I will be glad to have you do so.

The ACTING CHAIRMAN. I am referring to the feature about issuing consols and making them eligible for the issuance of Federal currency on them. What provision is there in your bill for the ex-service man to obtain currency in the amount due him? Would he take his adjusted service certificate to a local bank, and would the local bank act as his agent to go to the Federal Reserve Board and obtain the money? I would like to have you explain the practical operation of it and show how this bill would work.

Senator THOMAS. After the issuance of the bonds, we have a credit from the Federal reserve bank system, and that credit exists in the 12 banks throughout the United States. Those 12 Federal reserve banks have in their vaults plenty of money to make the payments. If they do not have the Federal reserve bank notes now, or if they are not printed, they can have them printed. They have the plates. In the meantime those banks could place Federal reserve notes in circulation to take care of the emergency.

Now then, as to these soldiers, more than two million of them have borrowed on their certificates, and those certificates are now in the hands of General Hines, or are under his jurisdiction. They have lost control over them. Now, if this bill should pass, new rules and regulations would be prescribed by the Veterans' Administration. General Hines would prescribe rules and regulations, and would furnish blanks to John Doe, we will say, in some far-off State. John Doe would fill in those blanks, and answer the questions in the form prescribed by General Hines. They would fill in the amount of the certificate, showing how much was borrowed, where the certificate was, etc. That eventually gets to General Hines, and he then takes this application of the soldier and checks it against the records. If he finds there is no loan, he sends the certificate in and gets the full amount. If he has a loan, the interest is deducted. They will make an audit of it at the office, and find out how much is still due John Doe. When that has been done, some sort of statement will be sent by the Veterans' Administration back to John Doe, directing him to go to the nearest member of the Federal reserve bank, and that would be the nearest national bank or State bank belonging to the Federal reserve system. He would be directed to go there and present his certificate.

The ACTING CHAIRMAN. And get his money?

Senator THOMAS. Yes.

The ACTING CHAIRMAN. Are you contemplating that the payment would be made in cash or by check?

Senator THOMAS. This is the plan I proposed: There would not be much objection to payment according to the plan I suggested, if they could be paid by check. A few days ago I was in New York City, where I met with some friends who were interested. I will say that I met there people who were supposed to represent the best brains in financial New York, and when I suggested the plan of paying in cash, they said, "No," and when I suggested paying it by check, they said that would not be so bad. Now, there is the "nigger in the woodpile"; and there is the "bug under the chip." My bill does not provide that this money must be paid in cash. I have information that I can give you by an economist of world-wide reputation that it would not take $2,000,000,000 to do what we want to do, and that, perhaps, $1,000,000,000 would do it. My bill provides that the Federal Reserve Board shall have supervision over the payments, and when the board finds that the best interests of the Government and the public demand that cash payments be suspended in any Federal reserve district, it can be done by resolution of the Federal Reserve Board, and an order can be made on the Veterans' Administration directing them cease to paying in cash. They would then proceed to pay in checks.

So far as the soldier is concerned, he does not care. He is not interested in economics, and that is a purely economic question. That is purely a banking question. On one side of that question you find the people who have fixed investments, and the producers on the other side.

Mr. CANFIELD. Suppose he elects to take payment at the bank in the form of a cashier's check?

Senator THOMAS. He could take it in any way he wanted to. Of course, if one of these boys takes his money out, he pays his bills with it. These soldiers do not have many bank accounts. They not only do not have bank accounts, but they do not have money. If you will read these telegrams and letters, you will see that legion after legion post in this country has lost its membership, because the men could not pay their dues.

Mr. ALDRICH. The effect of your bill would be practically the same, so far as the effect on the currency is concerned, as that of Mr. Patman's bill, would it not?

Senator THOMAS. I would rather not go into that controversy.

Mr. ALDRICH. I was just asking for information.

Senator THOMAS. I will say, since you have suggested that, I think I should make my statement as to the Patman bill. If that bill were enacted, it would bring into circulation kinds of money not under the jurisdiction of the Federal Reserve Board. If the Patman bill passes, Treasury notes comparable to greenbacks to the extent of $2,400,000,000 would be issued, and they would drive out of circulation Federal reserve notes. The Federal reserve system lives on its profits from buying and selling notes, buying and selling acceptances, buying and selling bonds, and upon the interest income it receives from the banks. Now, if you put into circulation a different kind of money from the Federal reserve money, that money will drive out of existence Federal reserve money. It will force them to desist and will eliminate further interest to them, because the banks will not be paying it. These notes issued under the Patman bill would drive out of existence the Federal reserve notes, and would therefore cut off from the Federal reserve system all revenue derived through loans to the member banks. If the Patman bill should pass, it might kill the Federal reserve system. It would deprive it of all possible income, except as Congress might appropriate money to support the 12 Federal reserve banks.

Mr. ALDRICH. You would practically force the Federal reserve banks to take these 2 per cent bonds you have mentioned.

Senator THOMAS. Yes.

Mr. ALDRICH. That is mandatory?

Senator THOMAS. Yes.

Now, Mr. Chairman, it is very unpopular for any one to make a speech like this. The papers of the country are against you, and the folks who run the country are apparently against you. They call you all sorts of names. I want to read to you a sample letter I have just received. I will say that it is not directed altogether towards me. This letter came to me on Monday, and it was dated April 8. It is written on very fine stationery, and at the head of the letter I find the name "Dr. John J. White, 27 West Eighty-sixth Street, New York City." I will not read all of this letter. The writer of this letter signs himself "John J. White, M. D." I will read that part that has a wider application than to me, as follows:

> If they shot traitors in peace times, the same as they do in war times, God knows what would happen to many of the Washington politicians.

I will read further:

> I am glad that you know so much about dishonest dollars. All of mine have been honestly earned, and I sure hope that they will stay at their present value and not go to the bad with the insane actions of a lot of fools and jackasses who ought to be in museums and menageries instead of in places of legislation.

I submit that as a sample of the letters that come to those who are asking for the payment of these adjusted-compensation certificates.

Now, I want to summarize my statement for just a minute. Without exception it is admitted that the passage of the proposed legislation will make money and credit more plentiful and thereby cheaper.

To be specific, the passage of a bill to pay the veterans the remainder of their adjusted-service certificates in cash will bring down, reduce, and cheapen the buying power of the dollar and to the extent that this is accomplished, commodities of all kinds will rise in price and value.

That is because the proposal will have the exact effect claimed by its proponents—that is, that it will cheapen the dollar and thereby raise prices—prices of wheat, cotton, livestock, farm lands, city property, and property of all kinds. Some of those who have their wealth in fixed investments are opposing the enactment of this suggested legislation.

I contend that with money plentiful and credit expanded, commodity prices will rise. The depression will be checked and prosperity will return. This is what the unemployed, the wage earner, the farmer, and the business man want and demand.

This is not a political question. It should not be decided upon political grounds.

Of course, I can not speak for any citizen who opposes the enactment of this bill, but I would not be frank with this committee if I did not state that I have been appealed to to cease my support of the proposal for the reason that its passage will react to the benefit of the party in power and thereby influence if not control the coming election.

The enactment of this legislation, in my opinion, will do the exact thing that all claim to want done.

Its passage will start commodity prices upward; will rekindle and reestablish confidence, and will bring an end to this terrible depression.

No other bill or program promising relief, so far as I know, is pending or is even being considered.

In the West the disastrous effects of two and a half years of downward price trends have converted once happy and prosperous farms into ghost farms; and the white-robed monster is traveling rapidly toward the East, and if not checked, he will soon reach the financial metropolis of the world and there he may choose to abide in that short, narrow, crooked street, beginning at the river and ending at the cemetery.

The ACTING CHAIRMAN. May I ask you one further question.

Senator THOMAS. Certainly.

The ACTING CHAIRMAN. I have listened with great interest to your argument and to the other arguments that have been made before the committee. I am not an economist, but here is a thought I would like to get your views on: I apprehend that practically all the State and municipal bonds issued by the various States, counties, school districts, and so forth, are payable in gold, and that a great many private obligations outstanding are doubtless payable in gold. Now, if the dollar should be depreciated in value, it seems to me they would require more dollars to pay those obligations that are payable in gold, and if that is correct, what effect would that have upon the various cities, counties, and so forth, relative to levying taxes to get additional dollars with which to pay their outstanding obligations that are payable in gold? I would like to have your answer to that.

Senator THOMAS. Your question anticipates or is predicated upon the theory that this bill would drive us from the gold standard, because this buying power of paper would disturb the buying power of gold. Is that correct?

The ACTING CHAIRMAN. The thought I had in mind was that we have all these outstanding obligations payable in gold, and then if the dollar depreciates in value, from the gold standard view, it would take more dollars to pay the obligations which are payable in gold.

Senator THOMAS. That question is predicated, I assume, upon the theory that the enactment of this bill would drive us from the gold standard. I do not care to go into that argument, except that I want the record to show that we can issue $3,500,000,000 of notes and not go off the gold standard. The Wall Street Journal makes the statement, with reference to the anticipated fear that we will go off the gold standard, that it does not matter what Congress does, we will still be on the gold standard. Now, I do not want to go back as far as we were in 1921. I do not want to go back to the dollar that will buy oil at $3.50 per barrel. I would want to bring it down to the basis where you would buy wheat at $1.50 per bushel and oil at $1.75 per barrel or $1.50 a barrel, as it was in 1920, with other things in proportion. We were on the gold standard then. At a time when we had a billion dollars more in circulation and only one-half the gold that we have to-day, we were still on the gold standard.

Mr. RAINEY. Senator, we now have in the Treasury $1,769,000,000 in gold, there held in trust for the redemption of $1,613,000,000 of gold certificates, speaking in round numbers. Now, a large part of the mortgages that the farmers have given and those obligations that municipalities have issued are payable in gold, I think, of a certain standard of weight and fineness, so that they will all have to be paid in gold. These can be paid in gold, because every one of those outstanding gold certificates are really warehouse receipts, and are payable in gold at the Treasury upon demand. We must leave enough gold there to pay them. Now, as I have said, those obligations are payable in gold, and they are, therefore, payable only in those gold certificates which are outstanding. Now, if we issue $2,000,000,000 worth of additional currency, those mortgagees and the holders of those bonds are not compelled to accept that currency in payment of the obligations that are due them. They can depend upon their mortgages and demand payment in gold or gold certificates. Now, would we not then have two kinds of money in circulation, one being the gold certificates we now have, and would they not be greatly enhanced in value? The large amount of currency that would be issued under your bill, or any of these bills, would not be acceptable to those mortgagees, would it?

Senator THOMAS. Your statement is likewise predicated upon the assumption that we would go off the gold standard, but I will not admit that. Nobody thinks it will have that effect, so far as I know, and I have many letters here from people on that point, that I can produce.

Mr. RAINEY. We can not go off the gold standard under the Constitution, because we have this large amount of gold against which we have gold certificates, which are really gold. We must pay them.

Senator THOMAS. If the time ever comes when every dollar of paper money must represent its value in gold, then we will be off the gold standard, because we can not provide for that. When the time comes that the gold dollar is not available, we must have more paper dollars to pay the obligation.

Mr. RAINEY. The money that you are advocating would be payable in gold, would it not?

Senator THOMAS. Let me say this, that we have now about six kinds of money. We have paper money, and we have gold certificates, which are nothing more nor less than receipts for so much gold somewhere, and we have silver certificates which are nothing more or less than receipts for silver somewhere. There is nothing back of them except that, and the silver back of that $1 silver certificate is worth less than 30 cents. Therefore, to-day if you have in your pocket a silver certificate, and make your demand for payment, the silver back of it is worth 30 cents. Next, we have Treasury notes, with 40 cents in gold back of them and 30 cents in silver, and, as I have shown, the silver in the dollar is worth 30 cents. We have a gold redemption fund of $156,000,000. This means about 40 cents worth of gold and 30 cents worth of silver behind the Treasury notes. Then, we will take the greenbacks, and there are $350,000,000 in greenbacks in circulation to-day. Here is a greenback, and when that was issued, it was issued with nothing back of it except a promise to pay. Later we got together $156,000,000, representing our redemption fund, and that $156,000,000 in gold stands back of more than $350,000,000 in greenbacks. This greenback has back of it less than 50 cents in gold.

Mr. RAINEY. What would you have back of this new money?

Senator THOMAS. I will come to that in a minute. The Federal reserve notes have back of them now 40 per cent gold and 60 per cent commercial paper. Now, what is commercial paper, if the banks can not collect it? Commercial paper is backed by some form of commodity, and if the price of the commodity falls, the commercial paper falls with it. It will be recognized by everyone as not being worth its face. Therefore, even a Federal reserve note, having 40 per cent gold and 60 per cent commercial paper back of it, on that basis, would not be worth par. Now, would you say that Federal reserve notes are not worth par? The national-bank notes and the Federal reserve bank notes have back of them the 2 per cent consols. If you have a national-bank note, there is nothing in the world back of it except 2 per cent consols and 5 per cent redemption fund, which is not necessarily gold, but any kind of lawful money to make up the redemption fund. National-bank notes and Federal reserve bank notes have no gold back of them. All they have is 5 per cent of lawful money in the redemption fund and these 2 per cent consols. Now, I propose to use the same system in raising money that the national banks use in raising money, by taking these bonds and pledging them at the proper places for the issuance of Federal reserve bank notes.

Mr. RAINEY. Against which you have a gold reserve, and on which you say you are going to predicate this new issue of $2,000,000,000.

Senator THOMAS. Let me say in answer to that, that this Congress—not to my credit, because I did not vote for the bill—this Congress has authorized the Reconstruction Finance Corporation to make its bonds good for money with no gold back of those bonds.

Now, is there any question about that? I have a letter here from Mr. Case——

Mr. RAINEY (interposing). Do you mean to say that this issue of $2,000,000,000 in notes will not have any gold back of them?

Senator THOMAS. All the gold we have——

Mr. RAINEY (interposing). I am not talking about the 40 per cent gold reserve provided under the law. That secures the issue of Federal reserve notes, and the law requires the 40 per cent to remain there intact.

Senator THOMAS. I am afraid I am not making myself plain. Let me read from this letter.

Mr. RAINEY. You are not answering my question.

Senator THOMAS. You are asking the question in the language of some one else, and I will answer in the language of the chairman of the National City Bank, Mr. Mitchell. I read from his letter as follows:

According to your statement, the bill proposes to increase the amount of money in circulation by $2,400,000,000. Should this aim be realized, and the circulation so increased, the effect would be to reduce the reserve ratio from its present figure of 71 to 46, or close to the legal 40 per cent minimum, while the "free gold" would be reduced from $1,500,000,000 to a little over $500,000,000. In short, any such increase in currency outstanding would bring us dangerously near the limit of expansion of our banking system, and leave very little margin for the further demands upon our gold reserves which would almost certainly be precipitated by the radical nature of the legislation itself.

In answer to your question, Mr. Mitchell tells me that we can issue $2,400,000,000 in bonds and the money that I propose, and still have $500,000,000 in gold left after I take sufficient gold to put a reserve back of these bonds.

Now, to give you another thought, I can quote a statement from Mr. J. H. Case, the Federal reserve agent at New York City. Mr. Case, in commenting upon the bill, makes this significant statement:

At present the free gold of the Federal reserve system totals approximately $375,000,000 and, if advantage were taken of the provisions of the act of Congress, H. R. 9203 (the so-called Glass-Steagall bill), which permits the pledging of Government securities purchased by the system as collateral for Federal reserve notes, this free gold total could be increased to approximately $1,250,000,000.

Mr. Case tells us there that under the Glass-Steagall bill we can issue all this credit down there with no gold whatever. It is contended that they can take that gold, make it free, and by taking advantage of the provisions of the Glass-Steagall bill, they can increase that free gold to the extent of $1,250,000,000.

Mr. CROWTHER. In the statement written by President Harrison, of the New York Federal Reserve Bank, reference was made to expanding credit. I think you said, "credit," and I want to be sure whether you said a "credit" or "currency" expansion over $3,000,000,000 under the present conditions. Did you say "credit" or "currency"?

Senator THOMAS. I was quoting from a publication put out by the National City Bank, dated February, 1932, on page 20, as follows:

In an address to the New York State Bankers Association during the past month Governor Harrison, of the New York Federal Reserve Bank, stated that the gold reserves of the country would permit an expansion of some $3,500,000,000 in reserve bank credit before reducing the reserve percentage below the legal minimum. Such expansion would increase the loanable funds of the member banks by as much as $35,000,000,000. Evidently the United States is under no credit pressure traceable to the gold standard.

That would be increased ten times the basic amount.

Mr. CROWTHER. His statement is wholly with reference to credit rather than currency.

Senator THOMAS. I do not so construe it. You must put money in circulation to become the basis of this ten-times expansion. You can not expand credit ten times, so that when he makes the statement that $3,500,000,000 would be expanded ten times, basically the money must be put in circulation.

The Acting CHAIRMAN. Are there any further questions?

Senator THOMAS. Of course, that brings up the question of the difference between credit and currency. There is no trouble to get bills passed to extend the credit of the Government, but when the Government proposes to put it out in dollars, then the brakes are put on. It is easy to control money in circulation, but it is hard to control credit. There is some power somewhere that seems to hold the strings upon the purse, and that controls the matter.

The CHAIRMAN. Mr. Patman, do you have another witness who will take a short time?

Mr. PATMAN. We have a short witness, Mr. Chairman, who will not ask for more than 15 minutes. Before I introduce the witness, I would like to take half a minute to suggest to the gentleman from New York that the reference was to currency, as is disclosed by the Federal reserve bulletin for March. I will be glad to furnish a copy of it.

Mr. CROWTHER. I wanted to have it clear in my mind whether the statement of the Federal reserve bank president referred to credit or currency.

Mr. PATMAN. It is currency.

Mr. CROWTHER. He said it was credit.

Mr. PATMAN. He was quoting from one document and I am quoting from another.

Mr. HASTINGS. I would like to ask how long the committee expects to remain in session, and whether it contemplates reconvening this afternoon?

The ACTING CHAIRMAN. No; there will not be any afternoon session. The committee has agreed to hold these hearings from 10 a. m. to 12.30 p. m. The members of the committee want to participate in the House proceedings, as well as look after matters in their offices.

Mr. HASTINGS. I am just asking for information. Some of us did not have an opportunity to be here this morning.

The ACTING CHAIRMAN. I will say further, that the committee decided to allow the proponents of the measure to select a representative to present their witnesses, and they selected Congressman Patman. The committee is hearing witnesses in the order in which they are presented by Congressman Patman, representing the Members of Congress who are proposing this legislation.

Mr. MCCLINTIC. Whom does the Member who has introduced a bill get in touch with in order to find out what arrangement shall be made for his appearance as a witness?

The ACTING CHAIRMAN. Mr. Patman, under the authority of the committee, has been designated as the member to present the witnesses for those who favor the legislation. When the proponents shall have concluded, then the opposition will be given a hearing and then subsequently, if it is desired by the proponents, they will be given a chance to rebut.

Mr. SWANK. May I ask Mr. Patman if he is going to give every Member of the House who is in favor of this proposal an opportunity to present a statement to the committee?

Mr. PATMAN. All of the proponents of this measure or these measures I hope will meet with me right after we conclude with this witness.

Mr. SWANK. Some of us have to go and can not be here.

Mr. PATMAN. That is all that I can say right now.

The ACTING CHAIRMAN. Please present your next witness, Mr. Patman.

Mr. PATMAN. I desire to introduce at this time Judge Jeffries, of Detroit, Mich.

STATEMENT OF HON. EDWARD J. JEFFRIES, JUDGE OF THE RECORDERS COURT, DETROIT, MICH.

The ACTING CHAIRMAN. Judge Jeffries, you may proceed.

Mr. JEFFRIES. Gentlemen, I know your time is short. I regret that much can not be said that ought to be said. I am beginning to realize also that a great deal of this is more or less repetition and the value of it perhaps is that it may add to your convictions of the sentiment abroad in the land in favor of this bonus proposition.

I have the honor to represent to-day the Wayne Council, in which Detroit is situated, of the World War veterans, and also that department of the World War disabled veterans of Michigan; and I have the honor also to represent the Learned Post, of Detroit, Mich., the fourth largest post in the American Legion, and I would like to read this into the record from the Learned Post, which is a Legion post. Among other things this post says:

> The Learned Post, with its 1,600 members is the largest Legion post in Michigan and the fourth largest in the whole American Legion. Our membership represents a cross-section of the American people and is an adequate mirror of the condition of our time. The reflections of that mirror are not pleasant or encouraging. Over 60 per cent of our members are unemployed. Many are without adequate food or shelter. Hundreds are subsisting on the barest necessities of life. Poverty, hunger, need are written on the faces of most of our men. Our needs are critical.

Then it goes on in extension of that sentiment.

Now, I desire to say here in a few words what my viewpoint is on this proposition. I have written it down, because time does not allow for any extended argument.

No one denies the fact that the Government, in fixing the delayed compensation of the soldiers, in the form of compensation certificates, acknowledged the merits of the claim.

No one will deny the further fact that these certificates, by reason of economic distress, have heen hypothecated to the money lending class, and if not redeemed before the date of their maturity will leave little or nothing to the soldier.

This Congress is confronted with this situation: It will either grant the payment of this so-called bonus immediately and insure the soldier the balance of his compensation, or it will delay it until the average soldier will receive no further compensation at all. In other words, this Congress stands between the soldier's compensation and the money lender, and must decide who is to get payment, eventually, upon the certificates.

That is one side of this question. The claim is just. And deferred payment means that instead of being paid to the soldier it will be paid to the money lender. But this bonus has raised a much more important question than even the immediate payment of the cash balance to the soldier.

The country has come face to face with the problem of how best to introduce not only money already issued but not in free circulation but, if necessary, more money to be issued and put into circulation as a means of stopping not only the fall of prices to a much further level but of raising prices back to a level to prevent the bankruptcy of public life through overburdened taxation, and also to private industry and private life through lack of the sale and exchange of products.

The last two years have proven beyond a doubt that this is not a condition due to the lack of confidence but due to the lack of money in circulation.

While Mr. Hoover has frantically attempted to stem this tide of industrial collapse by the appropriation of five hundred millions of governmental money and the hope of a billion and a half more of private money through bond issues to help railroads, banks, and insurance companies, outside of these public and semipublic utilities, it now becomes apparent that general industry, agriculture, and almost every form of human energy have not benefited in the least and is still suffering from the lack of money.

If there is enough money in the country that has already been issued to furnish the necessary exchange for business life, then it would seem that the methods of inducting it into circulation have been either paralyzed or exhausted.

The indebtedness of the country, public and private, has absorbed about 100 per cent of the present or prospective values of wealth, and thus the lending process of putting money into circulation has come to the end of a blind alley.

Generally speaking, there are no more securities left, outside of governmental securities, and these are fast diminishing, that the banks dare loan on, or the manufacturers dare borrow on, in order to stimulate the return of prices.

So that, aside from any other question involved in this controversy, what addresses itself to you generally, in spite of anything else you may do and in spite of all your academic talk for further adjustment, is how can you immediately, in order to save the situation, induct money into circulation for the stimulation of basic industry and stabilization of prices to a point equal to meet the overhead demanded by the lending class and the bare necessities of government?

This bonus proposition affords the easiest, the quickest, and the safest method of accomplishing what is desired in this matter.

Within 30 days, if the governing authorities are so disposed, they may authorize the Secretary of the Treasury to issue to the soldiers directly United States Treasury notes, good for the payment of all debts public and private, and, of course noninterest bearing; and to further provide that, as these notes come back into the Treasury in the payment of taxes and any other obligations due this Nation, they be immediately reissued for services rendered the Government.

I am sure all you gentlemen here, as well as the President of the United States and I, as a public officer myself, would be only too glad to take these Treasury notes as full payment for our salaries. There is not an officeholder in the United States who would rather not take money our Government issues directly to them under these circumstances than any other form of money that could possibly be given to them by the banking system of this country.

Here you have immediately an issue of money that will be free and unhampered. It will not come back into the banks to be canceled and taken out of circulation like money on bond issues. It will keep up its routine of serving the country in the matter of paying debts and effecting exchanges.

A great deal has been said in this Congress, and a gesture was made along that line in the establishment of the Farm Relief Board, for the stabilization of imperishable farm products purely as a means of stimulating the prices of the country. The purpose intended, I understand, by the framers of this legislation, was to induct money into circulation by the arbitrary purchase of imperishable farm products at a fixed price as a means of raising the prices of these products primarily to create purchasing power and a market for the sale of manufactured goods in the city.

The philosophy of this movement was, after all, a means of stopping deflation and fixing the price of imperishable farm products, as a basis of stabilizing prices at a point where the interest, taxes and overhead could be met and paid by the legitimate income of the Nation.

Thus, these gestures of Mr. Hoover and the so-called farm legislation missed the point because their execution, even if contemplated in the enactment itself, did not accomplish the induction into business and commercial life of any extra circulating medium.

It ought to be clear to the Members of Congress that there is no relief in sight, and that these conditions will continue and, by force of the pressure of the load on top, will not stop until American industry, American Government, and American energy will have been so reduced and impaired that no man can tell what the outcome will be. The people are now stunned. They know that something is radically wrong. They see the savings of a lifetime vanishing away.

They see no hope for the farmer. They see no hope for the laborer. They see no hope for the legitimate business man. And they see no hope for government. The very foundation upon which this glorious country was based is, too, fast crumbling. If this situation is not rectified soon the wreck will be common, not only to those who have caused it but to those who are the victims of it.

Therefore, it strikes me that there is absolutely no excuse whatever or no successful alibi to be urged as an opposition to the payment of these compensation certificates. Nothing but blind and stupid greed will prevent it.

If Congress does not pass this bonus, so called, or if it does not pass some stabilizing influence to some basic industry, such as agriculture, then there will be many new faces in the next Congress of the United States; and if these new faces do not immediately do what you are now asked to do, and if it is not too late, no man can tell whether there will another Congress to meet to work out this solution. This is the accepted time. This is the hour. If the men who love their country, who know their country, who know its system, who know the history and have knowledge of its development, who know what the matter is, can not see the handwriting on the wall, then this kind of a civilization is hopeless.

I appeal to you men to shake off your lethargy and shake off any influences that may be upon you and address yourselves to the problem of the hour. I believe the granting of this bonus payment with a Treasury issue as here indicated will immediately lead to the final and complete solution of this distressing industrial problem. At least it can not do any harm. The talk that it will undermine the credit of the Nation is but idle vaporing. The credit of the Nation is already at the end of its string, and unless something is done to strengthen values again, there is no way compatible with our American set-up to correct the situation. The credit of the Nation is fast fading away by reason of the depressed values of everything, and when it gets to the diminishing point nothing can save the Nation from total collapse. If the credit of the Nation is to be sustained and maintained, then you men must do something to at least stimulate the values of this country back again to the point where the people will have some values upon which to base the credit of the Nation.

Let me say right here, gentlemen, it was estimated in 1925 or 1926, that the wealth of this country totaled something between $3,000,000,000 and $350,000,000,000.

It is acknowledged that our debt to-day, public and private, is about $148,000,000,000. I want to ask any man if the deflation of prices has not sunk and lowered the wealth of this country at least conservatively $150,000,000,000.

In other words, we have loaned up to the limit of the value of the wealth of this country, based upon the price of the dollar to-day. As the Senator from Oklahoma well said, you have come to the end of the blind alley, and you have no means, under your system, of extending any more credit. You have no way of getting money out into circulation. You are stopped dead in your tracks and industry is languishing.

I come from a city, if you please, that is a cross-section of typical American industrial and economic life. The greatest industry in the city is the manufacture of automobiles. Automobiles as a means of transportation have become a fixture, and so much of a fixture that they are more permanent, even the railroads will agree, than the railroads themselves, as a means of transportation. The industrial life of the city then is based upon one of the necessities of our economic life, a great system of transportation. Yet, when I go back to my home, I am not so sure that my next month's salary will be paid.

This city has developed typically as an American city. As I have said, it represents a cross section of American industrial life, as we understand it. It is absolutely on the flat of its back. Notwithstanding the tremendous effort to bring back, if you please, the automobile industry, I say to you, gentlemen, that it is not coming back and it can not come back, because while thousands and hundreds of thousands of people are shopping for automobiles and looking in the windows, and looking these cars over, they have not the money with which to buy them and there is no means of putting them into circulation.

So I say to you that Senator Thomas was absolutely correct when he said to you that this effort to extend credit is futile. You have loaned the farmer up to the point where he is in distress. You have loaned up every form of industry until it is in distress. You have deflated the prices of real estate until it has become almost altogether a frozen asset. I own some real estate and I know that real estate to-day is not worth a dollar in the market, except potentially with an expected rise in value. There is not any man who has real estate to-day, whatever it may be or wherever it may be located, that has any value in it compatible with the interest that he has to pay on it, or that can get a sufficient income out of it to make it at least a liquid form of transfer.

The great insurance companies, like a great many of the largest industries of this country, are wavering, if you please—wavering for the want of what? For want of something to sustain them, and nothing but money can do it.

I appeal to you gentlemen that this is the one measure, above all, that has been presented to this Congress which, if passed promptly by your honorable body, will do justice to the American soldier and bring substantial relief to the American people.

At the outbreak of the Civil War Lincoln did this very thing and this saved the Union. The Union is again menaced by as deadly and as destructive a foe. Is there a Lincoln in either party to again save the Union? Your action on this measure will answer the question.

That is all I have to present, gentlemen.

The ACTING CHAIRMAN. We thank you for your appearance, Judge Jeffries. The commitee will stand adjourned until 10 o'clock to-morrow morning.

(Whereupon, at 12.30 o'clock p. m., the committee adjourned to meet on Wednesday, April 13, 1932, at 10 o'clock a. m.)

PAYMENT OF ADJUSTED-COMPENSATION CERTIFICATES

WEDNESDAY, APRIL 13, 1932

House of Representatives,
Committee on Ways and Means,
Wahsington, D. C.

The committee met at 10 o'clock a. m., Hon. Charles R. Crisp (acting chairman) presiding.

The Acting Chairman. The committee will please come to order. Mr. Patman, will you present your next witness?

Mr. Patman. Mr. Chairman, we would like to introduce at this time Mr. Darold D. De Coe, commander in chief of the Veterans of Foreign Wars of the United States.

STATEMENT OF DAROLD D. DE COE, SACRAMENTO, CALIF., COMMANDER IN CHIEF VETERANS OF FOREIGN WARS OF THE UNITED STATES

The Acting Chairman. Please give your name and the organization you represent for the record.

Mr. De Coe. Mr. Chairman and members of the committee, my name is Darold D. De Coe. I am commander in chief of the Veterans of Foreign Wars of the United States.

My remarks will be very brief. I come before you as the commander in chief of the Veterans of Foreign Wars of the United States, an organization that has consistently for the last four years had a bill similar to this bill now being considered before Congress.

We represent hundreds of thousands of service men of the World War. Our position is unquestioned. In my duties as commander in chief, since last September, I have traveled from the Atlantic to the Pacific coast and from the Canadian border to the Mexican border. I have visited practically every State in the Union.

May I tell you, gentlemen, sincerely, that the rank and file of the veterans of the World War—perhaps 98 per cent of them—are behind this bill. These men are desirous of having Congress recognize a very just cause.

They feel that the money that has been granted to them, evidenced by the adjusted-compensation certificates, in the act of 1924, they are entitled to have without waiting for the period of time named in the certificate.

In this connection, they feel that they should be given the same consideration as was given the railroads and the war contractors and munition manufacturers, and representatives of other industries during the war. They received a bonus, if you please, following the war, based on the loss that they claimed they suffered by reason of the service rendered to their country.

The adjusted-service certificate, as you well know, was an adjustment on the wages that the soldiers received, representing the difference between the wage paid the lowest salaried civilian employee and the wage paid to the average soldier, sailor, and marine, amounting to a dollar and a dollar and twenty-five cents per day. It is not in any manner, shape or form, a bonus. It is just what the act calls for, an adjusted-compensation certificate.

These various other firms were given adjustments following the war. We have been compelled to wait until this late date. True, we had a 50 per cent loan value given last year, but our original bill last year was for the full face value of the certificates.

We are again asking the Congress to see the justness of our cause and are asking Congress to pass H. R. 1, or a similar bill, in this session of Congress.

The rank and file of the service men throughout the country along with thousands and hundreds of thousands of other citizens are very, very serious about this. I believe the gentleman who is reading the paper now asked the question yesterday, What assurance have the Members of Congress that this money, if given to the service men, will be spent wisely?

I can only say that that can be answered by the facts and figures given by one who I think may be taken as an authority. Following the 50 per cent loan provision of last year, General Hines, Director of the Veterans' Administration, procured for the President of the United States an estimate of how the money was spent by the veterans following that act of last February a year ago. His figures are as follows: They were gathered by the regional offices of the Veterans' Administration throughout the United States. Sixty-five per cent of the money was spent for necessaries of life, the payment of doctors, grocers, clothing, and other bills; 20 per cent was spent for investment purposes, paying back rents, paying off mortgages, and like expenses; 8 per cent was spent for the purchase of automobiles, many of them necessary in business, and other necessary commodities; out of the 100 per cent, 7 per cent was spent for purposes, which perhaps did not provide benefits to the veteran. Those were the figures supplied to the President by General Hines.

So, you see, gentlemen, as a class of men, only 7 out of every 100 probably will spend their money inadvisedly. That is a pretty fair record.

May I say to you in conclusion that the rank and file of the veteran organizations—I speak now of the individual units of various organizations—have sent me hundreds, yea, thousands of resolutions which they have passed indorsing H. R. 1, or a similar bill. It merely goes to show that the rank and file of the veterans are behind this measure 100 per cent.

Congress has been very good to us in many ways. We are very appreciative of what you gentlemen and your colleagues have done for us. But we feel, in view of the fact that you are trying to do something to bring back an era of prosperity—at least, you tried in the passage of the two billion dollar Reconstruction Finance Corporation; you showed a desire to do something for the people of this country—we are asking now that you give to this country the weapon to bring back prosperity, by giving to the rank and file as represented by 3,866,000 veterans, something that will relieve their frozen assets which are in the shape of their adjusted-service certificates and which will, in effect, be the biggest and best pay day that this country has seen in many, many months. I thank you, gentlemen, for your kindness.

The ACTING CHAIRMAN. We thank you for your appearance.

Mr. Patman, will you present your next witness?

Mr. PATMAN. Mr. Chairman, we have two witnesses from out of town who have asked to be put on this morning and they only want a few minutes each.

The ACTING CHAIRMAN. Under the rule of the committee, you have the privilege of presenting whatever witnesses you choose.

Mr. PATMAN. I will present Mr. Howells, of Michigan, who organized a veterans' association several years ago. He has been a national official of the organization since that time.

STATEMENT OF WALLACE J. HOWELLS, DETROIT, MICH., CHAIRMAN NATIONAL BOARD OF DIRECTORS, VETERANS' POLITICAL ASSOCIATION OF AMERICA

The ACTING CHAIRMAN. May I say, before Mr. Howells begins, that any witness who has appeared before the committee has the right to revise his testimony and make such extensions to it as he sees fit.

Mr. HOWELLS. Mr. Chairman and gentlemen of the committee, the veteran body, as I have found it, is appreciative of all that has been done for their relief and the organization I represent is conscious of the fact that all appropriations for such relief must originate within the House of Representatives; therefore, as a veteran group, we look to the House of Representatives for the answer to the question. Where is the money coming from to pay the bonus? In the New York Times, Mr. Hurley spoke of the country being at war, but this time it was a war against depression. Gentlemen, somehow or other, the Congress of the United States found a way to finance the war for democracy during 1917 and 1918 and I am sure the same body will not fail the country at this time. We have not lost faith and will carry on regardless. However, there is but one question about the payment of the so-called bonus at this time. It is just a yes-or-no proposition and those of you who are with the idea will stay with it and those opposed will likely stay opposed, but there is one thing to take into consideration, and that is the veteran of to-day did not start the war but he was successful in his operations for this country and even though you may think at this time the veteran body is costing a great amount, ask yourselves, gentlemen, what would the cost have been had the veteran of to-day not been successful as the soldier in 1917 and 1918.

In the city of Detroit one of our assessment engineers checked up a section of the city and found that there were 4,300 former service men who had not paid their taxes because they had been out of work for quite sometime. These men had built their homes when materials were high and their taxes cost them around $200 per year as an average. The city needs that tax and the payment of the bonus now would save their homes and help the city to a great extent.

The service men's bureau, working in conjunction with the community fund, has given help to approximately 20,000 veterans in the city of Detroit and Wayne County, Mich. The soldiers and sailors relief has about used up their appropriation of $50,000 per annum in helping the married veteran and during all this the veteran holds a certificate on which he, no doubt, has a 50 per cent loan, for which he is paying an exorbitant interest rate.

Gentlemen, my home city, the city of Detroit, Mich., will have better than $27,000,000 put into circulation if the bonus is paid at this time, and the public and the citizen are in need of it. The veteran will pay his debts and buy with what he has left. He did before and will do it again.

This bonus question was kept free from partisan politics a year ago and for the good of the country; I hope partisan politics will not enter into the question at this time. We hear of the deflation, the inflation and the reflation of the dollar, but the main issue is to pay the bonus and put some real cash into circulation, and you, gentlemen, of the committee, have the power to start the ball rolling toward a new day of prosperity. Do not forget this veteran body of to-day was the successful soldier of '17 and '18.

I thank you.

The ACTING CHAIRMAN. We thank you for your appearance.

BRIEF OF N. A. OLSON, DETROIT, MICH., NATIONAL VICE PRESIDENT, VETERANS' POLITICAL ASSOCIATION

ADJUSTED COMPENSATION CERTIFICATES SHOULD BE PAID IN FULL BY THIS CONGRESS

There are many reasons why the ex-service men should receive monetary compensation on their adjusted certificates by this Congress. One that stands out in the minds of the ex-service man as well as many civilians is this. When the boys returned from active service in the World War they found, in the majority of cases, that their billets had been filled by civilians and that employers were loath to dispense with employees who had been and were giving satisfactory service.

Many ex-service men were compelled to accept and seek work in fields of endeavor foreign to their training and knowledge and so had a hard time getting acclimated to new duties. As a consequence they failed to earn money in the sums they had prior to serving their country.

This attitude of employers was unfair, really unjust and entailed unwarranted suffering on individuals and families ordinarily accustomed to a decent percentage of the good things in life.

Their time of military service whether at the front, in cantonments or in any branch of the military, took its toll of physical disability, nervous strain or just plain inertia and many of these men who served their country were not as well fitted to cope with the business world when they entered civilian ranks again as they had been heretofore. They should be compensated for what they gave so freely and whole-heartedly when the call to the colors was sounded at which time there was no thought of monetary compensation for donning the khaki.

The results of wounds received, hardships suffered and diseases acquired has put otherwise efficient workers in a variety of vocational fields at such a disadvantage that they are unable to cope with others on an equal footing and this handicap has militated against them to such a degree that they can not compete with fellow workers on the same basis.

The compensation will come to them sooner or later so why not anticipate pay day by action of this session of Congress; the debt has been admitted by our legislators and the Nation as a whole. The payment of this debt will help outfit a needy and deserving body of men, many of whom only require the amount they would receive in order to be placed at a point where they can rehabilitate to the degree that they would be secure from poverty and charity, and on an equal basis with those who have had the opportunity of making good.

Abraham Lincoln, the great emancipator, liberated the souls of millions of our dark-skinned brothers out of love for any human in a state of servitude. Many of our ex-service men are in the toils of physical and financial servitude. Men who become masters of the world are in turn, slaves of penurya, a hellish plight for those who have scaled the heights of service to the red, white, and blue.

Lincoln, were he alive to-day, would not let any thought of political aggrandizement or preferment; no, not even the thought of political oblivion swerve him a moment from categorically demanding that our ex-service men be given what is justly due them irrespective of what political henchmen or anyone else had to say or did.

N. A. Olson.

Mr. Patman. Mr. Chairman, the next witness is Mr. Fahey, representing the Army and Navy Union.

STATEMENT OF JOHN H. FAHEY, WATERTOWN, MASS., NATIONAL LEGISLATIVE CHAIRMAN, ARMY AND NAVY UNION

Mr. Chairman and gentlemen of the committee. At the outset I want to say that I emphatically indorse what Father Coughlin said yesterday in his very able and brilliant speech in support of the pending bill. I also indorse the remarks of Mr. DeCoe, national commander of the Veterans of Foreign Wars and the stand that the Veterans of Foreign Wars have taken on this legislation.

I appear to-day representing the Army and Navy Union in the capacity of chairman of the national legislative committee. The Army and Navy Union is an organization of veterans of all wars, comprising a membership of 386,000 veterans throughout the entire United States. It is a national organization and its influence is not local or sectional. It was first organized in 1888.

The organization of which I am National Legislative Chairman also indorses the immediate payment of the adjusted compensation certificates at this time. One of the main issues involved in the present bill is whether or not a reasonable expansion of currency is justified at this time. There is no question but what an expansion of currency, if there is sufficient gold reserve to sustain the value of the American dollar, would be a stimulant to business, and there is no question but what there is sufficient gold reserve in the Treasury to justify the issuance of additional currency at this time.

The various witnesses appearing before the committee have clearly shown that there is more than enough gold reserve to justify the expansion of our currency to the extent required to pay the outstanding adjusted compensation certificates and still maintain the value of the American dollar.

In October, 1929, the stock market collapsed and since that time there has been a constant process of deflation, as a result of which the value of the dollar has greatly changed. As a result of the collapse of the stock market there followed a collapse of our credit structure, which affected business, and which, with other circumstances, have brought about the present unfortunate depression that we are undergoing. We have reached a time when emergency measures are necessary. The fact that emergency measures are necessary and that this feeling is generally entertained is evidenced by the passage of the emergency legislation passed during this session of the Congress, such as the Reconstruction Fianance Corporation, the appropriation of additional money for the Federal farm banks, and other legislation which is under consideration by committees of the House and Senate at the present time. Their purpose is to try and put new blood into the economic life of America, and they all have, in one way or another, the same purpose that the proponents of the pending measure have, the elimination of fear from the minds of the American public and the restoration of confidence therein.

I realize that there are many other witnesses to appear before the committee. Therefore, I feel constrained to make my remarks as brief as possible. My organization, and I, personally, favor the pending legislation. It is our opinion that a resaonable expansion of the currency is necessary. The Reconstruction Finance Corporation resulted as an expansion of credit, and it has accomplished great results. However, of itself, that is not sufficient to bring about the desired results. There must be additional and companion legislation. A reasonable expansion of the currency, predicated upon a sufficient gold reserve, which will sustain the value of the American dollar, is the companion legislation necessary to put new blood into our economic life.

Recently the Washington Post, one of the leading supporters of the present administration, in one of its editorials, said: "If President Hoover and the Federal Reserve Board can halt this movement (downward) and turn prices to an upward trend, they will perform the greatest service that can be rendered to the American people in this critical period." In another part of the editorial we find this statement: "It is rumored that the banks intend to increase their purchase of Government securities so that they will be in position to expand the currency and ease the money situation. That is one of the most encouraging signs in the whole economic spectrum."

And the editorial further says: "There is nothing unsound in utilizing America's enormous gold supply to restore balance between money value and commodity prices."

We, therefore, find that the first premise, the reasonable expansion of currency, is supported by eminent authorities and by the testimony of eminent economists who have appeared before this committee.

The next question is "What is the best way to put this currency into circulation and bring about the greatest amount of good?" The expansion of currency is bound to come, and it is perfectly reasonable and proper and will bring the greatest amount of good if it is utilized to pay the Government's indebtedness to veterans of the World War. It is not a gratuity, but the payment of a debt for the benefit of the country. While this debt is technically payable in 1945, it is actually payable to-day. If the World War veterans were to receive interest from the time the debt was actually contracted, when their war service had ceased, the full amount would have been payable to-day. Instead, the interest started in 1925.

Assuming, however, that you disagree with me and that you feel the debt is due in 1945, and assuming that you feel that an expansion of currency is necessary, what better way of putting this currency into circulation would there be than to call in this debt of the Government at this time. New currency which will be issued in payment of this debt will go to the rank and file or our citizens. It will go to approximately 3,500,000 ex-service men in every walk of life, the greater percentage of whom at the present time need this money badly. It will go to the average person and to the consumer. This money will be used by the ex-service man for the purchase of necessaries of life and for the discharge of debts previously contracted by them. This statement is completely supported by the investigation of the Veterans' Bureau as to how the ex-service men used the money that they received last year as a result of the act of Congress which permitted loans up to 50 per cent of the value of their certificates.

The investigation shows that approximately 95 per cent of the money received was used for proper purposes by veterans making the loans.

The veterans of the World War are now arriving at or around the average age of 40 years. Most of them are married and have families. This money will be used for purposes which will be for the best interests of the veterans and of the country. It will go to the small storekeeper, and, in turn, used by him in his business activities. It will be used as a basis for additional credit, and credit is upon the basis of $10 for every dollar of the national currency in existence and circulation. This will create a feeling of confidence and will affect millions of other citizens who are enveloped with a feeling of fear at this time. It will be the stimulant which, with other measures passed by Congress, will tend to defeat the war of depression that we are engaged in at this time.

As the veterans of the World War were the means through which the Government defeated our enemies during the World War and emerged successfully from that war, so in this great crisis can the veterans of the World War, by the payment of their adjusted-compensation certificates, be the medium through which we will emerge victorious from this great conflict of depression that we are engaged in at this time.

Mr. McCormack. Are you a member of the Y. D. Post of the American Legion?

Mr. Fahey. Yes, sir.

Mr. McCormack. I thought it might interest you to know that I received a telegram, which I want placed in the record, to the effect that a meeting was held the night before last, and the post unanimously went on record favoring the payment of the bonus.

Mr. Fahey. I am glad to hear that.

The Acting Chairman. Without objection, the telegram will be made a part of the record.

(The telegram above referred to is as follows:)

Boston, Mass.

Hon. John W. McCormack,
Hotel Washington:

Very near hundred per cent meeting of Y. D. Post American Legion last night, and said post went on record favoring payment of bonus. I was instructed by post members at meeting to inform you of this action and also request that you notify Congressman Connery and all other members from New England of this action. Suggest that you wire Commander Robert Duncan of Y. D. Post of this notification by me and your favorable opinion of same. Very intense meeting and vote favoring payment of bonus was unanimous. Regards.

C. J. Driscoll.

The Acting Chairman. We thank you for your appearance.

Mr. Patman. Mr. Chairman, at this time I desire to introduce Mr. George W. Armstrong, of Fort Worth, Tex. He is the author of many books on the money question. He owns a large number of plantations in the South. He is a successful business man. He organized and is the owner of the Texas Steel Co.

STATEMENT OF GEORGE W. ARMSTONG, FORT WORTH, TEX.

Mr. ARMSTRONG. Mr. Chairman and gentlemen of the committee, I thank my Representative from Texas for introducing me as a successful business man. I do not think I can quite measure up to that standard.

It is true that I own a good many plantations in Mississippi, but they are more of liabilities than assets.

I have, in fact, 23 of them with more than 100 tenants, and they did not earn enough last year to pay the taxes. I had a loan on them of $125,000, which I cut down to $30,000 and I can not find the money to lift that loan. It is past due.

I noticed in the paper a few days ago that 30,000 homes in the State of Mississippi were sold for taxes.

I am not appearing here as an economist or as a writer, although I pretend to know something about the subject of political economy and monetary science, if there is such a thing. But I am appearing here on behalf of the small business man and the farmer, on behalf of the debtor, on behalf of the people in this country who need relief and who must have it, or the balance of them will go broke.

I assume that this committee and this Congress want to pay the soldiers. No argument should be needed, because they rendered a great service to the country and to civilization and to all countries, and they received less compensation for it than anybody else.

You have recognized the debt, and since they need the money I know you would like to pay it. Every right thinking man would. The question with you is whether or not you can afford to pay it, whether or not this Government is in such financial condition that you can pay that debt at this time.

Now, I want to discuss that subject. I want to discuss it because when you strip this whole issue of all the camouflage and misrepresentation and subterfuge, it gets down to the one question, whether or not we shall cheapen the dollar, whether or not we shall increase prices and wages, and whether it is desirable to do that. It ought not to be necessary to demonstrate the fact that we can find the money.

That is the issue.

Gentlemen, I regret that I have not prepared a written speech. I really came here in a hurry, thinking perhaps that your hearings would soon be over. So I have not prepared a speech, nor have I the advantage of knowing what has gone before.

I hope I will be able to present this matter to you from a different angle than that of any of the previous speakers.

I am sure that this committee, or some of you at least, do not know how little money there is in circulation. The Treasury statements are not correct. They can not be correct. You probably do not know how small a foundation there is in money for bank credit.

I am not going to read you the comptroller's report. I have it here and I will cite it to you. The comptroller's report for the year ending June 30, 1931, shows $884,000,000 in the vaults of the 22,000 banks in the United States. It shows the deposits of those banks to be $56,000,000,000.

You have, then, as a basis of those deposits 1½ per cent of cash. That represents all the money that is in circulation, except the amount in the tills and pockets of the people and the amount of the reserve in excess of the fixed reserve.

The Federal reserve bank statements do not show what that is, but it is not very much.

There are certain fixed reserves as provided by the Federal reserve act that the banks must maintain—that they can not check against, except with the permission of the Federal Reserve Board, and when they do that they must stop lending; they must practically go out of business. That is not money in circulation. The money in circulation, it was estimated yesterday by Senator Thomas, is $2,500,000,000.

I can not find that much money. Of course, his guess is as good as mine. But if you take the less than $1,000,000,000 that is in the banks, there are perhaps two or three hundred million in the tills and pockets of the people; perhaps two or three hundred million dollars or more, or less, excess reserves that are subject to check. But there can not be more than ten or fifteen dollars per capita in circulation. His estimate is twenty. The Treasury estimate is $4,800,000,000, or 38.86 per cent. It is obviously incorrect.

The menace to the banks is that they have not the money that will justify them in making loans. It is for that reason that I can not borrow money. I am paying for my manufacturing business to-day 18 per cent for money, because I can not get it from the banks, because the banks will not let me have it on any security. They are mere collecting agencies and have been for more than a year. They are scared and they have a right to be scared. I would be scared and you would be scared if you were in their shoes. They are not going to loan until their fears are relieved.

If all the banks to-day were called upon to pay their deposits, they could only pay one and a half per cent of their deposits. Now, prior to the Federal reserve act the banks in what was called the central reserve cities, had to maintain cash on deposit or in approved reserve banks subject to check, that was the equivalent of cash, of 25 per cent. The banks in reserve cities had to maintain 15 per cent and as I recall it, the small country banks had to maintain 10 per cent. But now the whole batch of them, central reserve, reserve, and so forth, have only 1½ per cent.

Now, the only way they can loan money—they have not got it to loan—is upon credit, by borrowing at the Federal reserve banks; and they are not going to borrow under these conditions. There is not any way to relieve the fears of these banks and to get them to loaning, except by putting money in circulation.

What inflation or expansion or as my friend Mr. Patman calls it, reflation, this bill will create, I do not know, because that will depend upon the amount of money that is now in circulation. That is, it will depend upon the percentage that this sum of $2,200,000,000 bears to the amount in circulation.

If it is what the Treasury statement says it is, it will increase it 47 per cent. If it is what Senator Thomas estimates, it will increase it 100 per cent. If it is according to my estimate, it will increase prices and wages approximately 300 per cent.

I am going to discuss it on the basis that it will increase prices and wages approximately 300 per cent, because that is what I think it will do. But, gentlemen, you have got to have that much increase to put this country in the position in which it was in 1920. That is practically the price and wage level of 1920. That is practically the value of the dollar when our bonds were issued, these Government bonds that now amount to $17,000,000,000. It will take more services, more products now to pay those bonds, almost twice as much, as it would have required when they were $25,000,000,000. In other words, we have not paid anything on our bonds. The debt is heavier now than it was in the beginning.

The man who collects those bonds now gets $1 that is worth approximately three times as much as he paid for the bond. Now, that is not honest. But if it was fair and honest, the taxpayer can not pay those bonds, the cities can not pay their bonds, the farmers can not pay their debts with the present dollar.

This country is not bankrupt. We have the same resources that we had in 1920, the same that we had in 1929, the same banks, with more gold, a great deal more; the same railroads, the same value inherently. But our values are less because we have made the dollar more valuable as measured by dollars in 1920. Measured by that dollar, we had $500,000,000,000 of aggregate wealth in 1920. That was the aggregate of our wealth as measured in dollars in 1920. In 1929 the estimate was $350,000,000,000. The same wealth, but the dollar had gone up. At this time, though I have not seen an estimate, it could not exceed $150,000,000,000 of aggregate wealth, because the dollar has appreciated since 1929 approximately 50 per cent. So that the value of property has depreciated accordingly.

I believe that it is estimated that our debts amount to $175,000,000,000. If so, the country is insolvent. The aggregate debts exceed the value of the property.

Now, there is no way in which you can restore that solvency except by cheapening the dollar. People can not pay interest on this enormous indebtedness with 6-cent cotton and 30-cent wheat and with products at their present value. They can not pay their taxes.

I am here to tell this committee that there is going to be a universal default, the cities will default in their bonds, the road districts and the counties, as well as the farmers, because they can not collect taxes out of bankrupt taxpayers. You can not squeeze blood out of a turnip. It is not there.

This Congress should declare a moratorium on all indebtedness, unless you cheapen the dollar. You should cancel all mortgages and bonded indebtedness and give us all a new start unless you deflate the dollar and put us in a position where we can pay our debts.

Gentlemen, I do not want to take over my 30 minutes. Is the chairman keeping time on me?

Mr. Rainey (presiding). I did not know that your time was limited to 30 minutes. I have not kept track of it.

Mr. Armstrong. I think I have made plain, gentlemen, the point that if our debts have trebled in amount, we must cheapen the dollar accordingly. We can not pay debts that were incurred when the dollar was cheap with dollars of present value. It is absolutely impossible.

I simply want to call your attention to one other thing. I am at sea about this matter, because in order to present this subject, I should have more time and I do not know how much time I have.

Mr. Rainey. Go right ahead. We can give you about 10 minutes more, at any rate.

Mr. ARMSTRONG. I want to call your attention to a statement of Mr. Mitchel in this morning's paper. Mr. Mitchel is the president of the National City Bank. He speaks of the dangers of inflation. It is not the dangers of inflation that are confronting this country, gentlemen; it is the dangers of deflation that we have. There is a great deal more danger in that than Mr. Mitchel perhaps realizes.

You probably know more or less about it, you will hear more or less about it from home, if you do not know it now. You will find out about it then. There are dangers of deflation that must be relieved. This bill is the best method that has been proposed, the only one that is pending before Congress with any prospect of passage that will relieve that situation.

But Mr. Mitchel says in his statement this morning that our gold reserve is now about 70 per cent; that if you place 40 per cent gold behind these notes it will reduce that reserve to about 48 per cent. I want to call your attention to that statement, because that represents the point of view of the banker. It represents, in fact, the real objection to this bill. Now, I have the bank statement published last Friday——

Mr. RAINEY. How much did you say—70 per cent?

Mr. ARMSTRONG. Seventy per cent. But that 70 per cent is 70 per cent of the deposits and notes combined. I mean, they carry the percentage for both notes and deposits. The minimum requirement for notes is 40 per cent. The minimum requirement for deposits in the Federal reserve banks is 35 per cent. They take the aggregate of all notes and of all deposits and they say that the gold reserve for both deposits and notes is 70 per cent.

But the gold reserve for deposits, gentlemen, is not used—in fact, that is true of both notes and deposits. I had a letter from Governor Harding several years ago when he was governor of the Federal reserve bank, in which he stated to me that the redemption of Fedreal reserve bank notes in gold was so negligible that no record was kept of it. The redemption of greenbacks in gold, we have a record of that, has been one-eighth of 1 per cent. But the 40 per cent gold reserve is excessive, admittedly so by Senator Aldrich, the chairman of the Monetary Commission in his report to Congress. The Aldrich bill practically provided for the same reserves. He said that the high reserves were placed behind notes and deposits, for the purpose of preventing inflation, as he called it.

It was designed, not for safety, but designed to prevent inflation.

Whatever you may say about the notes—and I am not here to discuss any theory of money with you—you must admit that 35 per cent gold for these bank reserves is wholly unnecessary, because the banks can not check on them. They have got to maintain them. Why have a 35 per cent gold reserve for deposits that the fellow can not draw out?

Mr. HILL. In what form are those reserve deposits now, in cash or in credit?

Mr. ARMSTRONG. They can make them either way. Now, you put behind that reserve that can not be drawn out 35 per cent of gold. The reserve is hoarded money, because it is not available, not subject to check. It can not be used in the channels of trade, except with the consent of the Federal Reserve Board, and the bank must then stop lending.

Now, gentlemen, we have had 10,000 bank failures in the last 10 years, in round figures. When the bank fails then, of course, this reserve is used to pay its obligations. There has not been $1 of gold that has been used to pay a single depositor in a single one of these failed banks. This 35 per cent gold that is behind those deposits is dead, inert, and of no use whatever to the country, no protection to depositors.

When the bank fails they pay these reserves in Federal reserve bank notes, and not in gold. The gold is hoarded and is kept there. So that if you should reduce the reserve to 40 per cent by the use of this gold for the Patman note or some other form of note, you have still a reserve—of approximately two for one.

You appointed a committee yesterday to iron out the differences between the Patman and Thomas bills. It is my understanding that as a result of that the suggestion has at least been made, and perhaps an amendment drawn sponsored by Senator Owen, calling for bonds to secure these notes; 4 per cent bonds to the extent of 60 per cent and gold to the extent of 40 per cent.

Senator Owen states, and it is true—that the Government will hold its own bonds as long as these notes are out. Therefore, the rate of interest makes no difference, because the Government will get its own interest. It is the holder of the bonds as security for the notes.

He suggested a 4 per cent bond so that there will be no question about the ability under normal conditions to sell these bonds and this additional currency will bring about normal conditions.

It will restore confidence in the banks, it will put money throughout the entire land because these soldiers are all over the country.

There is no other way you can get money in general circulation as quickly and as thoroughly and as completely as you can through this bill.

Gentlemen, I am here to say—I do not want to say it in a way that might prejudice this bill—that you have created in the Federal reserve system, the greatest hoarding device that has ever been created or known in history.

We have to-day, according to the Treasury, nine billions of money. Our stock of money is nine billions. Admittedly, according to that statement, half or approximately half of it is hoarded either in the Federal reserve system or in the Treasury. They claim that $4,800,000,000 is in circulation, but it can not be. You can not find it. It is not in the banks. The people have not got it in their pockets, so it is not in circulation. It is absolutely impossible.

That is the situation that ought to be inquired into. You can find out about it. I can not. You may know where it is, some of you, but I do not. But I do know it is not in circulation, and I do know we have not a sufficient foundation for credit by the banks and that the country is suffering from the lack of money.

You have recognized that. The President has recognized it in his antihoarding campaign. The irony of it, gentlemen, is, that they say that they uncovered $201,000,000 and yet during the very same time the Federal reserve system canceled $195,000,000 of those notes. So that the net result of the antihoarding campaign is $6,000,000, with all the hullabaloo that went along with it.

You have done nothing, gentlemen, that will relieve the situation. The Glass-Steagall bill is a dead letter. No five banks are going to get together to borrow money. None of them want to borrow it if they can help themselves, and particularly to loan it to somebody else, and particularly when people are distrustful. Certainly no five of them are going to band together to borrow it, because every one of them thinks he is better than any of the others, and that he can add more to that paper than anybody else. That is human nature, you know. No money has been issued as the result of it, and you have impounded $800,000,000 more of gold; you have hoarded it, gentlemen—I say it respectfully, but it is nevertheless the truth—you have hoarded $800,000,000 more behind the Glass-Steagall bill, which ought to be repealed. It never will be used. That money is withdrawn from circulation. But if you will take that $800,000,000 and put it behind this so-called soldiers' bonus, this $2,200,000,000, you will have some degree of expansion or reflation. I can not tell you what it will be, because I do not know; but there will be some. How long it will take the Federal reserve system to get this money into its vaults I do not know; but it will start things off. It will be some help. The less reflation, the less help; the more reflation, the more help.

If you can restore the prices of 1920 you will bring prosperity to this country. The bankers, of course, call that inflation, but it is not. It is justice to the man who borrowed money, who owes it, and who can not pay it. And, gentlemen, you can only restore values by restoring the volume of money. No economist will deny that proposition; that the value of products, all products, the value of service, the general index of prices, as they call it—the price and wage level is another term used for it—depends wholly upon the volume of money in circulation. Because money is the basis of credit. Values depend more on credit than they do on money. But you have got to have sufficient money for your credit. When you undermine the money, you are undermining the very mudsills of credit, the mudsills of prosperity; and as you contract that base, you contract the credit accordingly, and you contract values accordingly. It is like an inverted pyramid. Your money is at the bottom; your credit is on that, and your value is on credit, and when you cut the bottom a little bit you cut the top a great deal.

I thank you.

Mr. Rainey. Mr. Armstrong, you are an economist. You have written some books, have you, on economic subjects?

Mr. Armstrong. I have written several; yes, sir.

Mr. Rainey. Can you give us the titles of some of them?

Mr. Armstrong. Yes, sir. I have written the Crime of 1920; the Iniquitous Dawes Scheme, under a nom de plume—and I may say that that was republished in Germany and France and given wide circulation. I have written two volumes of Truth; A State Currency System; To Hell with Wall Street; and the Calamity of 1930, its Cause and the Remedy. These are very recent books.

I understand the Federal reserve system, I think, and know something about the money subject.

Mr. Rainey. Let me ask you some questions. What are the elements which go to make up national wealth?

Mr. ARMSTRONG. The elements that go to make up national wealth, of course, are primarily your natural resources, your man power——

Mr. RAINEY. Your natural resources, such as mines, developed farms——

Mr. ARMSTRONG. And oil.

Mr. RAINEY. And oil.

Mr. ARMSTRONG. And the wealth of your soil, and the virility and the earning capacity of your people, plus the equipment for developing, transporting, and marketing your natural resources. Those are the foundations.

Mr. RAINEY. Those make up a total, now, of how much national wealth, in your estimation?

Mr. ARMSTRONG. We have the same national wealth as we had in 1920, and more——

Mr. RAINEY. National wealth depends upon the use that is made of these natural resources?

Mr. ARMSTRONG. Absolutely; wholly so.

Mr. RAINEY. Mines are an important part of national wealth?

Mr. ARMSTRONG. Oh, yes.

Mr. RAINEY. And if you are not using the product of the mines, then your income from that source of national wealth fails, does it not?

Mr. ARMSTRONG. You have got the potential wealth, but you are not using it.

Mr. RAINEY. If half of the mines are idle, then your income from that source of wealth has disappeared?

Mr. ARMSTRONG. Yes, sir.

Mr. RAINEY. Why are half of the mines idle?

Mr. ARMSTRONG. Let me make this statement, and it will explain the whole philosophy of it.

Money is demand. Of course, man and money together are demand; but one man with $10 in his pocket gives more demand than a thousand men with $1. You have got to have the dollars and the men together, and we have not got the demand.

Mr. RAINEY. Let us get back to mines. The reason the mines are idle is that there is no sale for their coal?

Mr. ARMSTRONG. That is it. You have not got the demand.

Mr. RAINEY. You have not got the demand. Now, what is the reason farm products are selling so low?

Mr. ARMSTRONG. For the same reason.

Mr. RAINEY. People eat just as much as they did?

Mr. ARMSTRONG. No, sir; they do not. They are not eating as much. They would like to eat as much. They are wearing their old clothes.

Mr. RAINEY. Is there not a tremendous overproduction of farm products at the present time and a falling off in foreign markets?

Mr. ARMSTRONG. It is underconsumption and not overproduction.

Mr. RAINEY. If we could export successfully what we have been exporting heretofore, would not that tend to bring back the value of farm products?

Mr. ARMSTRONG. Mr. Chairman, that brings up another thing that I believe you will concede is true. A country with a cheap currency can produce more cheaply than a country with high or dear money. Now, let us say that Great Britain's money is worth approximately two-thirds the value of ours; approximately two-thirds of its former gold value. When we sell to Great Britain, the British can not buy our products in British money. They must pay American money for them. Now, there is a difference of 33⅓ per cent between American money and British money. Now, if our products were on a parity with Great Britain, we would receive 33⅓ per cent more for our product than we do receive. You can not make a tariff wall that is high enough—scarcely high enough to protect this difference in currency values.

Mr. RAINEY. So you think that the tariff walls built up against our farm products do not cut any figure at all?

Mr. ARMSTRONG. No, sir; I do not.

Mr. RAINEY. These high tariffs abroad?

Mr. ARMSTRONG. As a rule we have not got a high tariff, Mr. Chairman. I do not know whether you are a Democrat or a Republican. I am a protectionist Democrat, I might say. But you have not a high tariff except upon a few products.

Mr. RAINEY. I am talking about foreign tariffs which have been erected against us. Don't you think that they keep our goods out of European countries?

Mr. ARMSTRONG. To some extent, I have no doubt they will.

Mr. RAINEY. Do you think we can overcome that by inflating the currency?

Mr. ARMSTRONG. If you put our currency on a parity with that of the leading commercial countries of the world, you put the American manufacturer and the American farmer on an equality.

Mr. RAINEY. The difference is 3 per cent, economists figure, on account of the fact that 16 countries have gone off the gold standard. A difference of 3 per cent in the tariff would equalize that situation.

Mr. ARMSTRONG. Well, I do not know.

Mr. RAINEY. Now, foreign tariffs are as high as ours, and ours are 55 per cent. When you take 3 per cent off, you have still got over 50 per cent, probably. Do you think that increasing the money a little bit more would help us to get over those tariff walls?

Mr. ARMSTRONG. Absolutely.

Mr. RAINEY. You think it would?

Mr. ARMSTRONG. Not increasing the value of money, but decreasing it; increasing the value of prices and wages.

Mr. Chairman, India is a producer of cotton. I come from a cotton country. Now, assume that the Indian money is on a parity with Great Britain; and I am unable to say whether it is or not, but assume that it is. The cotton farmer of India will receive 33⅓ per cent more for his product than the cotton farmer of America, because the British buyer has got to pay that 33⅓ per cent, or somebody has, to represent the difference in the values of these two moneys. He has got to exchange his cheap money into our dear money at a loss of 33⅓ per cent that either the producer in America or the consumer in Great Britain must sustain. Well, he is not going to sustain that if he can buy those goods from India or buy manufactured goods from some other country.

Mr. RAINEY. Would you call 1929 a prosperous year?

Mr. ARMSTRONG. Fairly so.

Mr. RAINEY. We had less money in circulation in 1929 than we have now.

Mr. ARMSTRONG. Mr. Chairman, I have not made any estimate of that.

Mr. RAINEY. That is true. There is no doubt about that.

Mr. ARMSTRONG. I do not know; I could not say.

Mr. RAINEY. If that is true—and all economists agree that it is true—how can we restore 1929 prosperity by putting more money in circulation, when they had less in circulation in 1929 than they have now?

Mr. ARMSTRONG. Mr. Chairman, if your hypothesis is true, that conclusion would seem to follow.

Mr. RAINEY. Yes; I think so.

Mr. ARMSTRONG. But I undertake to say that no man can tell you to-day, with any degree of certainty, the amount of money in circulation, either now or in 1929. Money is not the whole story. You have got to have credit. It is money and credit in circulation; but money is the foundation for credit.

Mr. RAINEY. I think you have reached the point now that I want to bring out.

Mr. ARMSTRONG. Yes. Money is the basis for credit.

Mr. RAINEY. This $2,000,000,000 inflation that you are talking about: If that money gets out, it ultimately goes into the banks, does it not?

Mr. ARMSTRONG. Yes, sir.

Mr. RAINEY. At the present time the Chicago & North Western Railway Co. has its storage tracks in Chicago full of cars—5 or 6 miles of empty freight cars. Now, the fact that the Chicago & North Western Railway Co., has that many cars on its storage tracks, unused, indicates that the Chicago & North Western Railway Co., is not doing much business, does it not?

Mr. ARMSTRONG. Yes, sir.

Mr. RAINEY. Now, could you make the Northwestern Road do more business by furnishing it with more empty cars to put on its sidetracks?

Mr. ARMSTRONG. No, sir.

Mr. RAINEY. If you put $2,000,000,000 more money in the banks—and you say that is where it will go—how do you get it out?

Mr. ARMSTRONG. Mr. Chairman, if you put $2,000,000,000 in the banks, the banks will then have enough money to justify them in extending credit.

Mr. RAINEY. For what reason is credit extended?

Mr. ARMSTRONG. Credit is extended, of course, for a great many reasons; but commercial credit is extended for the movement of products.

Mr. RAINEY. It is extended for the purpose of building new buildings; for the purpose of building new factories?

Mr. ARMSTRONG. Investment credit is; yes, sir.

Mr. RAINEY. Investment credit. It is extended for the purpose of starting more factories in operation than are now in operation?

Mr. ARMSTRONG. Yes, sir.

Mr. RAINEY. Now, no matter how much money there is in the banks, if there is not a demand for the goods produced by the factories, and there is not a demand for new buildings, nobody is going to borrow it, is he?

Mr. Armstrong. Mr. Chairman, as you increase the volume of money in circulation, you increase the demand. You have got to understand that principle, or you and I can not focus.

Mr. Rainey. You just admitted that we could not help the business of the Northwestern Road by furnishing it with more empty cars.

Mr. Armstrong. No, sir.

Mr. Rainey. How can you restore any prosperity in that way?

Mr. Armstrong. But whenever you furnish the farmers of that section sufficient money, and when you provide a market, when you furnish the consuming demand, the farmers will meet that demand, and that increases production; and when you get more production than this factory can supply, another factory will build up.

Mr. Rainey. Let us take the question of wheat. At the present time the Farm Board has stored in elevators nearly as much wheat as we ever exported before we had these high tariff walls in foreign countries. We export, when permitted by foreign tariffs, one-fourth of our production. That keeps down our supply at home. We produce about 800,000,000 bushels and export 200,000,000 bushels. Now, we have stored up in elevators by the Farm Board nearly one year's surplus, and another year's surplus of 200,000,000 bushels is approaching. We will soon have three hundred and fifty or four hundred million bushels of wheat stored up, with no market abroad for it. That is what we have been selling abroad. Does not that hang like the sword of Damocles over the farmer's head?

Mr. Armstrong. It does; and it is going to hang that way.

Mr. Rainey. It is going to hang that way until we can export it, is it not?

Mr. Armstrong. And you are going to have to get your money on a parity with other countries before you do that.

But, if you will pardon me, these gentlemen have told you that they have a number of witnesses, and I feel that I have taken too much time.

Mr. Rainey. But I do not feel that you have, and I want to ask you some more questions.

Mr. Armstong. But I feel that I am "fudging" or trespassing on the time which they have been kind enough to allow me.

Mr. Rainey. You are not "fudging". It is the committee now that is "fudging". We are trying to get some facts from you, as an economist.

Mr. Armstrong. All right.

Mr. Rainey. We are going to have three hundred and fifty or four hundred million bushels of wheat in our storage elevators which heretofore we have exported. That is two years' ordinary export supply. How are we going to bring back the price of wheat unless we can export it?

Mr. Armstrong. Mr. Chairman, I want to make this statement: Individual prices of individual products are not wholly dependent upon the volume of money in circulation. They are dependent upon supply and demand. But the general index composing some 500 different items of products—the general index of prices—will increase in proportion to the volume of money in circulation and decrease in the same proportion. As you increase the supply of money, you increase credit, and you increase prices and wages. That is fundamental. That is elementary. No reputable economist will deny that proposition—that, generally speaking, money is expressed by the price and wage level, and the price and wage level is expressed by the volume of money in circulation—money and credit.

Mr. RAINEY. We recently distributed to the soldiers, in order to relieve a depression—that was the argument; and, of course, they wanted the money, and that was the other argument, and that was the conclusive argument with us—half of their bonus. We paid them—those who wanted it—over a billion dollars. Where did that money go?

Mr. ARMSTRONG. In the first place, you did not create any additional money. You simply used money that you already had. But, in the second place, Mr. Chairman—and I should have made this plain in my original statement—it is imperative, in order for this to be of any permanent advantage to the people, that you make adequate provision against hoarding this money. It will be collected and gathered in. If you should go on a silver basis, the silver would soon be gathered into the vaults of the Federal reserve system.

Mr. RAINEY. The soldiers got that money, did they not—$1,000,000,000.

Mr. ARMSTRONG. Yes, sir.

Mr. RAINEY. What did they do with it?

Mr. ARMSTRONG. I heard the gentleman state that a great part of it was used for necessaries, and I am sure it was.

Mr. RAINEY. Yes; I am sure it was, too.

Mr. ARMSTRONG. And it went to the merchants, and the merchants put it in the bank, the bank sent it to the Federal reserve bank, and the Federal reserve bank hoarded it.

Mr. RAINEY. It ultimately got into the banks, did it not?

Mr. ARMSTRONG. Yes.

Mr. RAINEY. Now, the banks can get it out of the Federal reserve bank by simply rediscounting their paper, can they not?

Mr. ARMSTRONG. Well, of course, with the consent of the Federal Reserve Board. I presume the chairman understands now that these banks are no longer decentralized. They are under the management now of the Federal Reserve Board, and the Federal Reserve Board controls the volume of money in circulation by selling and buying securities.

Mr. RAINEY. Any bank now can take its rediscountable paper, if there is any demand on it for loans, to the Federal reserve system and get the money and loan it, can it not?

Mr. ARMSTRONG. If it is eligible paper. Now, when the bank goes to the Federal reserve system to borrow money—and that is what they would like to do—it can only borrow it for 15 days' time, and they must put up as collateral securities that are eligible for discount in the first place.

Mr. RAINEY. You are not opposed to that, are you?

Mr. ARMSTRONG. Oh, I am not opposed to it. For some reason—I could not tell you why—the banks are not borrowing. I used to be in the banking business many years ago.

Mr. RAINEY. At any rate, we can start with this premise, which we can both agree upon. The billion dollars that we paid to the soldiers two years ago went into the banks?

Mr. ARMSTRONG. Yes, sir.

Mr. RAINEY. Now, if we pay them two billion more, that will go into the banks?

Mr. ARMSTRONG. Yes, sir.

Mr. RAINEY. And the billion that we put into the banks, under your theory, did not help business any; business has been getting worse ever since?

Mr. ARMSTRONG. Yes; that is true.

Mr. RAINEY. And the two billion that we put into the banks now, under your theory, will not circulate any more than the empty cars on the Chicago & North Western tracks?

Mr. ARMSTRONG. The two billion you put in now will be new money.

Mr. RAINEY. What is the difference between new money and old money?

Mr. ARMSTRONG. New money adds to the volume of money, and old money does not.

Mr. RAINEY. If we had a smaller volume of money in 1929, a prosperous year, than we have now, and you want to restore the prices of 1929, how will adding $2,000,000,000 to the deposits in the banks, and the banks depositing it in the Federal reserve system, bring back the good times of 1929? I am asking this question because you are an economist, and because I want to help bring those good times back. How are we going to do it by simply adding more money to the stock of money in existence, when there is no demand for the money that we already have, and we have more now than we had in 1929?

Mr. ARMSTRONG. Mr. Chairman, it is not the demand. The demand is there. I would like to borrow money from the banks, and everybody would; but the banks will not loan.

Mr. RAINEY. If your Mississippi plantations were paying, then you could borrow money on those plantations, could you not?

Mr. ARMSTRONG. There is not an insurance company or a loan agency or a bank in the United States that will make a loan on real estate now, in my country. I do not know what they will do up here. But you can not borrow a dollar on real estate now. I have got approximately 30,000 acres down there.

Mr. RAINEY. If you put more money in the Federal reserve system, would that make it easier for you to borrow money on your farms?

Mr. ARMSTRONG. Absolutely, Mr. Chairman. Let me illustrate it in this way. Of course, this is not going to do that, but it will illustrate what you are talking about.

Suppose you put enough money in circulation now to put in the vaults of all the banks ten times as much money as they have in their vaults now. Instead of having $800,000, suppose they had $8,000,000 in their vaults—ten times as much. They would not have to go to the Federal reserve system to borrow. They would loan, because they would feel safe in doing it. They do not loan, either because they have not got the credit or they do not want to use the credit; they are afraid to use the credit. But I do know that the fact is that they will not loan, and the banking system has broken down.

Mr. RAINEY. They will not loan because they are afraid they will not get their money back; is not that it?

Mr. ARMSTRONG. Well, who can pay it back, with dollars as they are?

Mr. RAINEY. That is it; and until they have some assurance that their money will be returned, they will not loan, no matter how much they have got, will they?

Mr. ARMSTRONG. If this credit situation was relieved in the way that this will tend to relieve it—I do not mean to say that this Patman bill will restore prices and wages to the extent that they should be restored, or that it will be of permanent benefit, but I do mean to say that it will produce a certain amount of expansion. I think that is the chief objection to it. How long it will last depends upon how long it will be permitted to remain in circulation; and I do know that it will tend to revive business; it will tend to restore credit; and the extent of that depends wholly upon, first, how much money now is in circulation; second, how long this is permitted to remain in circulation.

Mr. RAINEY. Let me call your attention to the experience of other nations with inflation. If $2,000,000,000 will bring up the prices and bring about a resumption of business, $4,000,000,000 would help still more, would it not?

Mr. ARMSTRONG. Absolutely.

Mr. RAINEY. Twice as much?

Mr. ARMSTRONG. Absolutely.

Mr. RAINEY. Then we could multiply that by 2, and, according to your theory, $8,000,000,000 would do still more?

Mr. ARMSTRONG. Absolutely.

Mr. RAINEY. That is what they did in Germany, until finally a million dollars in their currency only bought one small loaf of bread.

Mr. ARMSTRONG. Mr. Chairman, I know you are not going to admit that we can not control ourselves; that this Congress can not peg money at whatever value it wants to peg it. It is in your power. Of course, this Congress can produce the inflation that they have in Germany; but I have too much confidence in the good sense of this Congress and of the people of America to think for a moment that they want to create that sort of inflation. But the restoration of the 1920 values is not inflation. It is restoring values as of the date when these enormous debts were created, and it is allowing the debtor to pay his debt in the dollar that has the same value that it had then. It is an oppression to the debtor to make that debtor pay his debts in dollars that have three times the value that they did when the money was loaned.

Mr. RAINEY. Germany was compelled to repudiate her money which she had issued in such large quantities.

Mr. ARMSTRONG. It petered out to nothing. They got to issuing it in trillions.

Mr. RAINEY. Yes; and it came to the point where it was not worth anything.

Mr. ARMSTRONG. But let me call your attention to this: As bad as that situation was in Germany, it was better than the present situation; because the laborer was employed; they were building factories, and the country was immensely prosperous, and continued prosperous until they deflated and established the gold standard under the Dawes plan.

Mr. RAINEY. Now we are trying to balance the Budget at the present time. Probably you have heard of that; we have. We have a deficit next year of over a billion dollars. Would you suggest that we balance that Budget by printing some more money and circulating it?

Mr. ARMSTRONG. I think you ought to balance it by printing some more; yes—if you want my candid opinion about it.

Mr. RAINEY. And, in addition to that, issue this two billion?

Mr. ARMSTRONG. Yes. But if you had done that, Mr. Chairman, that money would have been put in circulation around Washington and New York, and where your navy yards are, and your army camps. It would not have gone into the general circulation that the money that you issue under this bill would; because that reaches every section of the country. It is the only bill that will do that.

Mr. RAINEY. Do you know where over half of our public expenditure goes now?

Mr. ARMSTRONG. For interest and expenses resulting from the war.

Mr. RAINEY. Nearly half of it goes now to the veterans of our wars, in maintaining our hospitals, and all that sort of thing.

Mr. ARMSTRONG. Yes.

Mr. RAINEY. If we devoted it all to that purpose, then we would have more prosperity, would we not, according to your theory?

Mr. ARMSTRONG. Mr. Chairman, if this was a matter of paying the veterans and levying a tax to pay them, and impoverishing the country, I would be opposed to it.

Mr. RAINEY. Here are the facts, Mr. Armstrong: One-fourth of it goes to the veterans, and one-fourth for personal services all over the country. That makes one-half. We could just double that expenditure on the part of the Government and restore prosperity, could we not, according to your theory?

Mr. ARMSTRONG. I think that the price and wage level of 1920 ought to be restored.

Mr. RAINEY. You have said that a great many times, and that is what we want to do, if we can. Your theory is to restore it by printing more money, and some of us can not agree with you on that.

Mr. ARMSTRONG. That is the only way to do it. It can not be done in any other way.

Mr. RAINEY. Let me call your attention to what has happened. Take Russia. In Russia there is no unemployment at all. Their factories are all going at the present time. In Russia a few years ago they had a gold coverage for their rubles of something like 45 per cent, and when that existed Russia did not have to ask for credits. Her gold rubles were accepted the world over. Then she reduced her gold base by issuing more rubles, until now she only has a gold base of 25 per cent, and she is compelled to borrow money at ruinous rates of interest all over the world in order to buy the things that she wants from other nations; and she will not permit her rubles to leave Russia, and will not permit them to go into Russia. That is the way she maintains her monetary system at the present time. Now, is not that a sort of example of a nation that is operating now under new theories, with which we do not agree? She was able to borrow; she was able to buy anywhere in the world, and pay in gold, with her gold rubles, and they were in demand everywhere, as long as she kept a gold reserve which was twice as large as her present gold reserve. Now she can not use her rubles at all for foreign purchases.

Mr. ARMSTRONG. Mr. Chairman, I do not think it would be wise at all to have our money cheaper than that of other countries. It would be as unwise, perhaps, as to have it dearer.

Mr. RAINEY. Have you noticed that the dollar is depreciating now in France—the American dollar, which has been the standard the world over—in recent weeks, on account of our threatened deficit and on account of the large demands that are being made for inflation of our money?

Mr. ARMSTRONG. I am not sufficiently informed about that, but I do know this——

Mr. RAINEY (interposing). That is the truth; and that is the reason the French financiers assign for it.

Mr. ARMSTRONG. I do know this: That France pegged her money at about one-fifth of its pre-war value, and that France has been the most prosperous nation since then because of that fact.

Mr. RAINEY. And because she has a gold base of 70 per cent.

Mr. ARMSTRONG. Well, her gold base is like ours. She has hoarded gold.

Mr. RAINEY. And she has not inflated her currency.

Mr. ARMSTRONG. But she had that prosperity before she had this 70 per cent gold base. That has nothing to do with it. Our four billion and a half or five billions, whatever it is, of gold, is dead. It is inert. It has nothing to do with the prosperity of this country. We are not on the gold standard. Our standard is a man-made standard. It is the will of the Federal Reserve Board. They decrease and increase money—or, rather, the New York Federal Reserve Bank for the Federal Reserve Board.

Mr. RAINEY. Then, if the Federal reserve bank can increase and decrease the supply of money in use in business, why should Congress print more and increase it?

Mr. ARMSTRONG. I think Congress ought to increase it, and then prohibit the Federal reserve bank from hoarding it. That is my opinion about it.

Mr. RAINEY. How would that be accomplished? How would you compel the Federal reserve bank to put it in circulation?

Mr. ARMSTRONG. I am sure you gentlemen can devise ways and means for doing that. It is easy to do. I could do that.

Mr. RAINEY. We do not think it is easy. You are an economist, and we are seeking information.

Mr. ARMSTRONG. I can tell you one way to do it. That is to abolish the Federal Reserve Board and abolish the advisory council, and make these banks separate, independent institutions, with local directorates. That will do it.

Mr. RAINEY. What banks do you mean?

Mr. ARMSTRONG. These Federal reserve banks; instead of having them controlled from Washington and New York, let them be controlled at home. It was supposed to be a decentralized system, but by administration and by amendment it has become a centralized system that has assumed the prerogative of regulating prices and wages in this country.

Mr. RAINEY. Assuming that they are decentralized and are controlled at home, in the regions where they operate—the 12 reserve banks—would they let out their money on insufficient security?

Mr. ARMSTRONG. No, sir; they are not going to do that, of course.

Mr. RAINEY. If they do not do that, how are you going to get it out?

Mr. ARMSTRONG. As prices and wages go up, your security appreciates in value. As they go down, it depreciates in value. The depreciation in prices and wages is due solely, Mr. Chairman, to the lack of money and credit, and as you restore money and credit you restore values, you restore the buying power of the people, and you restore the prosperity of the business community.

Mr. Chairman, I hope you will excuse me. I would like to talk to you for a long time, but these gentlemen here are waiting.

Mr. RAINEY. All right. Thank you.

Mr. CROWTHER. Mr. Chairman, I would like to make one statement before the witness leaves.

Mr. ARMSTRONG. Yes, sir.

Mr. CROWTHER. Mr. Rainey made reference to the fact that one of the difficulties of the American farmer was in the exportation of his wheat. A few months ago we had before this committee Colonel Cooper, a very noted engineer. We had under consideration legislation that looked to an embargo against all Russian projects, and he was one of the witnesses. He has had a great deal of experience in Russia, and he is building at this time a great hydroelectric power plant on the Dnieper River. He told us, standing in the well where you are now, that due to the rapid agricultural development in Russia, with the acquisition of American machinery, and to the return to fairly normal agricultural conditions in the other European countries, that the United States had absolutely lost its foreign market for wheat, and that if we did not know it, it was time that we did.

I just want that statement to appear in the record.

Mr. RAINEY. Yes; I remember that statement. It was not exactly that statement, I will say, Doctor. I was also in Russia this summer, visiting their wheat farms. Ultimately Russia will take away from us our share in the world wheat market; there is no question about that. She has not done it yet. Her exports of wheat are less now than they were in pre-war days. But she will ultimately; and when she does, there will be nothing for the wheat farmer to do but go out of foreign business, and you can not keep him in that business by printing more money.

Mr. CROWTHER. He will not have to go out of business, because we use 600,000,000 bushels ourselves.

Mr. RAINEY. He will have to curtail his production.

Mr. CROWTHER. He will have to curtail his production some.

Mr. RAINEY. And protect his market by tariffs. There is no question about that, although I am not usually in favor of tariffs. But Russia is going to take that all away from us, and increasing the volume of money and reducing the value of money is not going to prevent it.

Mr. CROWTHER. I do not advance that as a defense of the argument at all. I simply want that fact to be known.

Mr. RAINEY. And putting more money in circulation will not remedy that situation. Of course we are approaching a crisis in world affairs which must be met; but printing more money will not be the vehicle by which it will be adjusted.

Mr. CROWTHER. I agree to that.

Mr. RAINEY. I would like to add that in 25 years from now Russia will take away from us our share of the world's cotton market, and we must restrict our production of cotton. Those things are coming, and we can not prevent them by printing more money.

Mr. PATMAN. Mr. Chairman, may I suggest that it is not our theory that volume alone will cause better times; but our theory is that in 1929 there was a certain velocity of money and credits. The velocity of money and credits has decreased 50 per cent since 1929, and there is only one way to make up for lack of velocity, and that is by putting in additional volume.

I just wanted to state our theory of it, which I did not feel was clearly understood.

At this time we have a former Congressman from Oregon. He is a resident of New York City, and he desires to be heard in support of this legislation. Mr. Lafferty.

STATEMENT OF HON. WALTER LAFFERTY, NEW YORK CITY

Mr. LAFFERTY. Mr. Chairman, there are three things Congress could do to end the depression:

First, it could pass this bill.

Second, it could pass the Borah silver bill, S. 2630.

Third, it could declare a moratorium on the gold standard itself, for a limited period, as England has done, thereby permitting commodity and security values to return to normal.

In appearing here to-day I rest under no illusions of hope or enthusiasm. I realize full well that we who are favoring this bill have the laboring oar, because the edict has gone out from Wall Street that the bill must be killed; and unless your action on this bill shall mark a change, Wall Street is, in my humble opinion, in absolute charge of the affairs of this helpless and unhappy Republic.

I realize I may be wrong. I have often been wrong in the past. But it is surely no time for mincing words.

Mr. Ogden L. Mills will come before you against this bill. Ordinarily the country could lean heavily on the advice and counsel of the Secretary of the Treasury. But in this case, if you do not know the antecedents of Mr. Mills before he comes here to fight this bill, you ought to know them.

Before coming to Washington Mr. Mills was an attorney for J. P. Morgan & Co. He was a member of the law firm of Stetson, Jennings & Russell, 15 Broad Street, New York City, which has been counsel for J. P. Morgan & Co. for over 50 years. Mr. Mills makes no bones of his connections. He lists his New York office address in the current issue of Who's Who in America as 15 Broad Street, which is the office of Stetson, Jennings & Russell—the name now slightly changed, but still carried on the letterhead. It is Davis, Polk, Wardwell, Gardner & Reed.

Mr. Mills is a gentleman and a scholar—a patriotic gentleman and a well-meaning gentleman. But he is not a fair and impartial judge to tell you what your decision should be on this bill.

Mr. Eugene Meyer, another member of Mr. Hoover's administration, who is listed in Who's Who as a Wall Street banker—by himself; that is, he wrote his own biography—will come before you to oppose this bill. He is as completely disqualified to be a fair and impartial judge as is Mr. Mills.

I read in the morning paper:

President certain of bonus bill doom. Administration statement says the measure "is no longer a menace to the country." Opposed by C. E. Mitchell.

Now, of course I had already bought my ticket before I read this; so I thought I would come on down anyway.

Strawn says Nation will stick to gold. Tells bond club that efforts of "some politicians in Washington" will fail. Attacks soldier bonus.

Now, Mr. Strawn is using his influence as head of the United States Chamber of Commerce, and he is the legal counsel in Chicago of the Morgan banking interests.

When I was here a few years ago on a legislative matter, Mr. Garrard B. Winston was Under Secretary of the Treasury—Mr. Winston, of the Strawn law firm in Chicago. The Republicans had the majority in those days, over on this side of the aisle. I see there have been some changes. But Mr. Winston resigned as Under Secretary of the Treasury and went to Wall Street. His office is now at 55 Wall Street, where he is attorney for this same C. E. Mitchell bank that has just been referred to. He is opposed, of course, to this legislation. All of Wall Street is opposed to it. All of the Morgan interests which are controlling the country are opposed to it, and they are in the saddle at Washington. Nobody denies it.

A few years ago, when everybody thought we were prosperous, some man repeated the old expression that the country was "corrupt and contented." Well, it may be corrupt to-day, but it is not contented. Somebody has thrown an awful monkey wrench into our economic machinery, and it does not require a college education to realize that fact.

Certain gentlemen who seem to be very cocksure of their superior knowledge of finance have, in the public prints, derided the plan of this bill, and have had the assurance to tell you that this plan means nothing more than the starting of the printing presses upon blank paper. When a man, in these days, makes a statement as bold as that, we have a right to pause to ask what he really does know.

Compare the attitude of such a man with the humility of Thomas A. Edison who said seriously shortly before his death that, in his opinion, the world does not yet know one-tenth of 1 per cent about anything.

Compare the statement of the men who say this bill means no more than the starting of the printing presses with the mellow and chastened wisdom of Champ Clark, who, on being asked what he thought of the money bills of Lindbergh, senior, replied:

Well, I don't know anything about the money question, and I don't believe anybody else does.

Leastwise, Morgan, Mellon, Mills, and Hoover, who have steered us to our present predicament, have no right to challenge the statement of old Champ Clark. The so-called experts of Wall Street should feel a blush of shame when they come here to tell us that this bill is necessarily unsound.

It is interesting to recall, in this connection, that a few years ago, at the request of Henry Ford, the late Thomas A. Edison himself worked for months on a money plan to help the farmers. That plan was presented to the Senate by Senator Capper, and never acted upon. Mr. Edison said, with a smile, "The banks were opposed to it."

When I was very young, and thought I knew much more than I do now, I served four years here in Congress from the great State of Oregon. After leaving I served as a soldier in the World War, and after the armistice went to New York City, where I have since worked like a dog. I learned piloting an airplane and received my license from the Department of Commerce, and am the oldest man ever to have flown alone from New York to Washington and return in an afternoon, or at all. Will Rogers says he has never yet seen a pilot that was dumb, but he has not seen me, so I can not be sure yet. [Laughter.]

I admit I am not a financial expert, but to my mind this bill seems as sound as the rock of Gibraltar, and I am here to give my reasons, such as they are. Any man who would be afraid of it would be like a little scared insect hiding under every cabbage leaf by the side of the road.

This bill by proper administration can segregate in the Treasury 40 per cent gold reserves against the currency to be issued, a very high percentage. For the ultimate redemption of the other 60 per cent it pledges the future revenue of the Uinted States, the best security in the world, or could do so by administrative order if we had one of our common citizens in the office of the Secretary of the Treasury, like Cordell Hull, or Willis Hawley, or some man like that.

It would seem, therefore, that the man who says this bill is merely one to start the printing presses on a blank piece of paper does not understand the bill.

The only thing about this bill which does not tally exactly with the orthodox, or international banker way, if issuing currency is that here the currency is to be issued direct with the Government as the banker, and is not to be emitted through the private banks of issue, upon private IOU's, upon which the banks would draw 6 per cent interest. In the present bill the IOU which is dropped in to the vault, to make up the 6 per cent, is the Government IOU, and that IOU will be easily redeemed when prosperity is restored.

One or two distinguished gentlemen have lightly, and with a brush of the hand, asked this question: "If this bill is workable, then why not start the printing presses to balance the Budget?" They seem to feel that their question is a poser, well calculated to demolish all argument to the contrary.

The truth is that both England and France have in the past many times resorted to that very method of temporarily balancing their budgets. Both England and France have issued in the past what they call consols, or IOU's of their respective Governments, redeemable in the future at no certain date, to form the base of currency to balance their budgets, together with a certain percentage of gold, usually not over 25 per cent, and these consols are redeemed at a future date when business is prosperous and income taxes and other revenues are plentiful, and easy for the people to pay.

Therefore, when distinguished gentlemen attempt to break down this bill by saying that if it is sound then its principle could be used to aid in balancing the Budget, it would seem that they are stumbling on to God's simple truth without knowing it. Edison frequently made his greatest discoveries by accident, but he did not have the infallible reasoning powers of our opponents, and was many times compelled to grope in the dark for many sleepless days and nights before he could give to the world something really worthwhile.

Right here, parenthetically, I want to answer a question that was raised this morning. It is not a question of the amount of money in existence, but a question of the price of that money. We are theoretically on the gold standard. It is not actually working. It is in a state of suspended life, you might say. It is moribund.

But the bankers of New York, who are engaged in a private fight of their own with the bankers of Paris, are getting back to the literal construction of the gold standard, that everything is redeemable in gold.

Now, there is only about eleven billions of gold in the world. About half of it approximately is in New York, and about half in Paris. The rest of the world can not buy our goods nor France's goods, nor pay their debts, nor do anything alse, because this gold has drifted to Paris and to New York.

Those gentlemen are now engaged in a bitter fight as to which crowd shall have the most of it.

As a result, gold has skyrocketed. It has an artificial value. Every debt in the United States, every penny of taxes, is payable in gold. Every check that you take to the bank you have a right to demand payment in gold. You have the right to demand that every paper dollar be redeemed in gold. They have gone back to the literal idea of a single gold standard, when the thing has broken down. It is as useless as an airplane engine working at 10 per cent of its capacity. It is like a racehorse with three broken legs.

That is the monkey wrench in the machinery.

No legislative progress in favor of the general public was ever accomplished in America without the sneers and opposition of Wall Street. Wall Street has a way of flattering Senators and Congressmen by fawningly tapping them on the shoulder and announcing, "This man is sound, he is of presidential timber." When Wall Street whispers that seductive statement into the ear of public officials, the result frequently is that the victim is stricken deaf, dumb, and blind.

Too long already have we crooked the knee before these false leaders of Wall Street. Their schemes have fallen before our very eyes like a house of cards. They cry out for more and more help from the taxpayers, whom they ordinarily regard with contempt. They regard themselves as the pampered pets of capitalism, entitled to rule like a spoiled child. They feel that all their blunders should be forgotten, or saddled onto the taxpayers, on the theory that the king can do no wrong.

The time has come for a change. Let the glorious day of change be marked by the passage of this bill, and let us never again return to the domination and misery and darkness of international banker leadership.

The present depression was made by men and it can be unmade by men. You gentlemen of this great Ways and Means Committee are the logical power to whom we have a right to appeal for relief in this appalling crisis. The earth is very small. Washington is its greatest capital. No more important event is now in progress on the face of the globe than this hearing before you. Report this bill favorably and it will become a law. The stricken Union of Washington, Lincoln, and Wilson will take new hope. A prostrate world will rise up and behold a new rainbow, and will see intermingled with its beautiful colors a flag rededicated to human progress—the fluttering folds of the stars and stripes.

To have won the war, when the perpetuity of civilization depended upon the same men you are now dealing with, when these same men were under arms, facing, with bayonets fixed, the most powerful military foe of all time, ready, every man of them, to sacrifice his life if necessary, that the rest of the world might have peace, freedom, and happiness—you would not then have hesitated for a single second to approve such a bill as this to inject the life-blood of money into the situation to save the day.

No one claims that the debt due these men can ever be adequately paid.

It is no time to haggle or to quibble. It is no time to hesitate. It is no time to give ear to the carping criticisms of those whose greed and selfishness have brought us to where we are to-day.

Consider the outstanding facts: The dollar value of the physical property of the United States in 1926, a normal year, was over $400,000,000,000. To-day, because of the depression which this bill is calculated to correct, those same physical assets are depreciated over 50 per cent from 1926 values, or over $200,000,000,000, and are depreciated nearer $300,000,000,000 from 1929 values.

Assuming that this bill will restore the normal prosperity of 1926, and we have every reason to believe that it will, then while it would give $2,000,000,000 to the soldiers, it would give to the country as a whole over $200,000,000,000 by restoring the normal 1926 values of lands, factories, mines, livestock, and other physical assets of the United States. It would do far more than that. It would restore the earning capacity of every factory, farm, mine, business, and individual. It would put the blush of health into the pallid faces of half-starved women and children. It would restore hope and happiness in the hearts of 120,000,000 American people.

The great issue of the world depression is bound up squarely in this bill. Shall we continue to pamper the international bankers of Wall Street, or shall we reflate the dollar and give back to the people of America in restored values over $200,000,000,000?

That is the issue bound up in this bill. As compared with this paramount issue, the incidental granting of only $2,000,000,000 to the soldiers, as the occasion for turning back from deflation, is but little more than a gracious gesture.

It would seem that the decision of Congress can not be other than favorable on this bill. It not only offers a way out of the mire of the depression, but it offers the only way out that has been brought before Congress.

There may be other ways, but they are not before you. This bill is before you.

That every Congressman feels keenly his personal responsibility upon this bill goes without saying.

It is no reflection upon Congress, nor is it a departure from the exact truth, to say that up to now Congress has not done a single thing to end the depression.

Congress was disappointed, and the country was disappointed, in the Glass-Steagall law. We were promised reflation by that bill, but we did not get it, and further cruel deflation has followed its passage.

It is now painfully apparent that the Glass-Steagall law was sought by the great Wall Street bankers solely to be used in their own defense in their fight against the French bankers, or rather to be held by them as a reserve weapon in that fight, and never to be used to help the country as a whole.

We are further disillusioned by finding that the Reconstruction Finance Corporation was promised to the great bankers of Wall Street last October, at the time those bankers organized their own credit corporation, and it was agreed that as soon as Congress assembled the Reconstruction Finance Corporation would be formed to shift the burden of the bankers credit corporation to the weary backs of the taxpayers of the United States.

The third major bill, the increased tax bill, is also to help the great bankers of Wall Street in their fight with French bankers. The bankers told us that unless we balanced the Budget immediately, France would drain more of their surplus gold. We responded to their call.

And now, able and responsible London bankers tell us that it was not at all necessary that we should have balanced our Budget by a tax bill this year, or for several years. They say that no dire results would have followed if we had expanded our currency and deferred the increase in taxes till the country was better able to pay the increased taxes. That sounds logical. It becomes increasingly apparent, therefore, that all three of the major bills so far passed, and on which we set such high hopes, were in reality originated and pressed by the great bankers of Wall Street to pull their own chestnuts out of the fire in their petty fight with private French bankers.

The absolute necessity for relief by this Congress, and not by a future Congress, is apparent.

The depression is crushing us, and rapidly reducing us to hopeless poverty. Immediate relief is imperative.

The depression is a cruel and unnecessary tragedy, and this bill puts the means at your finger tips to correct it.

At the period of the world's greatest advancement our life's savings are being swept away as by flood and fire. Millions of people throughout the land who thought they had a competence yesterday are in a daze and wondering when they will become beggars, if they have not already.

Bonds of foreign republics and cities, and of domestic railroads and manufacturing corporations, in which our people invested their life's savings a few years ago at par, are down to as low as 5 and 6—virtually wiped out.

Farm lands have depreciated from $125 per acre to less than $25 per acre, and independent banks and insurance companies which loaned money on those farms have failed by the thousands, leaving anguish, poverty, desolation, and suicides in their wake.

Bonds secured by first mortgage on large office buildings, which our people bought at par, are now selling under 20.

Homes and apartment houses are being sold under foreclosure and not bringing the face of the mortgage.

Buildings in moderate repair are being razed to avoid assessment of taxes.

One quarter of the private property in the State of Mississippi is advertised for sale for taxes, and other States are similarly affected.

Great cities like Chicago and Detroit are unable to pay their school-teachers and civil employees, because the people can not pay their taxes.

Railroads, factories, and mines are struggling for their lives at half capacity and less.

And what is the cause of all this misery? The answer is easy to find. The gold dollar, and gold dollar exchange, by reason of the private fight between Wall Street and France, and the consequent policy of deflation by Wall Street, has become almost unobtainable at any price.

By reason of that private, selfish fight, and the scarcity of gold, which they are fighting over, the gold dollar and gold exchange have artificially skyrocketed to from four to ten times its normal value, thereby robbing all lands, factories, mines, farms, and all other property of from 25 per cent to 90 per cent of their normal values.

To get a dollar of gold to-day, or a dollar of gold exchange which is the same thing, and all our debts and taxes must be paid in that medium, one must surrender from $4 to $10 worth of lands, labor, goods, or securities, as measured by normal values. That, and only that, constitutes the depression.

Any measure that you might pass which would bring gold down to normal, and, per contra, bring lands, labor, goods, and securities up to normal, would end the depression, and nothing else will do it.

This bill is calculated to turn the tide of deflation into a tide of healthy reflation, and the people of America and the world will rise up and call you blessed if you pass it immediately.

The powerful house of Morgan brought pressure to bear last June for this country to declare a moratorium on international debts due our taxpayers, in order to help out the Morgan scheme of glorifying the tottering gold standard abroad. The result of that moratorium has broken the backs of American taxpayers, and has been followed by governmental moratoriums on debts due our private citizens and insurance companies, which has wrought disaster to our country and its people.

What course did England take last September? She passed a law declaring a moratorium on the gold standard itself, until July 1, 1932, and thereby England has saved her people, balanced her budget, and improved her business in every way.

If it is a question of declaring a moratorium on the billions of dollars due our taxpayers and private citizens and insurance companies, thereby bankrupting most of our people, or declaring a moratorium for a limited period on the gold standard itself, which would America prefer? The question answers itself.

If Congress should to-morrow pass an act declaring a moratorium on the gold standard for one year, promising to return to it at the end of that period, or as soon as a semblance of normal equilibrium between dollar value and property value had been restored, this country and the world would be enjoying genuine prosperity in less than 30 days.

Why not take our cue from England, if necessary? The London bankers have been engaged in the international financial exchange for over 700 years and their wisdom and experience is not to be despised.

So do not fear the cry of Wall Street that we might possibly be forced to declare a moratorium on the gold standard itself, temporarily. If we do that, surely France will get no more of the precious little pot of gold held by the bankers of Wall Street. Because of the fear of Wall Street as to that putrid little pot of gold, which is never seen by human eye, but which is shuttled back and forth across the Atlantic under lock and key, they ask you to sacrifice the bloom upon the cheeks of your wives and daughters, and the spark of life and hope in the hearts of the people of America and the world.

Why worship the golden calf any longer? It can not be more important than the lifeblood of the twenty hundred millions of people who inhabit the earth. Yet, in the period of the world's greatest advancement otherwise, we have been reduced to misery and want by that cold, inanimate, breathless, lifeless pot of gold.

There are only eleven billions of gold in the world. It would form a cube only 30 feet square. Less than half of it is in the United States.

Mr. McCORMACK. The $11,000,000,000 of gold that you refer to is the hard, clean money of the world. The credit structure of practically the whole world is predicated on that, is it not?

Mr. LAFFERTY. It is, as far as France and the United States are concerned. Most of the other countries have departed from it.

Mr. McCORMACK. Even under normal conditions, that is the hard, clean money.

Mr. LAFFERTY. That is correct.

Mr. McCORMACK. I take it from your argument that you are of the opinion that leadership in the business world has simply collapsed.

Mr. LAFFERTY. It has. That is it exactly. They have failed.

Mr. McCORMACK. And we have tried everything; commissions of all kinds, engineers, scientists, industrial leaders and the people are now looking again to their representatives.

Mr. LAFFERTY. That is it, their elected representatives. In the past these gentlemen up in New York have regarded elected officials merely as their office boys and lackeys, but the time has come for a change and we will surely get it in November, if we do not get it sooner.

Summed up, the argument of our opponents is that we can not lift ourselves out of the depression by our bootstraps, that we can not legislate values into property, and that if we could it would amount to a redistribution of wealth by legislative fiat, and therefore be socialistic and communistic.

The answer is that since over $200,000,000,000 in value have been subtracted from the physical assets of the United States by an artificial human device, to wit, the corner on gold by Paris and New York, that same $200,000,000,000 in value can be restored to the physical assets of the United States by another human device, to wit, an act of Congress to end the corner on gold, and just that is the major objective of this bill.

To say that a restoration of the status quo of normalcy is socialistic and communistic is absurd and illogical.

We are not creating values by legislative fiat. We are restoring values which have been submerged, for the time being, by a dishonest and tricky cornering of the basis of all credit and money.

Lands, like values, may be submerged for a time during a flood, but they reappear when the flood recedes.

If the colossal values which have been temporarily submerged by this man-made depression can not be made to reappear by a legislative correction of the cause of that depression, then those values have been lost for all time, and the only thing those who have lost could do would be to go to work and earn their values all over again. And if that is the effect of one of their so-called "cyclical depressions," it is the same kind of a "cyclical depression" that the bees experience when the beekeeper robs the hive. The bees know by instinct that the only way they can repair their loss is "by rigid economy and hard work," and that is the very formula Morgan & Co. prescribe for us to-day. That formula contemplates no emergence from the losses we have sustained at all, as to the owners of property, but rather reconciling ourselves to a permanent loss, and going to work to earn a competence all over again. And that is true as to those who have already been closed out by Morgan & Co., but as to those who are still clinging on to all or a part of their lands or goods or securities the restoration of the status quo of dollar value and property value will afford a Heaven-sent remedy.

This bill proposes just that remedy, for all those who have not already lost their all, and it should be passed without delaying a single unnecessary day. Otherwise millions who are still heroically hanging to a part of their property by their eyebrows will join those millions of citizens who have already lost their all.

Mr. RAINEY. Thank you for your appearance.

Mr. PATMAN. Mr. Chairman, this morning we were to have before us Mr. Harris, of Harris & Volts, an economist of New York; also Mr. Le Blanc, an economist from New York. Senator Thomas called me a while ago and said that he had just arrived in the city and could not go on until in the morning, at which time we also expect to have Prof. Williford I. King, of New York University. The clerk of the committee has promised these gentlemen certain time and we are very glad to comply with their request. There are some other witnesses we would like to put on now instead of Mr. Harris or Mr. Le Blanc.

Mr. RAINEY. That is entirely satisfactory.

Mr. MCCORMACK. Mr. Chairman, will you permit at this time the insertion of a telegram in the record that I received this morning from an American Legion post?

Mr. RAINEY. Without objection the telegram will be made a part of the record.

(The telegram referred to reads as follows:)

BOSTON, MASS., *April 12, 1932.*

Congressman JOHN W. MCCORMACK,
Washington, D. C.:

Members of Michael J. Perkins Post 67, American Legion, South Boston, Mass., favor the cash bonus.

EDWARD C. CARROLL, *Commander.*

Mr. PATMAN. Mr. Fraser, department commander of the American Legion, Department of the District of Columbia, has a short statement to make to the committee.

Mr. RAINEY. We shall be glad to hear him.

STATEMENT OF F. G. FRASER, WASHINGTON, D. C., DEPARTMENT COMMANDER, THE AMERICAN LEGION, DEPARTMENT OF THE DISTRICT OF COLUMBIA

Mr. FRASER. Mr. Chairman, I have been instructed by the executive committee of the American Legion of the District of Columbia to present this statement to you:

Hon. CHARLES R. CRISP,
Chairman Ways and Means Committee,
House of Representatives, Washington, D. C.

SIR: At a meeting of the department executive committee of the Department of the District of Columbia the American Legion (representing 26 posts of this department) on April 11, 1932, the following action was taken with regard to the payment of the adjusted service certificates for World War veterans:

"The national executive committeeman of the Department of the District of Columbia will take up at the regular meeting of the national executive committee on May 5, 1932, the question of immediate payment in full of adjusted service certificates and will vote for such immediate payment. If this motion does not carry, the national executive committeeman is instructed to move the immediate poll by the national executive committee of all post members of the American Legion by post card. The chairman of the Ways and Means Committee of the House of Representatives and the commander of the Department of Oklahoma will be informed of this action. The report of action will be presented to the chairman of the House Ways and Means Committee by the department commander personally.

"Very respectfully,

"F. G. FRASER, *Department Commander.*"

Mr. PATMAN. Mr. Chairman, at this time I desire to present Congressman Rankin, of Mississippi.

STATEMENT OF HON. JOHN E. RANKIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSISSIPPI

Mr. RANKIN. Mr. Chairman and gentlemen of the committee, in the beginning, I desire to say that I am for the passage of this bill, not only for the benefit that it will bring to the ex-service men of the country, but for the greater benefit that it will bring to all the American people.

At the outset, I wish to answer the argument that has been made that these certificates are not due and to confess that that comes nearer to being an answer to any of our arguments than any that have been made.

If these certificates had been issued in 1919, however, when this money was due, and had borne the same rate of interest that has been paid to the war contractors and to others to whom the United States was indebted at that time, they would have matured more than a year ago.

If this were a matter merely of paying off these adjusted-service certificates, if it meant wringing from the overburdened taxpayer of the United States, $2,200,000,000, with which to pay these certificates, I would oppose its passage. But I would let those who are attacking the ex-service men of this country understand that while they are opposing this measure, that would bring this much-needed relief to the ex-service men, they are also opposing the only measure that has been offered at this session of Congress that promises the slightest relief to the American farmer, to the American wage earner and to the American people generally.

I also want to answer, before I forget it, the question that was asked, if this is sound, why we did not resort to it to balance the Budget. My answer to that is, we could have done so. Of all things, for Congress to attempt to pass a tax bill now with the country in this deplorable condition, I think was one of the greatest mistakes we could have made.

This measure could have been passed, or a measure of this kind could have been passed and the currency of the country expanded to a sufficient extent to have balanced the Budget without depreciating the value of the American dollar or without, in any way, impairing our gold reserve. We have not balanced the Budget yet. Lay no unction to your souls on that. The bills that we have passed are not going to balance the Budget, and unless there is an expansion of the currency, it is only possible to balance the Budget in one way and that is by an abnormal increase in the inheritance taxes in the higher brackets.

I took the market report the night before last and here is what I found: The reason I am bringing this to your attention is that we are at war. You talk about the war of 1917! We are at war to-day. We are at war with depression, with poverty, with hunger, with bankruptcy, with suicide and with all the horrors that trail in the wake of this unprecedented panic.

If you would take all the cotton grown in the United States last year and were to sell every single pound of it at the peak of the market yesterday or the day before, if you would take every grain of wheat grown in the United States, and not leave one grain for anybody to eat, and sell it at the peak of the market yesterday or the day before, if you would take every single grain of corn grown in the United States last year and sell it at the peak of the market yesterday or the day before, and pile all that money together, it would lack $2,400,000,000, amounting to as much as the annual appropriations of the Federal Government alone. Here is a great agricultural country, with the three greatest agricultural crops of America all put together, bringing less than one-half as much as the appropriations of the Federal Government alone.

Now, any man who thinks he can balance the Budget with that continuing condition needs not only to study economics, but he needs to study history. All the wheat, all the corn and all the cotton grown in the United States sold on yesterday would have brought $1,901,000,000, while the appropriation amounted to more than $4,300,000,000.

If that same wheat, corn, and cotton had been sold on the same day four years ago, they would have brought $5,487,000,000. In other words, the farmer's dollar has shrunk to one-third in four years.

I had a letter yesterday from one of the ablest physicians in my State, and he made this statement. He said:

> I own a farm that three years ago was valued at $75,000. I own my home. I own additional business houses in my home town and other towns. I do not owe a dollar on them, yet my home is advertised for sale for its taxes and I can not borrow a dollar to pay them.

The life blood of the Nation is dried up.

We thought we were undertaking to remedy this. In the first place we passed what is called the Federal land-bank bill. We thought that was going to relieve the farmers of this country who owed the Federal land banks. Just as soon as we made these banks secure from failure, they proceeded to foreclose the very farmer we were trying to assist.

This paper I have before me does not come from my district. It comes from Prentiss, Miss. Here is an entire page of advertisements of farms for sale by the Federal land bank. That is going on all over the agricultural belt. I make that statement to let you know that conditions are growing worse. We must do something. Something must be done. You created a great Reconstruction

Finance Corporation. It did just exactly what I told you on the floor of the House it would do. May I have permission to insert at this point a speech I made on the floor of the House on January 14, 1932?

Mr. Rainey. You have that permission.

(The speech referred to is as follows:)

Reconstruction Finance Corporation

SPEECH OF HON. JOHN E. RANKIN, OF MISSISSIPPI, IN THE HOUSE OF REPRESENTATIVES THURSDAY, JANUARY 14, 1932

[The House in Committee of the Whole House on the state of the Union had under consideration the bill H. R. 7360, the Reconstruction Finance Corporation bill]

Mr. Rankin. Mr. Chairman, I would not ask for this time but for the fact that I have not had an opportunity to speak on this measure. In my opinion this bill does not even begin to reach our trouble.

Mr. Chairman, we are in the midst of a great panic. As was once said with reference to the World War, the present depression might well be characterized as a major phenomenon in the life of the American Republic.

It is a money panic—the worst this country has ever seen. In my opinion conditions will not grow materially better until we inflate the currency and put more money into circulation. The quicker Congress does this the better it will be for all concerned.

We read in history, Mr. Chairman, of what has been called the Dark Ages, and many of us have been led to believe that it was a period of religious and intellectual relapse. But the truth is that what we know as the Dark Ages was a money panic, an economic depression, lasting over a lapse of centuries.

For hundreds of years after the fall of the Roman Empire gold was the money of the world. It was the coin of kings, the coin of the realm of every country in Europe. The amount in existence was insufficient to meet the requirements of the civilized world at that time, and the supply was gradually diminishing. As a result values fell, trade became stagnant, commerce became paralyzed, and the world lapsed into an economic lethargy that lasted for approximately a thousand years.

In 1453, when Constantinople fell into the hands of the Turks, Europe was forced to seek a westward passage to the Orient. This resulted in the discovery of America, and with it vast, and apparently unlimited, supplies of gold.

There was an immediate reawakening. The world took on new life. Values began to rise; trade was revitalized; commerce was increased; the world awoke from it lethargy of centuries and moved forward into a new era of prosperity.

This new discovery of additional supplies of the circulating medium of the world not only inflated prices and revived trade and commerce but it stirred the souls and fired the imaginations of men and ushered in the most glorious period the world had ever seen.

Under this invigorating impulse even the genius of mankind seemed to be stimulated. The succeeding decades produced men like Shakespeare, whose writings did more to shape the course of our western civilization than those of any other man who ever lived "in the tides of time." It gave to the world Cervantes, author of Don Quixote, who by his ingenious pen swept away the fallacies of centuries and struck from the minds of men the shackles placed upon them by the caste systems of ancient institutions. It gave to the world Galileo, before whose matchless genius the old heavens folded away and a new universe swung into view. In fact, this period gave to the world more men of genius than any other age in the world's history.

Under the restless impulse of this stimulus men began to venture across the Atlantic to carve their homes from the unbroken wildernesses of America and in a few decades brought forth upon this continent the greatest government ever devised by the mind of man.

Gold was still available in indefinite supplies, and for more than a century the question of lack of circulating medium never reached the intesified proportion that it has to-day.

But those conditions have changed. We now find ourselves in the same position the people of Europe were in at the beginning of the Dark Ages. The amount of gold in existence is insufficient to meet the monetary requirements of our intensified, complex civilization, and the supply is rapidly diminishing. There is no hope for the discovery of an El Dorado with unlimited supplies of the precious metal, for the simple reason that all territories have been prospected and all the known fields have been exploited. We must find some other method of increasing the circulating medium in order that prices may rise, business be stimulated, and this panic broken. This can be done in two ways only, and they are by remonetizing silver or inflating the currency.

Twelve years ago to-day there were $53 per capita in circulation in this country. Cotton was 30 cents a pound. Wheat was $2.25 a bushel. Corn was $1.60 a bushel. At that time we were enjoying prosperity throughout the length and breadth of the land.

On the basis of that inflated currency, we contracted our debts; we floated bonds which virtually fixed our tax rates. On that basis we established our standard of living and our wage scale and our salaries.

The currency has now been contracted until to-day there is only about $40 per capita in circulation.

A good deal of our money is in hiding, and a large portion of it has been lost or destroyed. Our circulating medium is wholly and hopelessly insufficient to meet the demands of the present time.

To-day we find that cotton is 6 cents a pound instead of 30 cents, wheat is 50 cents a bushel or less instead of $2.25, and corn is 35 cents or less instead of $1.60. In other words, a dollar has more than five times the buying power in raw materials, such as wheat, corn, and cotton, that it had in January, 1920.

With this cheap wheat, cheap cotton, and cheap corn, with the price of cattle, hogs, sheep, and other agricultural commodities accordingly depressed in value, it is simply impossible for our farmers, the backbone of the Nation, to pay their taxes and earn a decent living. Our merchants are going bankrupt, our banks are failing, and business generally has become paralyzed.

What is the remedy? It is to remonetize silver throughout the world or inflate the currency back to what it was in 1920, and thereby stimulate commodity prices and revive business generally. I shall have something to say on the silver question later.

The bill now before the House does not do this.

The thing I fear about this bill is that this $2,000,000,000 will be absorbed in these old watered stocks and worthless bonds, which are clogging up the banks of the country, and will not reach the great mass of the American people, and therefore will not raise the price level of commodities one penny. Why go out and in an indirect method pour $2,000,000,000 into a sink hole instead of distributing it to give relief to the suffering American people? [Applause.]

Practically every Member of Congress who discusses this matter in the cloak room or on the streets or in his office agrees that the remedy for this situation is inflation. They practically all agree that the currency should be inflated, but they are at a loss to know how this can be done.

I will tell you how it can be done. In the first place, we have in the Treasury more than $4,000,000,000 worth of gold. Some men tell us that we must have a dollar's worth of gold in the Treasury as a reserve against every dollar of gold certificate. That is not necessary. Forty cents in gold is an ample reserve for a dollar gold certificate. Therefore, we could issue $1,800,000,000 in gold certificates to-morrow by an act of Congress, put that money into circulation, and break this panic overnight, without in any way impairing our gold reserve. If you fear a raid on the Treasury, make them legal tender and redeemable in five years. If you do not want to issue gold certificates, then we might do as Abraham Lincoln did during the Civil War—issue United States notes and make them legal tender. I know that some gentlemen who are suffering from a gold complex will throw up their hands in horror and call that "fiat" money. But I call your attention to the fact that there are $346,681,016 in United States notes out to-day. They are not gold certificates, they are not silver certificates, they are not Federal reserve notes, but simply United States notes. Take the circulation statement of United States money sent to you once a month from the Treasury Department, and you will find that this statement is correct. You will also find it states that these "United States notes are secured by a gold reserve of $156,039,088 held in the Treasury."

If this $156,000,000 in gold is sufficient reserve against $346,000,000 in United States notes then we have enough gold in the Treasury to issue more than $5,000,000,000 in Treasury notes, if we so desired, without impairing the gold reserve.

But those who grew rich out of the war, and who now hold Government bonds that, as I have shown, have five times the buying power of the basic raw materials of the country that they had when they were issued, do not want any inflation. Those who have hoarded money and escaped taxes do not want any inflation. They prefer to exact the last pound of flesh from the suffering masses of

America as a result of this depression and the consequent increased buying power of the bonds or the money they now hold.

But some men have asked how we could put this money into circulation. That would be the easiest matter on earth. We could pay it on some of the debts owed by this Government, and wipe that amount off the statute books. For instance, we could pay off the World War veterans' adjusted-service certificates, and in that way serve a threefold purpose. [Applause.] It would pay the veterans what we owe them and at the same time remove that debt from the statute books of the Republic. But, above all, it would do more than that; it would cause the values of wheat and corn and cotton and other raw materials to rise overnight. It would enhance the value of agricultural and industrial commodities. Land values would return to normal, business would be revived, our commerce would take on new life, and the dark cloud of this unprecedented panic would melt away like mist before the sun. It would usher in a new day of happiness and prosperity for the American people. [Applause.]

Mr. RANKIN. I said:

You are taking $500,000,000 of the American people's money and creating a $2,000,000,000 corporation that will absorb these resources in an attempt to revive watered stocks and possibly defunct foreign bonds that are clogging these institutions and none of it will get down to the American people.

We now find that this money is being relayed—I am quoting what was said on the floor of the Senate—and passed on, and paid into the coffers of J. P. Morgan & Co., the greatest international banking house in the world. While that goes on, we have the onward march of the tax gatherer, invading the homes of the farmers of this country; while that goes on, our breadlines are lengthening and the crimson wave of suicide continues. We are at war.

I want to say to you, Mr. Chairman, that every other man in this House can do as he pleases. This legislation is sound, and if possible we are going to put it through.

Now, let us see why they tell us it is unsound; but before I get to that, let me show you who is opposing it. These international bankers are bending every effort to defeat it. Why? You hear more about the effect on the American dollar in foreign countries around this Capitol than you do of the effect on the American farmer and the American wage earner at home, and if any of you doubt that, just take your pencil and go to the cloakrooms and listen in and make notes of what is being said.

There are $16,000,000,000 at this time loaned in foreign countries by American financiers. Let us see what this means. They do not want an expansion of currency, because every one of those dollars will buy three times as much of American commodities, and especially American agricultural commodities, as it would have bought in 1928.

The majority of these bonds were floated as far back as 1919. These bonds would buy as much of American goods, in fact four times as much of American commodities now, and especially agricultural commodities, as they would have bought in 1919. In other words, their $16,000,000,000 will buy $48,000,000,000 or $50,000,000,000 of commodities compared with the prices of 1928, and $65,000,000,000 or $75,000,000,000 compared with the values of 1919.

In that period of inflation we floated bonds. Every State, practically every county, every municipality, every road district, every school district, every drainage district, every irrigation district, every light district, every water district, and in some States armory districts, floated bonds on those inflated values. They now have those bonds to pay when those bonds will buy four times as much of the products of their land as they would have bought the day that they were issued.

At that time the United States Government issued these Government bonds that are held by the opponents of this legislation. Those bonds will buy four times as much now of agricultural commodities as they would have bought then. No wonder they are opposing this legislation and venting their spleen on the ex-service man simply because it happens to be a debt to him that we are attempting to pay off here in order that we may bring back prosperity to the American people.

I want to take up the money question, Mr. Chairman. I am not a banker. I am not a financier. But I do know that this money can be issued and put into circulation without impairing the Government's credit, and without increasing the taxes of the American people by one dollar, and without endangering in any way the gold standard or impairing the gold reserve behind every dollar of American money.

I have listened to this cross fire in this committee room on the money question. Let me say to you that we have about $1,600,000,000 more gold in the Treasury than we had in 1919 when we had more than $1,000,000,000 more currency in circulation than we have now. We are the only country on earth that maintains a hundred per cent gold reserve against a gold certificate. We are not patterning after France. It is true that France has run her gold reserve up to 80 per cent now. But that is a new thing with France. Great Britain, outside of the United States, is perhaps the leading nation of the earth, and the one after whom we have patterned in the building of our institutions more than any other country on earth—I doubt if she has ever had 100 per cent in gold as a reserve behind her currency. I heard a good deal the other day about England's currency and I took the pains to call up the Library and have this matter run down. I found that for 100 years Great Britain had less than 15 per cent gold reserve behind her currency and at that time we were literally bowing financially to the Bank of England. I found that before Great Britain went off the gold standard she only had 33 cents of gold reserve behind every dollar of her currency.

Now, if 33 cents is sufficient to maintain a gold certificate of England, why should we quibble about a 40 per cent gold reserve behind United States notes?

We have in the Treasury to-day, as shown here, $4,416,914,085. That is according to the statement of the circulation of United States money issued by the United States Treasury on January 31, 1932. Of that amount $1,674,580,839 is gold reserve, dollar for dollar, behind that amount of gold certificates.

I just want to take the month before. I might say to you that I have discussed this with some financiers whose names I will not call, but for whose opinions you gentlemen have a great deal of respect.

A month before that, December 31, 1931, we had $1,751,456,019 of gold certificates out, with a hundred cents in gold against each one of them. That fell $100,000,000. A hundred million dollars of gold was released there in one month. That $100,000,000 would sustain $250,000,000 of Federal reserve notes. Now, it has been suggested by some, whom I consider financial wizards in this country, that those gold reserve notes be called in, and that this gold, if necessary, be shifted and used for the issuance of Federal reserve notes. If it can be used for the issuance of Federal reserve notes, it can be used for the issuance of United States notes.

During the Civil War this same trouble arose.

Mr. RAINEY. May I ask you a question there?

Mr. RANKIN. I shall be glad to answer it if I can, Mr. Rainey.

Mr. RAINEY. How can we call these certificates in without paying them off in gold?

Mr. RANKIN. They are not asking for them to be paid off in gold. Nobody who presents one of these certificates at the Treasury Department ever calls for gold. I will tell you this: The gold standard, Mr. Rainey, sometimes reminds me of the North Pole. We always use it to point to, but none of us attempts to capture it.

For instance, we have now $346,381,016 in United States notes out; and I am told that they have been out since the Civil War. Behind that $346,000,000 in United States notes there is $156,000,000 in gold in the Treasury. It has been there for years. This amount of money has been out for years. Nobody has ever called for this gold. That is one item that is legal tender for all purposes except to pay imports and the interest on the public debt. Nobody ever presents one of these notes and calls for the gold. I can take, and invariably do take, a $10 bill, which is a gold certificate, and exchange it for them. There is only about 40 per cent, or a little more than 40 per cent, of gold behind that money. Nobody has ever questioned it. That is exactly what we are attempting to do here. It is to take this surplus gold, or $800,000,000 of it, or a billion, if necessary, and on a basis of 40 per cent reserve, issue the two billion, or two billion two hundred millions of dollars necessary to pay these certificates off, and put this money into circulation.

Mr. HILL. As I understand it, this gold that you spoke about a while ago is back of the gold certificates 100 per cent. What would be necessary in the way of legislation, or in connection with this bill, in order to so release that gold that you could effectuate the purpose which you suggest here?

Mr. RANKIN. That is being done gradually, I will say to the gentleman from Washington. It is being done gradually without any legislation; and in my opinion, if this keeps on—and this is not an original opinion with me; I got this, as I said, from a financier for whose opinion I have a great deal of respect—in my opinion, those gold notes will practically all disappear in the course of a few years.

Mr. HILL. What will become of them?

Mr. RANKIN. Those gold notes will be exchanged for Federal reserve notes.

Mr. HILL. And canceled?

Mr. RANKIN. Oh, yes; canceled and exchanged for Federal reserve notes. And that releases a dollar of gold that can be used as a reserve against two dollars and a half of Federal reserve notes.

Mr. HILL. Does that process operate in the ordinary course—I will not say of redemption, but if these notes are sent in for reissue, for instance, when they wear out or become soiled?

Mr. RANKIN. I think also when they are paid for taxes, and so forth, and drift into the Treasury. I think they are retiring them in that way. But I know they are retiring them, and they retire approximately a hundred million, or the difference between $1,751,-

456,019 on December 31, 1931, and $1,674,580,839 on January 1, 1932.

Mr. RAINEY. Which was still enough to meet the outstanding certificates?

Mr. RANKIN. Oh, yes; there is still enough there to meet the outstanding certificates.

Mr. RAINEY. Never have we reduced that gold reserve so low as not to leave enough to pay these certificates?

Mr. RANKIN. Oh, no. I am not assuming that the gold reserve behind the gold certificates has ever been reduced below 100 per cent, although I am thoroughly convinced that if it were reduced to 40 per cent it would not affect the value of those certificates.

Mr. RAINEY. May I call your attention to this: We have many obligations in the United States that are payable only in gold. Bonds issued by railroads, and mortgages taken by insurance companies, all demand that they should be paid in gold of a certain standard of weight and fineness.

Mr. RANKIN. And none of them have ever been paid in it.

Mr. RAINEY. No; but they all can be.

Mr. RANKIN. I understand.

Mr. RAINEY. And the theory is that they all will be. Now, if you remove the possibility of paying those certificates—I do not think you can do it under the Constitution—by eliminating this gold reserve, what effect would that have upon these outstanding obligations, admitting that under the Constitution it could be done?

Mr. RANKIN. It would not have the slightest effect on earth.

Mr. RAINEY. They could not get gold for it.

Mr. RANKIN. They never have asked for gold and never will ask for gold.

Mr. RAINEY. Is not the reason why they do not ask for it because they know they can get it?

Mr. RANKIN. The reason they do not ask for it is because they do not want it. They want the American dollar.

Let me say to the gentleman from Illinois that when these bonds were issued there was eight or ten dollars per capita more money in circulation than there is now. In 1920 there was $53.21 per capita in circulation and to-day there is $45.34. But in 1919, I am told—I have not the figures here—that there was $55 per capita in circulation.

All right. Now, that was when we had 40-cent cotton, $2.25 wheat, and when everybody was employed and wages were high. That was the standard on which these bonds were floated. They floated those bonds; they were payable in United States money—I do not care whether the word "gold" is written in or not—and they have no right to ask us to pay them and demand that we pay them with deflated money, and they will not demand it.

Mr. McCORMACK. I do not like to interrupt——

Mr. RANKIN. I am glad to answer any questions, Mr. McCormack.

Mr. McCORMACK. On February 29, 1932, we had over $5,363,000,000 of currency in circulation. We have in gold coin $4,353,000,000, and in the Treasury $3,442,000,000, or something like that, showing considerably less in gold. In addition, we have all these private obligations outstanding, payable in gold. The thought enters my mind: Suppose every one of those holding currency, and everybody who is owed money for private obligations, should to-morrow say, "I want this paid in gold." How are we going to get it?

Mr. RANKIN. You could not get it at all; and your question, Mr. McCormack, is a complete answer to the argument of the gentleman from Illinois.

Take the bonds outstanding that have this gold clause written into them. There is not enough gold in the world to pay the bonds that are outstanding in the United States with that alleged gold provision.

Mr. McCORMACK. That is put in there for practical purposes?

Mr. RANKIN. Of course. It means sound money—American dollars. That is what it means.

Mr. McCORMACK. Theoretically?

Mr. RANKIN. That is right. But it really means in the coin of the realm—the money of the United States Government.

Now, I am not an advocate of going off of the gold standard. I see that the papers have quoted me as saying that I am in favor of going off the gold standard. That is not what I am arguing. The passage of this bill will save the gold standard. The passage of this bill and the issuance of these notes will not only pay off the adjusted-service certificates; it will not only raise the values of wheat and corn and cotton and industrial commodities; it will not only melt our bread lines and put our people back to work and start the trains to hauling real commodities instead of empty cars, but it will save the gold standard. It will not disturb it in the least.

Now, suppose we were in England. Suppose that England had the amount of gold that is shown here, as of January 31, a total of $4,415,914,085. We will just say four billions in round numbers. Suppose England had four billions. Do you know how much currency that would maintain at her present rate of reserve? Twelve billion dollars.

Suppose you called in all these gold certificates and issued United States notes against this amount, on the same basis that this $5 bill that I showed you is issued, with the same amount of reserve behind it. You would have a sufficient gold reserve to issue ten billions of dollars or thereabouts. Suppose you took this gold and turned it over to the Federal Reserve, and issued Federal reserve notes on the basis of 40 per cent. You would have a sufficient amount of gold to issue ten billions of dollars of Federal reserve notes.

I want to call the attention of the gentleman from Illinois to this statement; and of all people who are sold on the other side of this question, it is the National City Bank of New York—purely, or almost wholly, international bankers, who have their money loaned in foreign countries; whose dollars, as I say, will buy about three times as much of American commodities, raw materials, as they would in 1928, and about four times as much as they would in 1919. It was intimated in the press the other day that if this bill were passed it would bring our gold reserve down to about 6 per cent. Here is the verdict of the high priest, Hon. Charles E. Mitchell, chairman of the board of the National City Bank of New York. Here is what he says about it:

According to your statement—

He is writing to Senator Thomas of Oklahoma—

the bill proposes to increase the amount of money in circulation by $2,400,000,000. Should this aim be realized, and the circulation so increased, the effect would be to reduce the reserve ratio from its present figure of 71 to 46, or close to the legal 40 per cent maximum, while the free gold would be reduced from $1,500,000,000 to a little over $500,000,000.

What does he mean by "free gold"? You know, when you get to chasing these "gold bugs" they are like lightning bugs. When I was a boy we had free silver, and they used to talk to me about "gold bugs," and I would go out and see the landscape literally alive, at night, with fireflies, and I thought they were the gold bugs. I tried to catch some of them, and they were just about as elusive as these gold bugs who are opposing this expansion. You get to talking to them about this gold and they will talk to you about its being for one purpose and another purpose; but the truth of the business is, as he says there, that we have $1,500,000,000 of free gold, or gold that could be used for this purpose. Are we going to continue to crucify the American people on a "cross of gold," as Mr. Bryan said? I would give my seat in Congress to have William J. Bryan in the House to-day, or a man with the power that Bryan had, and who had the interest of the American people at heart, to help us to put this proposition over, to break this panic and rescue the American people from the most terrible condition that ever existed on this continent in times of peace.

Another thing: One of these bankers, whose name I will not call, admitted to me that conditions were growing worse; that no man could see the end, and that there was an extreme danger—mark this, gentlemen—there was an extreme danger, if this continued, and we did not relieve the situation through this or some such measure, that there might be in this country a wholesale repudiation of public debts—a condition even more terrible than what we have to-day.

Something must be done.

But take this $1,500,000,000 in gold and issue these United States notes against it. How much will it issue in notes? Take a billion dollars of it, and you can issue two and a half billion dollars in United States notes against it, and any one of them may be exchanged at any time for a gold certificate or for a Federal reserve note or for a United States note. What will be the result? You will increase the volume of money.

Listen: If you want to make the water run through the pipes, you have to raise the level of the water. If the water in the vessel is too low to circulate through the pipes, you can stir it until you wear yourself out, as these Wall Street bankers advise us to do in this instance, and not a drop of it will go through those pipes. You must pour additional water into it. You must expand the volume.

I wonder why it is that those who deflated the currency now oppose expanding it.

Let me call your attention to this: I want to show you how we gradually got into this state of economic paralysis, when the lifeblood of the Nation is dried up, when we are begging Congress to give the country a blood transfusion, if you please, to keep the patient from dying.

They talk about expansion being uneconomic, unbusinesslike, and unsound. I wonder if deflation is sound. I showed you that in 1920 we had $53.01 per capita in circulation. Like a clap of thunder from a clear sky, the Federal reserve deflated that currency, raised the rediscount rate and called loans, and brought this amount down to

$35 only four or five years ago. I have not the figures in this statement, but I have them in my office, and I will be glad to insert them later.

They deflated the currency $20 per capita, with all our debts, and at a time when we were being bled white and our homes were gradually being sold or mortgaged to the hilt. Yet, when we come and ask that this currency be reexpanded to meet the present-day conditions, and to relieve this country of the greatest panic in its history, they throw up their hands in holy horror and yell, "Fiat money!"

Now, not a dollar of this money is fiat.

And let me call your attention to another thing: I think one of the ablest men on this continent is a man by the name of McCauley—T. B. McCauley. I have never met him. He is president of the Sun Life Insurance Co. of Canada, and I have read a good deal of his writings. Mr. McCauley said a year or two ago that what we needed at that time in this country was an expansion of the currency by at least a half billion dollars, which he said should go through the Federal reserve system.

Now, I have no particular objection to doing this through the Federal reserve system, provided we make it mandatory and make them do it. In the Glass-Steagall bill we provided for an expansion through the Federal reserve system. Unfortunately we limited it to one year, which in my opinion killed it. Whether that is the cause or not, I do know that it has not been used effectively. This is the only chance we have, through the passage of legislation of this kind, to bring about this expansion, restore commodity prices, and restore normal conditions throughout the country.

Mr. McCauley said that formerly London was the money market of the world and gold was the standard. To-day, he said—this was a year or two ago—New York is the money market and the American dollar is the standard. We are not on a gold standard, technically speaking. We are on an American dollar standard, and so is the rest of the world.

Now, then, by increasing the number of American dollars in circulation we broaden that base, raise the level, if you please, in the circulating medium, and start it to moving through the veins of our economic body, and bring the patient back to a healthy condition.

Somebody said the other day that the reserve system was having its troubles in finding just how to put the money into circulation if they did expand. We have the most complete answer to that question of any question that has been asked. Our plan puts it in circulation by paying it to these service men in every nook and corner of the United States, and they will put it into circulation overnight.

If you desire to adjourn, Mr. Chairman, I would like to continue my argument in the morning.

Mr. RAINEY. There will be no objection to that. You have a few minutes left.

Mr. PATMAN. Mr. Chairman, Mr. Harry Knable is here and wants five minutes. We have promised him that time, and I understand that he can not be here at any other time. If you would like to continue in the morning, why not give Mr. Knable the remaining time to-day?

Mr. RANKIN. That will be all right with me.

Mr. PATMAN. To-morrow morning we have three economists whom we have promised time. We are really under obligations to give them time first. I wish the committee would take that into consideration.

Mr. RANKIN. I will be glad to finish my remarks after they finish if it is all right with the committee and with Mr. Patman.

Mr. RAINEY. Mr. Patman is controlling the time absolutely.

Mr. PATMAN. Since we are here, I think we can convenience the people from the outside.

Mr. HAWLEY. Mr. Rankin can finish his argument and let it be added to his remarks of this morning, in the hearing.

Mr. RANKIN. Yes; if these economists or people from out of town want to go on first, I will follow them and let my remarks connect at the same point in the hearing.

I thank the committee for this opportunity.

Mr. PATMAN. A few days ago the Ways and Means Committee promised a gentleman from Philadelphia five minutes' time to-day, and I would be glad if the committee would hear him now.

Mr. RAINEY. He will have to conclude in five minutes.

Mr. PATMAN. Yes; he will conclude in five minutes. Mr. Knable, of Philadelphia.

STATEMENT OF HARRY KNABLE, PHILADELPHIA, PA.

Mr. KNABLE. Mr. Chairman and members of the Ways and Means Committee, I do not come here to represent any organizations, either political organizations or service men's organizations. I come here to represent my five brothers who served in the World War—each and every one of them wounded.

We ourselves ask you to give us nothing. I have our war-risk insurance bonds here, and I assure you that we would give these back to the United States Government if we thought that the passage of this bonus act at this time would hurt the Treasury in any way.

If you could travel throughout these United States and see the miseries of my fellow buddies, you would not hesitate to pass this bill. I look around this room and I see my buddies who fought with me in those six battles on the other side, and who were wounded. They are not asking you for any compensation or for any pay for what they did. Far be it from me to ask for this compensation for myself. We want you to help us and to help yourselves.

I assure you that if you give this money to these service men, they will not have it over two weeks. They will take it out and spend it. They will pay for their homes; they will pay off those mortgages and the other debts that they have acquired since they came home from the service.

I remember when we left here in 1917, with the bands playing and the trumpets sounding; and when we returned and came up the Hudson, with General Pershing—the last division that came home—how they applauded us. But where are those people to-day to applaud us? They do not stand at the corner with those trumpets in their mouths and say, "Boys, we have a job for you."

These boys do not want charity, gentlemen. They do not want you to give them anything. They want mercy; they want food. It is in your hands to give these to them.

I am not going to stand here and burden you with a lot of argument. I am not going to cite figures to you. I am going to plead to you for these service men. Please put this bill out on the floor. You have this piece of legislation in your hands. It is a sound piece of legislation. There is nothing radical in it. We want nothing radical. Every service man who fought for his country in 1917 is still ready to-day to fight for his country; and if war should be declared to-morrow you would have 14 Knable boys ready to go across to fight for our country.

We love our flag and we would do anything to help our country. We ask you to help these service men that are down.

With reference to my friend Stevens, the 90-day wonder, I want to say to you that he does not know what hunger means. He has never experienced it. He has never seen these boys go out. I just spoke to a boy here who said, "Can you let me have 25 cents to eat with?" He is a service man. Why should he ask for something to eat? This country owes him a living. He is willing to work. He is sound. He is fit.

I am asking you to pass this legislation out of your committee and put it on the floor, and if the President vetoes it, pass it over his veto.

I thank you.

Mr. RAINEY. The committee will stand adjourned until 10 o'clock to-morrow morning.

(Thereupon the committee adjourned until to-morrow, Thursday, April 14, 1932, at 10 o'clock, a. m.)

PAYMENT OF ADJUSTED-COMPENSATION CERTIFICATES

THURSDAY, APRIL 14, 1932

House of Representatives,
Committee on Ways and Means,
Washington, D. C.

The committee met at 10 o'clock, a. m., Hon. Charles R. Crisp (acting chairman) presiding.

The Acting Chairman. The committee will please come to order.

Mr. Patman. Mr. Chairman, before introducing the witnesses this morning I would like to invite the committee's attention to several thousand telegrams that I have received since yesterday morning from every section of the Nation, expecially from small business men, small merchants all over the country. It is true that we have doctors, lawyers, and people in every kind of business asking for the passage of this legislation. For instance, here is one from Muncie, Ind., that has several thousand names on it, signed by not only veterans but practically every merchant in town. Here is one from Fort Lyon, Colo., the same way; Pittsburgh, Pa., with many thousands of names; Columbia, S. C., and others.

I have received, the last few days, hundreds of telegrams; not only from citizens, firms, and organizations of the State of Texas, but from American Legion posts and others throughout the Nation, indorsing the bill to pay the remainder due on the adjusted-service certificates, and I would like to have the privilege of inserting in the record at this point the names and addresses of the signers of these telegrams, or merely give the names of the places from which many of the telegrams were received.

The Acting Chairman. Without objection, that may be done.

The list referred to follows:

MOUNT PLEASANT, TEX.

Chas. M. Coken.
M. C. Lain.
Troy White.
C. F. Ward.
J. C. Carpenter.
D. T. Davidson.
N. H. Croner.
Jess M. Cashen.
Dr. W. N Manning.
J. A. Stephens.
S. B. Wilhite.
Masters & Thomas.
O. A. Threasher.
H. L. Graham.
John M Ellis.
C. C. Mason.
C M Green.
E. H. Millhowre.
R. S. Smith.
J. M. Steel.
Tom Gates.
G. A. Crow.
A. P. Johnson.
Ike Coker.
Green Dickson.
Jack Cross, district clerk.
Dewitt Huckebee.
Robt. Thacker.
C. L. Duncan.
J. A. Glass.
Chas Grisson.
C. E. Smith.
P. E. Wallace, superintendent of schools.

B. T. Smith.
Sam Murray.
Auby Redfearn.
John Merritt.
Wallace McClung.
Bill Byrd.
Slim May.
Frank Dubose.
Green H. Riddle.
J. D. McClung.
Bill Haggard.
John Willis.
Marshall Hartline.
O. R. Huddleston.
J. G. McClintock.
Bob Whitaker.
John Leftwish.
J. Daniel.
C. M. Rogers, 222 service station.
G. W. Cross, Mount Pleasant Times.
Brock's service station.
Mount Pleasant laundry.
Homer Hamilton.
James grocery.
Hon. MurmanMilbanks, county judge.
Grant's store.
Kirk barber shop.
Strother paint shop.
W. H. Madden blacksmith shop.
Ned Austin Café.
Wilkes Grain Co.
Mack McCarty service station.
Bullington drug store.
Barrett & Neugent restaurant.
Lides cash store.
J. A. Engram & Co.
T. O. Johnson grocery store.
E. L. Riddle Furniture Co.
Presley Grain Co.
Morgan & Jaggers market.
Jack Jessup Post, No. 210.
Hays Bros.

ITALY, TEX.

H. V. Jaynes.
Joe H. Walston.
Sam Wolover.
Geo. R. Herrin.
Dr. A. C. Calvert.
J. A. Carson.
G. W. Yarbrough.
R. A. Corley.
Lee Roy Barrow.
Ed Cohagan.
Waller Upchurch.
Ernest Brocher.
Leland M. Johnson.
Pride & Ward.
L. D. Parks, Safeway Stores.
Ward Brothers.
R. W. Walker.
Roy Wimberly, Doctor Pepper Bottling Co.
S. T. Hall.
Roy E. Clonts.
R. O. Phillip.
J. W. Horton.
E. J. Roberts, Texas-Louisiana Power Co.
W. Alrimley.
J. D. Stovole & Sons.
Carson Eddum.
Aubrey D. Lynch.
Russell Shires.
S. R. Green.
M. L. Morton.
H. Devand.
Lester Merrett Graner.
J. H. Walston.
W. D. Bateman, Ford sales service.
G. E. Cantrell.
R. E. Sparkman.
L. W. Rienzi.
John Samuel Hill.
R. T. Hickman.
R. M. Carmichael.
Fred Harvey.
D. W. Yarbrough.
Joe Monpzshy.
W. R. Wallace.
D. L. Milburn.
J. T. Price.
Walter O. Sill.
W. T. Ford.
W. P. Garrett.
W. G. Taylor.
Italy News Herald.
W. H. Demoway.
E. C. Still.
Willis Leington.
J. K. Price.
Roger Harris.
J. G. Willis, superintendent of schools.
Jim Ward.
Gus Jarratt.
O. O. Hanly.

SPUR, TEX.

Spur Produce Co.
Webber Williams.
G. C. Williams.
J. E. Berry.
M. C. Briley.
Spur Motor Co.
Spur Laundry Co.
W. B. Linz, Spur Chamber of Commerce.
Tri-County Lumber Co.
Hargrove hatchery.
Spur creamery.
D. S. Granberry, secretary, Spur Retail Merchants Association.
Boyd M. Williams Post, American Legion.

RISING STAR, TEX.

L. H. Morrison.
E. E. Bryant.
Chas. Balleu.
James Fred Cook.
Ben Landreth.
C. R. Martin.
C. H. Joyce.
E. W. Camp.
E. B. Burns.
J. L. Alford.
J. L. Smith.
R. W. Potter.
A. M. Wolf.
W. F. Skillman.
Dr. J. R. Dill.
C. W. Marsh.
A. Myrick.
C. F. Hill.
Will Owens.
William A. Riden.
L. B. Bishop.
Rev. G. F. Mickey.
W. H. Ware.
E. Sprayberry.
C. A. Chastain.
L. I. Cox.
A. C. Wolf.
Clarence R. Martin.
Oscar White.
Thomas Evans.
Jim Beard.
Guy R. Brougdon.
Wesley Carroll.
J. G. Sims.
John F. Millwee.
Rev. Chas. B. Diltz.
Jesse F. Guynes.
L. C. Cash.
M. S. Duncan.
Rev. R. Neal Greer.
A. E. Gollman.
W. A. Ayers.
M. E. Crossley.
Chas. L. Smith.
John H. Martin.
Bert Kent.
C. A. Barber.
F. B. Hughes.
C. F. Thomas.
Dr. R. W. Crawford.
Cecil Shults.
Oscar Starkey.
Jay Koonce.
Dr. F. C. Payne.
C. G. Shultz.
W. S. Carter.
Joe B. McAdams.
J. O. Arnold.
Sam L. Clark.
R. R. Knott.
Doss Alexander.
Bob Teston.
B. A. Downs.
C. L. Embry.
Dr. T. B. Busbee.
Heck Higginbotham.
Hubert Jones.
J. H. Nunnally.
Alvah B. Gattis.
J. W. Smith.
Cyrus T. Goss.
M. S. Sellers.
J. R. Bucy.
E. C. Parker.
G. E. McDonald.
S. D. Johnson.
Leslie Boase.
P. O. Boase.
Thimas B. Shipman.
Pates Variety Store.
Wm. A. Donica and Bailey A. Donica.
Star Trading Co.
City Drug Store.
Higginbotham Bros. & Co.
Marshall Homer Crossnoe.
H. S. Childress.
Cecil L. Courtright.
A. N. Snearly, county commissioner.
W. E. Roark, manager Texas-Louisiana Power Co.
J. F. Robertson, secretary chamber of commerce.
Dick Brown Post Commander.
Montgomery Co. (Inc.), C. E. Joyce.
Continental State Bank.
Quick Service Café.
C. B. Harris, Star Produce Co.
Bussbee & Falls, Sinclair service.
E. F. Agnew & Son.
Alt Shults.
Tom Butler, Butler's Battery Station.
Tom Proctor, Wood Chevrolet Co.

CORPUS CHRISTI, TEX.

J. D. Browning.
Joe Franklin.
E. G. Brown.
Walter A. Guy.
David Peel.
U. Q. Ashley.
Wm. M. Bluntzer.
Dr. N. D. Carter.
Dr. J. V. Blair.
Arthur Brown.
Ben A. Ligon.
J. L. Farren.
Sam Braslau.
H. F. DeSpain.
Bruce Collins.
L. L. Payne.
James Bagnall.
R. C. Nolte.
Dr. Geo. T. Lusk.
H. F. Nolte.
Dr. M. J. Perkins.
Will W. Walker.
T. R. Joseph.
E. W. Walberg.

John Nicols.
M. McCrorey.
M. Munifei.
D. H. Hollmark.
Arthur R. Wier.
R. F. Forstner.
E. M. Richardson.
John P. Pichinson.
Clifford F. Kenney.
Noble B. Dougherty.
Joseph Francis McCagty.
Robt. L. Fenner and Chas. L. Rankin.
Doctors Heaney and Nast.
Eidson Dry Goods Co.
Nueces Shoe Repairing Co.
Rex-Mex. Newstand, C. M. Rodriguez.
Leo Bluntzer Grain Co.
Edward Ball Harney.
H. E. Woodruff Construction Co.
Gulf Hudson Essex Co.
Harry Archer Auto Co.
T. V. Cobb, South End Drug Co.
Winerich Motor Co.

M'LEAN, TEX.

Herbert Helms.
Homer Abbott.
A. N. Hodges.
G. V. Koons.
Ed E. Wehba.
H. Doolen.
John W. Cooper.
Wm. Perry.
Jim Jo Cobb.
E. J. Lander.
Isaac B. Jones.
Elmo L. Phillips.
F. E. Stewart.
F. J. Turner.
S. H. Jones.
L. P. Pope.
Milton W. Banta.
James M. Allen.
Ralph A. Caldwell.
T. A. Landers, The McLean News.
Marcus Keep Landers.
Meadows Café.
Palace Café, Bill Buttley.

FLOYDADA, TEX.

John Grey.
Roy L. Snodgrass.
Walter G. Collins.
L. G. Mathews.
Felton Collins Grocery Co.
J. A. Adans, Arwin Drug Co.
Robt. A. Tossett, commander American Legion post, American Legion Post, No. 118.

ROYCE CITY, TEX.

Dewey Merce.
Bub Wright.
Frank M. Yers.
Ferrell Dean.
E. D. McCarty.
R. L. Griffith.
J. D. Wood.
C. A. Johnson.
W. C. Thomas.
Homer Stimson.
J. W. Houser.
C. J. Atts.
J. W. Terrell.
Bill Sellers.
D. H. Knowell.
Frank Honan.
J. N. Banks.
R. Conine.
Jones Adams.
W. Rold.
A. W. Wood.
Bill Jenkins.
Jack Nelson.
P. D. Terrell.
Oscar Wester.
Tom Paulk.
Bob Ebbs.
Roy Loring.
Roy Rodgers.
C. E. Seely.
E. L. Amis.
E. A. Howell.
J. W. Pool.
R. M. Dunn.
Hester Lewis.
B. N. Fishberg.
J. Roy Smith.
G. G. Smith.
C. W. Lane.
W. M. Staggs.
E. L. Smith.
Melvin Moore.
E. M. Cline.
Walter Westen.
C. C. Edwards.
J. D. Lloyd.
R. S. Douglas.
M. R. Tumlinson.
Carl G. Miller.
Eldred Sherrill.
Robert W. Langloe.
Dr. T. N. Roach.
R. P. McCasland.
Maurice Houser.
Malcolm Young.
E. W. Gilliland.
Scott McCarter.
George J. Nixon.
R. R. Scott, jr.
H. G. Tumlinson.
Arlan Sherrill.
L. E. Johnson.

J. W. Calhoun.
N. B. Watkins.
J. D. Gilliland.
W. C. Winner.
M. E. Travis.
Clarence Noel.
T. H. Lamison.
A. Fritzerbach.
Rothwell Gunter.
Goebel Templeton.
N. Burton, Burton Motor Co.
J. M. Cookston, Cookston Hotel.
C. H. Burton, Burton Motor Co.
A. N. Neil Produce Co.
Royce City Funeral Home.
E. L. Switzer, Royce City News-Times.

MOUNT VERNON, TEX.

Otto Glass.
Joseph Dack.
Ben Davis.
Robt. W. Meier.
Bell Gieseck.
W. M. Falkner.
Hugo Chollett.
E. O. Hensel.
Emil Meier.
W. T. Knox.
H. L. Gist.
W. R. Irby.
Maxie A. Mayer.
M. C. Pittman.
Neal McKinnon.
Otto Sipperlin.
Fred Beckhansen.
Charlie H. Arnold.
Alber A. Kasner, jr.
A. A. Balhorn.
Walter Hargrove.
Louise F. Moeller.
Chas. Devall, jr.
Ennis Tittle, sheriff.
Hon. R. T. Wilkerson.
Bolger Motor Co.
Rutherford's Drug Store.
Hightower Inman Co.
St. Clair's grocery.
J. Mal Moore, cashier First National Bank.
City Café.
Clinton's market and grocery.
Lowry Furniture Co.
Burns & Shurtleff.
Hester Chevrolet Co.
Covington stores.

CLIFTON, TEX.

G. L. Polk.
Jack Ramsey.
A. W. Price.
A. H. Bakke.
Homer Porter.
M. J. Hoff.
O. E. Hoff.
Floyd Moffatt.
R. H. Rogstah.
O. G. Olson.
Fred D. Ragsdale.
E. R. Stanford.
H. B. Dahl.
Andrew Dahl.
Anton Amundsor.
John Dodoger.
C. A. Oebeck.
G. S. Amonson.
Oscar Gangshie.
Albert C. Johnson.
Belvin Pederson.

MARQUEZ, TEX.

H. L. Payne.
Ed Payne.
D. M. Walker.
J. E. Black.
E. B. Autry.
A. D. Wood.
E. O. Wasson.
Dr. W. B. Seale.
Clenton Caldwell.
G. M. Lauier.
B. M. Syfrett.
P. W. Barkley.
R. D. Barkley.
R. P. Carrington.
C. O. St. John.
Clark Newsome.
Dr. D. C. Carrington.
Jones Motor Co.
Autrey and Walton.
Watton Café.
O. K. Pruitt and J. D. Martin.
T. B. Lynch, post adjutant.
Cundiff & Evans.

CHILLICOTHE, TEX.

W. M. Gourley.
Rutledge Bros.
E. L. Grimes.
Touchstone Motor Co.
The Bank of Chillicothe.
V. B. Hill, commander American Legion Post No. 320.
C. E. Carlock, Chillicothe Cotton Oil Co.

WHEELER, TEX.

L. R. Collin.
Mike Shea.
J. B. Colcote.
J. E. Risner.
E. L. Bells.
E. S. Remmer.
H. E. Wicker.
E. G. Wood.
W. R. McGraw.
Jno. H. Reynolds.
M. W. Williams.
Archie Teakell.
Edison Sorensen.
W. B. Traylor.
J. H. Knudson.
John S. Techions.
Fred Underwood.
Carroll McClennen.
Norwood McPherson.

ABILENE, TEX.

Frank Antilley.
T. C. Campbell.
Mayfield Garage.
Royal Candy Kitchen.
Nelson Davenport Agency.
Olympia Confectionery.
Doyle's Café.
Rogers grocery.
D. & W. Tire Co.
Linton Drug Co.
S. & Q. Clothiers.
W. T. Wilson Transfer Co.

JAYTON, TEX.

Jay Mason, Chevrolet.
B. A. Cumbie, tax assessor.
World War Veterans of Kent County, Tex.
First National Bank, by Thos. Fowler.
Bryant Link Co., by Jno. Smith.

FORRESTON, TEX.

Wm. C. Ratliff.
J. W. Winn.
Edd P. Appling.
A. E. Mullin.
Edd Justice.
Field's drug store.
Bubrey Wilson.
Watson Cafe and Meat Market.
Stuart Shurley.
Forreston State Bank.
Forreston Cotton Yard.
Godfrey's service station.
F. E. Vass.

CLIFTON, TEX.

B. L. Dahl.
A. A. Miller.
W. W. Windhome.
Lenois Komegay.
A. L. Bronstad.
D. C. Caraway.
Joe Wise.
E. E. Shaw.
W. K. Golden.
D. J. Thomas, jr.
E. C. Ringner.
S. M. Ringness.
P. O. Olson.
E. H. Schow.
F. E. Lynch.
J. W. Caraway.
Jno. H. Neel.
O. L. Stuart.
J. T. Hill.
Dr. C. O. Brown.
Jack P. Carter.
Alex S. Anderson.
Dr. T. C. Coston.
F. K. Mixon.
N. M. Colwick.
D. C. Holverson.
Hardy Youree.
Robt. L. Baldridge.
Oscar J. Rea.
G. E. McColeb.
J. W. Denton.
E. R. Cottle, Cottle Produce Co.
J. S. Standefer, Standefer Chevrolet Co.
J. G. Lane, manager A. & P. stores.
Clifton Mercantile Co.

COMMERCE, TEX.

Thad Anderson.
Frank Chaney.
Ivan McNatt.
Homer Prim.
Ira Lewis.
Charles Stem.
Bill Mayes.
Leon Hess.
Frank Hobbs.
Bruce Williams, commander American Legion Post No. 1.

TEXARKANA, TEX.

Ruby Levy.
C. A. Meisch.
Dave Levy.
Ray E. Brackett.
City Hall Cafe.
Texas Furniture Co.

TEXAS CITY, TEX.

Wayman Stacy.
H. W. Sewell, Sewell's garage.
A. E. Hassler.
Old Corner Drug Store.
Miles Wasson Weir Riche Post No. 89, American Legion, by M. E. Agee.

BRONTE, TEX.

H. O. Whitt.
McNeil Wylie.
T. H. Rogge.
B. P. Williams.
Bronte Welfare Association.
Geo. Scott Post, No. 394, American Legion.

ROSEBUD, TEX.

John T. Canpe.
John Debose.
R. S. Crowder.
Ed Baca.
R. L. Jonan.
R. E. Scott.
D. P. Slay.
Dan Asbury.
J. F. Robertson.
Grover Stubbs.
J. F. Voltino.
C. J. Grommeck.
John W. Montford.
Tony Beinhauser.
Howard Bornhill, post commander, American Legion.
Paul G. Klawritter.
Howard Barnhill.

LOCKNEY, TEX.

C. C. McClure.
K. L. Canning.
C. H. Schatt.
H. M. Mason.
D. E. Cox.
Dr. P. C. Anders.
W. R. Logan.
G. D. Allen.
W. R. Childers.
S. G. Miller.
O. C. Bailey.
Watt Griffith.
Geo. W. Newman.
Jerry Mudgett.
R. C. McGilvery.
Verdal Webster.
Clyde Applewhite.
Taylor Grocery.
Piggly-Wiggly Grocery.
L. D. Harris Insurance Co.
Shick filling station.
Greer Drug Co.
Lockney Drug Co.
Lockney Implement Co.
Patterson Thornton Gin.

SAN SABA, TEX.

T. T. Walker.
W. B. Ashby.
A. B. Pucket.
A. L. Taylor.
C. M. Hibler.
G. W. Horton.
J. S. Ballew.
C. B. Williams.
John Haltmar.
J. E. House.
Geo. Griffin.
S. S. Allen.
Burel Park.
G. M. Oliver.
R. L. McConnell.
C. M. Oliver.
W. T. Vogl.
J. P. McConnell.
Eddie L. Ragsdale.
W. T. Terry, county tax assessor.
Hon. R. E. Gray, county judge.
Hugh W. Henry.
W. G. Kirkpatrick.
City Drug Store.

LITTLEFIELD, TEX.

Otto Jones.
J. T. Street.
Van Clark.
T. S. Sales.
W. D. Shelton.
J. B. Green.
C. C. Clements.
S. L. Myrick.
Louis F. Bell.
Dr. J. D. Simpson.
Herbert J. Proud.
James H. Powers.
J. Wade Potter.

GRANGER, TEX.

Frank Barta.
L. D. Hill.
M. C. Cooke.
Ed Thompson.
L. C. Salm.
Chas. Bartos.
E. G. Ford.
J. J. Jousan.
T. B. Sullivan.
H. G. Blackman.
A. B. Smith.
Lad J. Jubala.
E. J. Huiska.
Frank Cervenka.
John H. Jameek.
Joe J. Jubla.
Ray Engvall.
G. M. Gilstrap.
G. E. Holmstrom.

ANGLETON, TEX.

G. F. Vlha.
E. R. Cannan.
Harry Sharpe.
G. Y. Loggins.
W. V. Martin.
T. S. Crews.
W. G. Curson.
Burt Burridge.
Fred J. Burridge.
Hon. A. E. Masterson.
Hon. E. E. Cayton Evans.
G. C. Davis, county clerk.
E. P. Middleton, city market.
W. S. Sproles, jr., tax assessor.
G. B. Harris, The Angleton Times.
R. G. Bunhart.
J. B. Jackson.
Neal Giesecke, county commissioner.
J. G. Jackson, tax collector.
F. T. Waylos, county auditor.
M. Glasscock, county school superintendent.
E. L. Boston.

BOERNE, TEX.

E. J. Kaiser.
I. J. Elmore.
H. O. Odler.
C. E. Nickels.
E. Q. Tynes.
E. G. Fortune.
C. C. Lee.
H. A. Palmie.
Ernest Horney.
W. C. Wiggins.
Walter Hazen.
W. E. Kennymore.
Fred Zoeller.
H. W. McIver.
H. C. Ramdtree.
H. A. Paine, jr.
D. Dewitt Hogue.
Dr. E. W. Christinson.
C. C. Lee, adjutant, American Legion Post, No. 228.
McDonald Chevrolet Co., by L. McDonald.

CHANNING, TEX.

Tom Foster.
L. L. Smith.
J. P. Fry.
J. C. Gross.
M. F. Shaw.
Tom Collins.
D. S. Perkins.
H. E. Payne.
F. M. Frick.
Luther Amason.
John C. McLoughlin.
J. W. Addington.
F. C. Puckwood.
J. Elmer Dillig.
A. J. Denman.
H. F. Morsman.
J. T. McEnteggart.
E. V. McLaughlin.
Talmage E. Andrews.
Newton James Baxter.
Bishop Drug Co.
The Emporium, A. B. Brown.
Changle Market..
City Garage.
Panhandle Cleaners, R. L. Neely.
Horn Allen Co.
G. H. Davis, Spot Cash Store.

CROWELL, TEX.

R. J. Thomas.
T. P. Reeder.
J. E. Eddy.
C. C. Ribble.
O. W. Orr.
John Rasor.
J. N. Johnson.
Vernon Pyle.
J. C. Perry.
T. L. Dorris.
James Payne.
Inez Gray.
W. E. Revis.
W. Allen.
Z. W. Smith.
D. C. Greer.
Dr. J. M. Hill.
E. C. Martin.

O. R. Boman.
Claud W. Lyon.
John C. Morrow.
Otis Ross.
A. W. Lilly.
E. E. Smith.
S. E. Crosnoe.
Paul Shirley.
S. D. Simpson.
James Darroh.
A. J. Manner.
R. W. Mattheny.
S. A. McDonald.
W. G. Griffin.
A. Y. Beverly.
A. Y. Beverly.
C. T. Schlugal.
Dr. R. L. Kincaid.
W. B. Tysinger.
W. B. Franklin.
Hines Clarke Market.
Fergeson Bros.
Self Motor Co.
M. Store Grocery.
John E. Long, adjutant American Legion Post, No. 130.
S. Moor, president Taxpayers League.
The Lanier Hardware Co.
Allen R. Sanders.
Nuway Café.
W. S. Young & Co.
Fex Bros. Grocery.
Farmers Cooperative Gin Co., by H. E. Davis, treasurer; S. Moore, president; J. T. Kinney, director; E. P. Sandifer, director.

BIG SPRINGS, TEX.

R. F. Bluhm.
J. F. Hair.
G. C. Potts.
J. L. Webb.
C. W. Deats.
R. L. Nall.
O. S. Jones.
Roy Carter.
V. L. Skeen.
W. W. Davis.
D. C. Willis.
R. W. Brown.
C. L. Bryant.
H. W. Croft.
W. M. Bonner.
V. E. Jones.
J. P. Warren.
R. L. Wolf.
G. C. Dunham.
Jess Slaughter.
H. C. Jenkins.
R. H. McNew.
B. W. Welch.
M. C. Stulting.
John B. Colin.
R. C. Pyeatt.
A. B. Sisson.
W. D. Corneilson.
Frank Hefley.
R. A. Millsop.
E. W. Anderson.
W. R. Douglass.
C. S. Blomshield.
James T. Brooks.
W. W. Brockett.
C. B. Sullivan.
Jim Recknabel.
Chas. C. Carter.
H. L. Bohanon.
L. D. Davenport.
Frank W. Jones.
Andrew Merick.
Thomas A. Slaughter.
J. E. Payne.
W. R. King.
C. L. Wasson.
Robert Winn.

TAHOKA, TEX.

B. J. Leedy.
H. A. Smith.
D. V. Smith.
S. R. Ramsey.
T. J. Bovell.
R. P. Lee.
Roy Nettles.
Sam Park.
M. C. Finch.
Happy Smith.
K. C. Holmes.
W. E. Price.
H. M. Larkin.
J. O. Johnson.
Claude Conway.
W. S. Taylor.
A. M. Cade.
T. J. Bovell.
Jake Wilonsky.
Emmitt Fleming.
J. O. Patterson.
Sam Holland.
R. R. Luttrell.
Frank McGlaun.
Leonard L. Craft.
J. B. McPherson.
Jeff Connally.
J. C. Hannah.
A. N. Lehman.
W. N. Thornhill.
Earl Randall Quinsey.
C. E. Woodworth.
J. S. Wells & Sons.
Thomas Battery Co.
Frank G. West.
T. A. Nabors.
S. P. Alexander.
J. S. Huddleston.
S. E. Tabor.
R. Q. Carroll.

M. Q. O'Neal.
Geo. Willard.
W. R. Shelby.
Dr. Wm. M. Stykes.
W. A. Gray.
W. E. Garroutt.
W. M. Douglas.
W. L. Farmer.

DALHART, TEX.

W. H. Brecheen.
J. A. Brewer.
Pat Malone.
H. O. Himmel.
Jim Conlan.
C. A. Scott.
J. M. Wade.
R. U. Counts.
Dan Spencer.
Joe Bass.
J. C. Taylor.
Travis Rattan.
E. B. Gregg.
Mayor Eugene Logan.
John O. Colquett.
R. S. Jacques.
J. W. Pigman.
F. R. Thomas Hardware Co.
Ben N. Richards.
Keith Synder.
Dr. J. H. Croft.
J. R. Gussenhaven.
Dr. J. P. Powell.
Judge F. McKeil.
W. L. Hamilton.
Caldwell Bakery.
Bamberger Store.
Western Tire Co.
Herzsteins.
DeSoto Drug Co.
Schuart Grain Co.
Good Eats Bakery.
Ed Bishop, secretary chamber of commerce.
Coleman Jewelry Co.
Beall Sweet Shop.
M System Store.
DeSoto Hotel.
McGee Drug Store.
First National Bank.

HAPPY, TEX.

W. L. Frost.
E. J. Bauer.
S. F. Sharpe.
Tom Cope.
Fred Holt.
J. M. Evans.
Ed Jones.
R. C. Roberts.
F. O. Goen.
F. H. Bauer.
C. A. Miller.
A. L. Sims.
E. E. Cowan.
H. R. Stone.
Tom Bondy.
M. C. Collett.
W. M. Laxson.
J. G. Ponder.
J. H. Stephenson.
Charles Morgan.
Aldan C. Mann.
Clifford Bellas.
G. Tillman Webb.
Mathew J. Sims.
Thomas O. Evans.
John L. Hammond.
D. K. McDonall.
Geo. Schaffer.
H. F. Walters.
Andy J. Greenfield.
H. F. Ratjen.
Leslie E. Tolbert.
Service Barber Shop.
The Happy Mill.
Burgess Hardware Co.
Happy Motor Co.
City Drug Store, by Jack Rogers.
Conner Drug Store.
Vernon Guimarin Implement Co.
H. D. Hagood.
L. H. Turner.
R. L. Walters, manager Farmers Grain & Elevator Co.

DALLAS, TEX.

Johnnie Brown.
R. P. McClellan.
A. G. Wartman.
J. A. Robinson.
W. L. Leroy.
G. G. Perry.
R. E. Shaw.
John Fink.
H. P. Carey.
Nick Lanza.
Ted Lyons.
C. B. Hamlet.
M. E. Weaver.
J. M. McCue.
Arthur Rogers.
B. T. Benson.
V. E. Luttrell.
John D. Coffman.
Mrs. C. D. Langley.
Lee A. Davis.
R. W. Walker.
J. E. Warren.
John C. Blair.
Edward Day.
Royall R. Watkins.
Verge Lester.
Horace T. Scott.
C. L. Harrell.

Geo. Theophilako.
W. H. Marshall.
H. B. Livingston.
H. W. Schnittker.
Mrs. J. R. Tidwell.
Day Night Pawn Shop.
Uncle Jake Public Pawn Shop.
Klar & Winterman.
Savage Washing Machine.
The Sports Center.
Victor Palos Colman Baking Co.

MORTON, TEX.

R. T. Tarver.
Dock Havens.
Ralph Vorden.
J. J. Watts.
J. J. Burns.
Walter L. Taylon.
A. S. Purnell.
E. L. Hurst.
J. L. York.
W. M. Blackwood.
F. L. Scott.
R. L. Hill.
A. C. Hooper.
D. L. Wood.
J. C. Montgomery.
C. F. Winder.
R. C. Strickland.
G. N. Newman.
E. A. Harrison.
Joe Weaks.
W. F. Brown.
W. F. Hester.
A. G. Davis.
Turner Collins.
J. L. Brown.
A. L. Cox.
T. W. Moore.
J. J. Wallace.
W. L. Miller.
J. J. Jones.
Willie McCullock.
Floyd Rowland.
Jack Henderson.
Carrol Carr.
W. A. Strickland.
P. B. Hollis.
W. A. Woods.
John L. Scott.
A. J. Beedy.
G. A. Graham.
Guy Mathews.
Grady Pruitt.
J. M. Kinyon,
C. H. Hickman.
Wesley Lackey.
A. C. Ward.
C. W. Denny.
S. H. Hudson.
Alton Burleson.
Mark Jones.
Johnie Patton.
C. L. Taylor.
Loyd Kennedy.
C. R. Edward.
J. P. Morrow.
C. S. Crone.
B. R. Deaver.
S. L. McIlroy.
E. V. Gill.
R. E. Rose.
J. E. Alexander.
S. L. Pierce.
H. J. Knox.
Tom Standefer.
D. T. Smith.
Gordon F. Morrow.
J. A. Monroe.
F. G. York.
W. A. Crosser.
J. P. Taylor.
Charlie Crone.
J. L. Mullinax.
Henry Cod.

LYFORD, TEX.

Finlay & Baldridge.
J. R. Hocott.
R. H. Freen.
Haney & Catlett, produce.
W. W. Quick.
John L. Box.
Oscar Backland, feed and seed.
G. L. Sawards.
Lyford Grocery Co.
R. C. Morris Baking Co.
C. E. Horighton, service station.
E. W. Archer.
Robert & Blake, lumber.
Bowne Gin.
S. P. Heilson.
C. A. Jackson, grocery.
Louis Wood.
J. M. Oake.
Cleve Anserson.
I. C. Stalling.
Esalinas Grocery.
R. H. Haney.
L. E. Clement, grocery.

FORSAN, TEX.

W. V. Mabry.
C. C. Kent.

DAWSON, TEX.

A. B. Worsham, commander The Johnson Sowell Post.

CLARENDON, TEX.

Ernest L. Hunt.

Aubyn E. Clark, American Legion Post, No. 126.

ROCKWALL, TEX.

Joe T. Morris.

CALDWELL, TEX.

Paul Walther, adjutant American Legion Post, No. 451.

TIMPSON, TEX.

J. R. Hopkins, commander American Legion Post, No. 90.

CANADIAN, TEX.

.M. Johnson, adjutant American Legion Post, No. 56.

ORANGE, TEX.

J. W. Thigpen, commander American Legion Post, No. 49.

Manis Moore, adjutant American Legion Post, No. 49.

WICHITA FALLS, TEX.

L. B. Cummings.

MATADOR, TEX.

M. S. Patton, adjutant Fleming Post, No. 337.

THORNDALE, TEX.

W. M. Rutherford, commander Thorndale American Legion Post, No. 131.

CLEBURNE, TEX.

Harry J. Leonard.

FROM LEGION POSTS

Arlington, Tex.
Terrell, Tex.
Lyford, Tex.
Memphis, Tex.
Lampasas, Tex.
Refugio, Tex.
Lometa, Tex.
George West, Tex.
Plainview, Tex.
Waxahachie, Tex.
Coleman, Tex.
Navasota, Tex.
San Antonio, Tex.
Deleon, Tex.
Thurber, Tex.
Harlingen, Tex.
West, Tex.
Honey Grove, Tex.
Kingsville, Tex.
Gonzales, Tex.
Wichita Falls, Tex.
Sunray, Tex.
Glenrose, Tex.
Liberty, Tex.
Schulenburg, Tex.
Electra, Tex.
Big Springs, Tex.
Houston, Tex.
Spearman, Tex.
McCamey, Tex.
Fort Meade, Fla.
Tampa, Fla.
Wauchula, Fla.
North Miami, Fla.
Bushton, Kans.
Wamego, Kans.
Arkansas City, Kans.
Sheyenne, N. Dak.
Page, N. Dak.
Minot, N. Dak.
Hot Springs, S. Dak.
Peever, S. Dak.
Montrose, S. Dak.
Kennett, Mo.
Hannibal, Mo.
Caruthersville, Mo.
Paris, Mo.
Campbell, Mo.
St. Louis, Mo.
Zalma, Mo.
Smithville, Mo.
St. Clair, Mo.
Green City, Mo.
Pierce City, Mo.
Carthage, Mo.
Unionville, Mo.
Richmond, Ind.
Wooster, Ohio.
Versailles, Ohio.
Niles, Ohio.

Montrose, Colo.
Walsenburg, Colo.
New Castle, Colo.
Robinson, Ill.
Coulterville, Ill.
Urbana, Ill.
Chicago, Ill.
Atwater, Minn.
Frostburg, Md.
Belair, Md.
Reserve, La.
New Orleans, La.
Cranston, R. I.
Hot Springs, Va.
Superior, Wis.
Beaver, Dam., Wis.
Davis, Okla.
Ringgold, Ga.
Sylvester, Ga.
Augusta, Ga.
Bordentown, N. J.
Camden, N. J.
Moorestown, N. J.
Paterson, N. J.
S. Boston, Mass.
E. Boston, Mass.
Grass Lake, Mich.
Augusta, Mich.
Detroit, Mich.
St. Joseph, Mich.
Escanaba, Mich.
Wheeling, W. Va.
Welch, W. Va.
Bristow, Nebr.
Lyman, Nebr.
Castle Point, N. Y.
Rochester, N. Y.
Los Angeles, Calif.
Atwater, Calif.
Corono, Calif.
Ventura, Calif.
Ogden, Utah.
Sandy, Utah.
Elba, Ala.
Moulton, Ala.
Heflin, Ala.
Fort Payne, Ala.
Brantley, Ala.
Foley, Ala.
Russellville, Ky.
Pineville, Ky.
Helena, Ark.
Okean, Ark.
Gastonia, N. C.
Franklinton, N. C.
Hendersonville, N. C.
Hamlet, N. C.
Spring Hope, N. C.
Rural Hall, N. C.
Louisburg, N. C.
Durham, N. C.
Toecane, N. C.
Wilmington, N. C.
Morganton, N. C.
Concord, N. C.
Reidsville, N. C.
Asheboro, N. C.
Lincolnton, N. C.
Columbia, S. C.
Charleston, S. C.
Bennettsville, S. C.
Crossville, Tenn.
Fayetteville, Tenn.
Cookeville, Tenn.
Loudon, Tenn.
Brownsville, Tenn.
Waverly, Tenn.
Camden, Tenn.
Kingston, Tenn.
Chattanooga, Tenn.
Lexington, Tenn.
Paris, Tenn.
Clarksville, Tenn.
Union City, Tenn.
Pittsburgh, Pa.
Trafford, Pa.
Philadelphia, Pa.
Pitcairn, Pa.
Carbondale, Pa.
Shenandoah, Pa.
Shamokin, Pa.
Wilkes-Barre, Pa.
Milton, Pa.
Chester, Pa.
Albion Station, Pa.
Portage, Pa.
Lititz, Pa.

TELEGRAMS FROM CITIZENS, BUSINESS; FIRMS, AND ORGANIZATIONS

Robt. E. Reagan, Dallas, Tex.
A. L. Clifton, Dallas, Tex.
B. T. George, Beaumont, Tex.
L. A. Eberle, Sweetwater, Tex.
Sam Kockos, Dallas, Tex.
J. W. Monk, Donna, Tex.
Ashley Guy, Mineral Wells, Tex.
Harry P. Savage, Waco, Tex.
F. B. Birdsong, Plainview, Tex.
J. F. Bozka, Hallettsville, Tex.
Sam Devall, Hallettsville, Tex.
J. C. Roby, Graham, Tex.
James F. Elliott, San Antonio, Tex.
L. W. Crow, San Antonio, Tex.
H. H. Hunt, Sinton, Tex.
Joseph Johnson, Jefferson, Tex.

Hub Lemmon, Jefferson, Tex.
Mrs. Mary B. Johnson, Paris, Tex.
Conleys Cleaners, Dyers & Hatters, Sweetwater, Tex.
Safeway Store No. 18, Sweetwater, Tex.
Alamo American Legion Post, San Antonio, Tex.
H. M. Mason, Lockney, Tex.
American Legion Auxiliary, Mount Pleasant, Tex.
Eugene Williams, executive committeeman first district, Dept. of Texas, the American Legion, Sulphur Springs, Tex.
Ex-service men of Milam County, Rockdale, Tex.
T. H. Chilton, commander United Spanish War Veterans, Sweetwater, Texas.
Jas. C. Thompson, commander Disabled American Veterans Chapter, Tyler, Tex.
W. G. Streckert, Brownwood, Tex.
G. L. Keene and 113 other citizens of Goose Creek, Baytown and Pelly, Tex.
W. I. Witherspoon and 75 other veterans and citizens of McAllen, Tex.
A. W. Scheller and 13 other World War Veterans of Bonus, Tex.
Bill Moss and 20 other citizens of Sinton, Tex.
J. C. Jackson and 13 other citizens of Fort Worth, Tex.
Emerson Wells and nine other citizens of Dallas, Tex.
T. H. Kerr and three other ex-service men of San Antonio, Tex.
L. A. Fonville and four other citizens of Dallas, Tex.
Howard R. Rogers and 23 other ex-service men, of Colorado, Tex.
L. Kinghorn and 22 other ex-service men and citizens of Odem, Tex.
J. H. Weet and 26 other ex-service men and citizens of New Waverly, Tex.
Jerry Clark and 99 other veterans and business men of Van Horn, Tex.
E. H. Krohn, commander Disabled American Veterans Chapter No. 10, El Paso, Tex.
Geo. D. Dicken, executive committeeman, first district department of Texas, the American Legion, Pittsburg, Tex.
B. L. Lambeth, McNeil, Ark.
G. F. Baldwin and G. R. Robinson, Texarkana, Ark.
B. M. Shelton, Texarkana, Ark.
Carl Miller, treasurer, and Bryan Westerfield, adjutant, Disabled American Veterans Chapter, Texarkana, Ark.
Irvin E. Fischer, Reading, Pa.
Chas. B. McNally, Philadelphia, Pa.
Geo. J. Churchill, Pittsburgh, Pa.
Charles A. Fischer, Philadelphia, Pa.
One hundred and thirty-four business men of Philadelphia, Pa.
Elwood N. Hagerling, Pittsburgh, Pa.
John S. Slattery, New York, N. Y.
Ladies Auxiliary of the Veterans of Foreign Wars Post, No. 1895, New York, N. Y.
Royal R. Neira, New York, N. Y.
J. A. Brady, Buffalo, N. Y.
Harry L. King and eight other World War veterans of New York, N. Y.
Davis L. Strain, Greensboro, N. C.
H. C. Renegar and Dan B. King, Sanford, N. C.
A. B. Weathersbee, State commander, Disabled American Veterans, Belton, S. C.
L. A. Walker, Charleston, S. C.
M. T. O'Neal and six other citizens of Anderson, S. C.
Oscar Ladwig, Lakota, N. Dak.
L. G. Block, Montrose, S. Dak.
Ex-service men of Ethan, S. Dak.
Robert A. Shiflett, Bristol, Tenn.
J. B. Cross and 33 other legionnaires of Harriman, Tenn.
Joe N. Cline, Indianapolis, Ind.
L. C. Bishop, Los Angeles, Calif.
L. Stupka, Baltimore, Md.
Otto Thaxton, Pembroke, Va.
Sam R. Tatum, Jacksonville, Fla.
W. C. Godwin, adjutant John F. Tuggle Post, No. 48, the American Legion, Chipley, Fla.
J. C. McIntosh and four other citizens of Jacksonville, Fla.
Rudolph Baer, El Reno, Okla.
Dr. O. A. Kirby, Oklahoma City, Okla.
Lewis J. Reynolds, Pauls Valley, Okla.

E. B. Brattstrom, Seattle, Wash.
Dr. C. F. Montgomery, Dragon, Utah.
Floyd V. Patterson, Washington, D. C.
Sam Spahr, Shelton, Nebr.
Ed Smith and 18 other citizens of Chugwater, Wyo.
Jesse Ashby and 16 other World War veterans of Drakesboro, Ky.
Wayne Modin, Emmett, Idaho.
Capt. D. Sullivan, commander Allied War Veterans, National Park, N. J.
Veterans of the Ambulance Company 127, Racine, Wis.
Chas. A. McCarthy, secretary, Hamilton County unit of the American Veterans Association, Cincinnati, Ohio.
Floyd R. Ries, Summit County Veterans Association, Akron, Ohio.
M. A. Feinberg, president and John Kays, Secretary, Third Marne Regular Army Division Society of Ohio, Bellaire, Ohio.
G. F. Jones, Wooster, Ohio.
William Norton, Toledo, Ohio.
Tom Wooderson, adjutant, Disabled American Veterans, Chapter No. 10, Jackson, Mich.
John T. Gleason, E. Boston, Mass.
Lawrence J. Fenlon, president United Democratic Service Men, Chicago, Ill.
S. Waterfall, Hines, Ill.
Veterans at Edward Hines, jr., Hospital, Hines, Ill.
Veterans at United States Veterans' Hospital, Dwight, Ill.
Veterans of Cass County, Backus, Minn.
Chas. Hackmeyer, Mobile, Ala.
John C. Littlefield, post service officer the American Legion, Ogden, Utah.
D. M. Mahoney, first district committee department of Missouri, the American Legion, Hannibal, Mo.
Mrs. Guy Riddle, president American Legion Auxiliary Unit No. 55, Hannibal, Mo.
E. G. Weathers, Millen, Ga.
Carl R. Hodes, Columbus, Ga.
Edward F. Sargent and four other Legionnaires of Phoenix, Ariz.
Wade Phillips and four other World War veterans of Greensboro, N. C.
Joseph A. Seymour and five other World War veterans of Midland, Tex.
Commanders of Veterans of Foreign Wars Post, Disabled American Veterans of the World War Chapter, United States War Veterans Camp and Service Officer, The American Legion, Enid, Okla.
L. C. Stalle and 50 other veterans of all wars and their auxiliaries of Hot Springs, S. Dak.
Jack Phillips and 79 other citizens of Pecan Gap, Tex.
Leslie Johnson, chairman, executive committee Disabled American Veterans of the World War, Greenville, S. C.
M. P. Malloy and Frank W. Baker, Johnson City, Tenn.
Scott P. Aquyres and 251 other veterans of Oklahoma City, Okla.
Walter J. McDonald, commander American Legion; Fred Dowell, commander Veterans of Foreign Wars; Homer Hickle, commander Disabled American Veterans of the World War; and a number of patients, employees, and personnel of the veterans' hospital and citizens of Fort Lyon, Colo.
Jacob Talmadge Baxley and 376 other veterans of Columbia, S. C.
Members of Veterans of Foreign Wars Post No. 651, and over a thousand citizens of Muncie, Ind.,
E. R. Clements, commander Veterans of Foreign Wars Post No. 2399; V. V. Pernoud, commander American Legion Post No. 205; and about 500 citizens of Harlingen, Tex.

Mr. Patman. I would like also to invite the committee's attention to a resolution passed night before last by the executive committee of the Department of Pennsylvania of the American Legion. It was said that only seven American Legion posts in Pennsylvania were for this proposal; but the executive committee which really controls the Legion in Pennsylvania met and unanimously passed a resolution night before last indorsing this proposal to pay the adjusted-service certificates, and we would like to insert that resolution in the record.

The Acting Chairman. Without objection, the resolution may go in the record.

(The resolution referred to is as follows:)

THE AMERICAN LEGION, DEPARTMENT OF PENNSYLVANIA, PHILADELPHIA, PA.

Whereas duly elected and accredited delegates representing the Department of Pennsylvania to the thirteenth national convention of the American Legion held at Detroit, Mich., expressed by recorded vote the sentiment of Pennsylvania Legionnaires as in favor of the immediate payment in cash of the adjusted-compensation certificates, and

Whereas at the last regular meeting of the executive committee Department of Pennsylvania, held at Philadelphia, November 7, 1931, the Congress had not convened; and

Whereas the consideration of this payment is at the present time before the Congress of the United States, now in session; and

Whereas the executive committee of the Department of Pennsylvania, sitting in regular executive session at Pittsburgh, Pa., desires to express the sentiment of Pennsylvania Legionaires as it now exists relating to this immediate payment by the Congress; Now, therefore, be it

Resolved, That the executive committee, Department of Pennsylvania, in regular stated meeting at Pittsburgh, Pa., April 9, 1932, reaffirms the expression of its delegates to the Detroit convention favoring the immediate payment in cash of the adjusted-compensation certificates.

JAS. J. DEIGHAN, *Department Adjutant.*

Mr. PATMAN. At this time we are favored with the presence of Dr. Willford I. King, of New York University. He is an economist, not only of national reputation but international reputation. Doctor King recently appeared before the Banking and Currency Committee of the House, at the request of that committee. We believe that he can give the committee some information that they have not had before this time.

I now take pleasure in introducing Dr. Willford I. King, of New York University.

The Acting CHAIRMAN. Doctor King, the committee will be glad to hear you.

STATEMENT OF DR. WILLFORD I. KING, NEW YORK UNIVERSITY, NEW YORK CITY

Doctor KING. Mr. Chairman and gentlemen, I understand that the bill which is now under discussion is advocated primarily as a means of remedying the economic situation in the country, and that the other phases of it are incidental. I was asked to come here to speak on the economic phases of the situation.

I presume the best way is, therefore, to begin at the beginning, stating how we got into the difficulty with which we are troubled at the present time.

Some people say that it is all due to the money question. I do not think that it is all due to the money question. I think that it is due primarily to other difficulties. But I will show in a few moments how money enters into it.

The national income—that is, the income of all of the people taken together—might be thought of as perhaps $90,000,000,000, normally. That is made up of your income, my income, and every one else's income added together. Now, each of us has the privilege of spending his income during the year, or something more or something less than his income. The reason that he can do that is that each person has a certain amount of credit available. Some of us have $10 credit and others have $10,000,000 credit. That applies not only to the individual but also to the business firm. Now, whenever people spend more than their income, they go into debt, and when they spend less than their income they get out of debt. When they go into debt, a considerable proportion of this indebtedness will appear as loans from banks. When loans expand at the banks, interest rates tend to rise, and the evidence is that people are going into debt more. When the loans at the banks contract in volume, and interest rates fall, that is usually an evidence that the people are paying off their debts.

Now, obviously, people can not go into debt indefinitely. There is a limit. The credit limit always stops each individual and each firm and each corporation. They can not go beyond that.

When people are optimistic is the time that they tend, in general, to go into debt. During the period 1927–1929 we found that the people were very optimistic. Everything was going to come out fine with all their investments and their undertakings. The result was that people bought things on time. They bought land; they bought automobiles; they bought radios; and, above all, they bought stocks; and they went into debt for those. Stocks were bought largely upon margin, as you all know.

That greatly increased the amount of bank credit. If you will look at the statistics of the banks of the United States, you will find that they were expanding the volume of their loans; and they were also expanding the volume of their deposits, because the people were going into debt.

When the people went into debt, they could spend more than their incomes, and they did; and the result was that the orders for goods at the factories were strong, and the factories employed all the people that they could get conveniently to turn out these goods that the people wanted; and the prices of those goods rose moderately, but moderately only. You do not find in 1929 any large inflation of commodity prices; but you find a tremendous increase in the velocity of circulation of bank deposits.

Now, what significance has that?

You all know that in the United States we do some of our work—our money work—with cash; with Federal reserve notes and with silver certificates. But we do more of the money work of the Nation with bank deposits. That is, we buy things with checks when we buy considerable amounts of goods, and we buy things with cash only when we make small payments.

The circulating medium, then—the material we use to buy goods—consists primarily of these deposits subject to check—bank deposits—and, incidentally, of currency, gold, and silver. Very little gold, of course, is used; some silver, and more Federal reserve notes, silver certificates, and that sort of thing.

The result was then that during the height of the boom we had people buying more goods than they would normally, and going in debt. But about 1929 something began to happen. Part of these people began to run out of credit; not all of them, but one by one they began to run out of credit. They could not expand any further.

What was the result? Their expenditures began to drop from something above the national income down toward the national income; and as they began to drop, that naturally meant a curtailment in the amount of goods that they could buy at the old price level. They could have bought more goods if the goods were cheaper, but they could not buy all of these goods at the old price level.

Producers tried to maintain prices, however. They do not cut prices immediately when the demand falls. So the manufacturers, the railways, the public utilities, every one maintained the prices of their goods temporarily. Then, because of the slackening in the total demand for goods, which was now less, we will say, than the ninety billions, it was impossible to buy all of these goods at the old prices. The result was that employers began to lay off help; and when they began to lay off help, that tended to reduce the national income, so that it was no longer ninety billions of dollars, but a smaller amount.

That tended to curtail the purchasing ability of the people still more.

By and by the profits of the concerns began to fall, and when profits began to fall they began to stop paying dividends; and as dividends shrank in total amount, obviously the owners of the stocks could not buy the goods that they could before, and that curtailed the purchasing power of the country still more.

Well, you have seen that going on for the last two or three years, and it is a vicious spiral. You see, as you curtail the purchasing power, people are laid off, dividends are cut, and you go down and down and down; and we have been going down into the depths.

It seems to me that in 1929 it was inevitable that we must have some reaction. That is, stock prices were absurdly high. The relationship of those stock prices to earnings was far beyond normal. But that did not mean that we needed to have anything of the drastic nature that we have at present in the way of a depression. In 1924 we had a correction from a boom; in 1927 we had another one. Those were what I would call normal corrections. But this has been a very abnormal correction, as I am sure you will all agree. It has gone down far below any amount necessary to correct this over-optimism that was prevalent at the time.

We hear everywhere that the trouble was caused by overproduction. I think that is one of the commonest and yet most complete fallacies that are being put before the people at the present time. If you will look at the statistics of production, as carefully worked out by Carl Snyder, of the Federal Reserve Bank of New York, you will find that there was nothing abnormal about production. We were not rushing far up into levels above anything before known. The production of 1929 was not particularly abnormal, and with the income that the people had then they were taking the supply off the market. There were no great stocks of goods accumulated except in a very few lines. There was overproduction in a few lines, we will agree. Wheat, yes; but there had been overproduction in wheat for several years past, and it had not caused any particular trouble up to that time. There was overproduction of rubber; yes. There had been for a number of years. That, of course, as Mr. Snyder has well pointed out, is a good thing for the American people. We do not have rubber to sell; we have rubber to buy. The cheaper it is, the better from our standpoint. There had been overproduction of sugar for several years. That is another thing that we buy, and from the standpoint of the United States it was a fine thing.

It follows, therefore, that the present situation can not under any circumstances be ascribed to overproduction.

There is an unlimited demand, at a price, for all the goods that can be produced; and when more goods are produced, that tends to cause more demand.

Now, what we are suffering from at the present time, I would say, is distinctly underproduction. We have a great reduction in production in the organized industries, such as manufacturing, transportation, and the like. If you will look at the American Telephone & Telegraph index of production or the Federal Reserve index of production, you will find that it has fallen off in those industries nearly half.

Now, with the production off nearly a half, is it surprising that there are fewer goods for the people to use?

You can not divide products that are not turned out. It is utterly impossible. When you have a shrinkage in production you have a shrinkage in national income, and it makes the people poor. If limiting production, as some people advocate, would remedy the situation, we all ought to be tremendously prosperous at the present moment, because production has been limited in many fields by nearly a half. Yet most of us do not like the kind of prosperity that it has brought us.

We were told that if we limited production these accumulated stocks would disappear; but if you will look at the statistics you will find that the stocks are just as great as when we limited production. We are not getting anywhere in that line.

The next point that I would like to make is this:

As I said, we needed some correction. We needed a correction in the stock market in 1929, and we got it.

Mr. McCormack. Might I interrupt you there?

Doctor King. I shall be very glad to answer any questions that I can.

Mr. McCormack. What is the cause of underproduction? I want your opinion. I have my own opinion, but I want your opinion, as an expert, for the record.

Doctor King. The cause of underproduction is this vicious spiral in the curtailment of the purchasing power of the people that began when they ran out of credit, and has been continued by some other forces that I will describe right now, if you will allow me.

That answers the question temporarily, does it?

Mr. McCormack. Yes.

Doctor King. In 1924, as I stated a moment ago, we had a normal correction; that is, commodity prices get inflated a trifle during a boom, and they were inflated no more in 1929, in terms of commodities, than they were in 1927. We had another normal correction in 1927.

Now my contention would be that in April, 1930, when President Hoover called his conference here at Washington to consider ways and means of improving the situation, and when the business men gathered and told President Hoover that business was fundamentally sound—that there was nothing wrong with business; that the difficulty in the stock market had been corrected and that everything in the business world was sound, and there was no reason why we should not go ahead—I believe that they told him the exact truth. I think there was nothing wrong particularly with business at that time, any more than there was in the year before, or in the average year. The difficulty had been corrected. But there was another force at work which had not been corrected, and which was not taken into account by the business men or the economists who attended that conference; and that other force, the one that has been causing trouble ever since, was a shortage in the world's gold supply.

The gold supply of the world for the last decade or more has not been keeping pace with the increase in the volume of production and business in the world. Not only that but there has been an excessive demand for gold as compared to what there was before, because a number of different countries which had been on a paper basis tried to reestablish a gold basis, and when they tried to reestablish a gold basis they demanded gold for reserves. That strengthened, therefore, the demand for gold, but the supply was not keeping pace.

In the United States this difficulty was masked very nicely by the great inflation in bank deposits; and, as I said awhile ago, bank deposits are used as money just as much as any other kind of money.

So we had this large inflation of bank deposits, and also a great increase in the velocity of turnover of these deposits. People were checking them out rapidly at the banks, and that masked this shortage of gold that had been developing.

You will find that Professors Warren and Pearson, of Cornell University, in the February issue of Farm Economics, have pictured very clearly this gold shortage that has been developing.

Now, when panic seized the country in 1929, the people began to pay off their loans at the banks; not so much because they wanted to, but because the brokers said they must. As prices fell, the brokers called for more margin. The people could not put up more margin, and the result was that they were compelled to sell securities. That diminished the loans at the banks, and that caused prices to fall further, and the speculators had to put up more margin. They had to sell more securities. That process has been going on ever since.

We eliminated then all this excessive amount of bank credit which had been used for money, and we discovered the fact that there was a shortage of gold. That means that we have had a declining trend of prices—a very sharp downward trend of prices. Now, this downward trend of prices has made it impossible for business to prosper. There may have been periods in the world's history when business has prospered during a period of declining prices, but if there have been such periods, they certainly have been rare. I think that it is obvious to most of you who have engaged in business that profits are not made at such times. The manufacturer buys his labor and his raw materials on a higher price level; when he goes to sell his finished products he is down on a lower level, and he nets a loss in place of a gain.

We have had that process going on now for the last three years—continually falling prices, going down, down, down into the depths—a process not yet stopped. Under those circumstances it is not at all surprising that we find most of the corporations of the country in the red, and that we have probably the largest volume of umemployment that has visited the Nation yet.

I would say, therefore, that the reason that we did not recover normally in the latter part of 1930 and during 1931, but that we went down into the depths, was this gold shortage which produced falling prices in the United States.

Now, most people feel that that was unfortunate, but that there was nothing that could be done about it, it was just like a tornado or a flood, or something like that, and we would have to make the best of it. My feeling would be that such is not the case; that prices are determined by the standard of value, and the standard of value is purely a man-made institution. The result is that we can do anything that we wish with the price level. It is purely at the option of Congress. You can set the price level any place that you wish to put it. You can make it high or you can make it low. But that means that it is necessary to modify some of the traditions of the country if you are going to govern the price level to suit your taste.

In the United States we have as the standard of value the gold dollar; and the gold dollar is fixed in weight. It is the same yesterday, to-day, and forever. Although, the particular weight that is chosen, of course, is an accidental affair, people generally believed that we have a very stable standard of value. As a matter of fact, gold is not a stable standard of value, but it is an unstable standard of value. We have seen the value of the gold dollar, as measured in purchasing power of commodities, halved and doubled, all within the period since 1914. When a standard can halve in value or double in value, it certainly is not stable. We consider it a joke when we read that in the olden days they took as a foot the length of the king's foot, and used that as a measure of length; or the yard, which was the king's girth, and that, of course, varied according to the king, whether he was slim or whether he was fat. That seems absurd; but such a standard of value would not vary to anything like the extent that our standard of money has varied—this fixed weight of gold. Congress has power, I believe, under the Constitution, to regulate all kinds of weights and measures. They have long ago exercised this power, except in the case of regulating the value of money, and the value of money has not been regulated.

I think we might picture the present situation by an illustration something like this:

Suppose that we are all on a dirigible crossing the Atlantic, and there is a slow leak in the gas bags, and the dirigible has been coming down; it is night time, and we can hear the waves lapping along beneath our feet, and we know that if the dirigible comes down into the waves, it will be the end. Now, on board the dirigible there are a large number of tanks of compressed gas that can be used to fill the gas bags. They are available; there is nothing to hinder putting them into the bag, and if they are put into the bag it will rise to any height that is desired. But everyone says, "No; let us wait; in the morning the sun may come out, and if the sun comes out we may be able to tide over another day, because that will expand the gas. Of course we have the gas in these tanks, but why put it in the bags"? And the question arises, "Well, why not?" They say, "We know that it is too dangerous."

Mr. LEWIS. Doctor King, may I interrupt you there?

Doctor KING. Certainly.

The ACTING CHAIRMAN. Let me say, Doctor, that if you desire to yield to the members you may do so; if you do not, you may complete your statement and subsequently yield for questions. You have yielded to Mr. Lewis.

Mr. LEWIS. I am quite willing to defer it, if you wish.

Doctor KING. Perhaps I had better complete this picture, and then I will be glad to answer.

The question would arise, why not empty some of these numerous tanks of gas into the bag and lift the balloon up to the desired level? But some one will point out that in the past the tendency has been, in cases of this type, for people to get panic-stricken, and if one man turns loose a tank of gas into the bag, everybody else rushes in to do the same, and the result is that the gas bag goes up and up, and they say, "It is all fine; everything is going splendidly," and they put more and more gas into the bag, and finally it bursts, and that is the end of it in the other direction.

Now, I am willing to admit, and I believe that every one should recognize the fact, that if gas is to be put into this bag in an unregulated amount, it is certain to bring destruction. It can not have any other end. And that is what inflation does, if we propose to inflate this bag by a rather hit-or-miss, random method. That is the way it has been done in most countries of the world.

When it comes to a choice between inflation and deflation, we had better take our chances with deflation, because there is always a chance that the sun will come out. By the sun coming out I mean that we are likely to have a revival in the velocity of circulation. People are likely to regain confidence and put some money back into the banks, and we may get a rise. It is better to risk deflation than inflation. The only question is, why do we need to leave matters to chance? Throughout the history of our country, and throughout the history of other countries, the matter has been left largely to chance.

We have in the United States an organization known as the Federal Reserve Board, which has said that it has the control of the money system, and does not want anyone else interfering. They have made that very clear; that they want to be in control. They have been taking charge of this balloon recently, and they have been pumping gas into the bags with a small bicycle pump, and they have succeeded in pumping gas in at something like a half to a third the rate at which it has been running out, and the balloon has been going on down. Now, they say, "Just let us keep on pumping into the bags and it will be all right." If they are going to do that, they will have to get a bigger pump, because they have been pumping for more than two years and they have not pumped enough yet to keep it from going down, although they doubtless have helped somewhat.

Notice what has happened. They say, "You do not need more money in circulation; we have more money out now by far than we had in 1929." And that is true. We have about a billion dollars more in currency in circulation now than we had in 1929. They say that answers the question. Yes; but if you should happen to look at the statistics in the Survey of Current Business or the Federal Reserve Bulletin, showing what has happened to the major part of our money supply, the deposits subject to check, the demand deposits of the banks, you will find that during the last year those have fallen off by two and a half billions of dollars. And that is only in the member banks. I suppose, if you take all the banks, they have fallen off by three billions.

Now, suppose you put one billion more money into circulation and take three billions out. What is the net result? I think it is obvious. And the price level has gone on down because we have not put money into circulation as fast as we have taken it out.

My feeling would be that it is time to stop this whole hit-and-miss method of running our currency system, thus leaving the whole thing to chance. True that policy that has been practiced for thousands of years. We rode in oxcarts, as a race, for thousands of years; but now we use automobiles and airplanes. Why not get out of the oxcart age and substitute a scientifically controlled system of money? In connection with this gas bag, or this balloon, why not put a competent committee in charge of inflating the balloon, and say, "Now, we want to stay at an altitude of 2,000 feet. We will put this committee in charge and say to them, 'You stay on the job; you put in gas until we get to 2,000 feet; if we go above 2,000 feet, pump the gas back into the tanks; if we go below 2,000 feet, put some more gas into the balloon, but don't let everybody in the balloon that happens to have access to a gas-tank go and throw some into the balloon, and don't depend upon chance.'"

That seems to me to be the only way that we can prevent, in the future, the recurrence of periods of intense depression such as come whenever we have a sharp deflation in the currency. You know what happened in 1920 and 1921 when prices fell. You know what is happening now. If we want to prevent trouble, we must have a stable price level.

I am not saying that a stable price level will cure all of the ills of humanity. Obviously it will not; but if we can cure one of the most obvious ills, it seems to me that we should do it.

I believe that it is not at all exaggerating to say that the instability of the price level, the failure to provide a scientific control of our currency, has resulted during the past two years in a loss of more than a billion dollars a month in production; a dead net loss to the people of the United States of more than a billion dollars a month.

That is a very considerable sum of money. If I were inclined to exaggerate, I would say that it is probably nearer two billions than one; but we will leave it at one billion. If we are having a net loss in production of a billion dollars a month—all because we do not have a scientifically controlled price level—it is something that is well worth considering.

Now, if we put more money into circulation and raise the prices to the level that prevailed, we will, say, in 1926—we had a fairly stable price level between the years 1923 and 1929, with only small fluctuations—if we boost the prices up to that level and keep them there, what will be probable result? I understand, of course, that it is impossible to predict anything with certainty. It is only a question of probability. The probabilities are that if the prices are restored you will eliminate most of the difficulties from which our banks are now suffering. We have all witnessed the tremendous number of bank failures that have occurred in the United States during the last two or three years, and we have been told that it was because our bankers were not expert bankers. I think that the bankers are not to be blamed for nine-tenths of those failures, in one iota. They were good bankers; they were banking on sound principles; but because of the difficulty with the value of gold—something over which they had no control—the value of the collateral behind their loans melted away, and the banks failed, causing disaster not only to the depositors but to the bankers themselves.

Why blame the bankers for something for which they were in no sense responsible? If you restore the value of the collateral, you restore the safety of the banks. You restore the safety of the savings banks as well as the commercial banks; you restore the safety of the life insurance companies, which is, of course, seriously endangered by this falling price level; you make it possible for manufacturers to make profits, and when manufacturers begin to make profits they will want to employ more labor, and when they employ more labor you will increase the national income, and you will certainly add to the happiness of every one concerned.

Most of the difficulty with deflation has been that it has brought a net loss to almost everyone. It has not been taking money out of the pockets of one class of people and putting it into the other. It has done that to some extent, but primarily it has slowed up production and brought a net loss to almost the entire body politic. Very few have escaped. If you endeavor to look for the man who has made money by deflation, you will find that he is an extremely rare individual.

Next the question comes with regard to this bill that is before the committee, to pay money out to the soldiers as a bonus.

What does that accomplish? It would undoubtedly, if paid in the form of new currency, mean that the purchasing power of the public would be increased, and that would tend to stimulate business and tend to bring about these results that I have mentioned. You will notice that we had a shrinkage of very much more in the volume of the circulating medium than the amount which it is proposed by this bill to put into circulation. Probably two or three times as much, so that the amount of money which is proposed to be put into circulation by this bill would probably just start us back nicely on the way.

I feel that it might be well to picture what you do when you put money into circulation, as compared to bonds. Some time ago the soldiers were paid a considerable amount of money, but it was taken by borrowing or taking it out of tax money. When you borrow money by issuing bonds, or when you levy taxes, you take the money away from one class of people and give it to another class of people. That does not affect the price level one way or the other. It does not have any tendency whatever to restore business.

It is merely taking it out of one pocket and putting it into another, so far as the Nation is concerned.

When you put money into circulation, you tend to raise the price level and that does affect the total purchasing power. You are making new purchasing power.

Now, what I think we need to have done is to substitute more circulating debt for the noncirculating debt which the Government has at present. That is, we owe large sums of money, from eighteen to twenty billions of dollars and this amount that we owe in terms of bonds does not affect the price level at all, because these bonds do not circulate.

If we wish the price level to go up to any particular point, all that we have to do, is to substitute circulating debt for noncirculating debt. If we want the price level to go down, why, pull in the circulating debt and put out the noncirculating debt.

That is, if you want to double the price level, you could do it without any difficulty in a very short time by issuing money to buy bonds;

buy in the bonds and put out the money and you could put the price level to any place you wished.

If you wanted to put the price level down, you would sell the bonds, bring in the money and retire the bonds. That would put the price level down. So that regulating the price level is a very simple process.

This soldiers' bonus payment, as I understand, is intended not to add to the total expenditures, but to pay off the debt that has already been contracted by Congress. In so far as that is true, it would be carrying out this proviso of substituting circulating debt for noncirculating debt, and would tend to raise the price level and would not affect the indebtedness of the Government.

There is another thing, however, that seems to me to be important. I understand—I have not read this bill in detail, but I understand that it is proposed to pay the soldiers the amount that is due to them in 1945. Perhaps I am in error about that.

Obviously, the present worth of payments due in 1945 at a normal rate of interest would only be about half as much as the payments would be worth in 1945. That is, a dollar in 1945 is only worth about 50 cents at the present time.

I should think that with the Government in financial difficulties, it would not be wise to incur any additional expenses. It seems to me that the Government should not go into debt more, and that it should not pay more than the present worth of any of these certificates. That would seem to me to be a perfectly sound procedure, to substitute circulating medium for noncirculating medium to the extent of what the indebtedness is at the present time, but not to the extent of what the indebtedness would be in 1945.

Now, I think that if we stopped by merely putting out money to cover this bonus, that would not be the proper action at all. What we need is a scientific control of the currency. You ought not want to go just part way. That is the old method. It is very likely to lead everybody else to say, "We also want a grab at the Treasury," and you will likely bring a disaster much worse than the present. If you are not going to couple this measure with a scientific control of the currency such as, for example, is provided in the Goldsborough bill now before the House, then I would say that it is a dangerous thing to embark upon; because I can see immediately somebody else will want $5,000,000,000 for roads and somebody else will want $10,000,000,000 for unemployment and there will be no end to the demands to put out money.

The easy-money method is a very bad method, but if you are going to make this merely one step in the scientific program of regulating the price level, so that hereafter prices will remain at this level and not go up and down, and up and down, I think that in that case this might be a satisfactory beginning. But I think it is imperative that it be coupled with thorough control so that there will be no chance whatever of running into a period of inflation, because inflation is decidedly worse than deflation. Somebody has coined the word recently "reflation." That seems to be a very good picture of what is wanted. We want to bring the prices up to the level prevailing two or three years ago and keep them there.

I believe that summarizes the main ideas that I wish to present.

Mr. Lewis. Your view, Doctor King, accepts to the degree of 100 per cent the quantitative theory of money and prices, does it not?

Doctor KING. I fully indorse the modern quantitative theory, not the old fashioned quantitative theory; the modern theory, yes.

Mr. LEWIS. In your statement, you present the view that prices and the quantity of money are reciprocal.

Doctor KING. That is roughly true.

Mr. LEWIS. So much so that you can use the pressure of the atmosphere and the volume of the vessel that is to float in it, as you would in physics?

Doctor KING. Very much the same principle; yes.

Mr. LEWIS. Do economists generally accept that view, Doctor King?

Doctor KING. About 80 or 90 per cent do.

Mr. LEWIS. They do?

Doctor KING. Yes. There are a few economists in the United States who do not, but they are rather rare.

Mr. LEWIS. I have no purpose of presenting an argument in taking up this phase of the matter, but I want your views on the subject. Suppose it were to happen that the cost of production of a large proportion of commodities should fall by reason, not of a change in the quantity of money in circulation, but by reason of a change in the mechanization of industry by invention, by engineering efficiency. There would be a fall of prices there without regard to the amount of currency in circulation, would there not?

Doctor KING. There would be a fall in prices of those particular commodities, but a rise in the prices of other commodities. If the cost of production of a given group of commodities falls, that means that the purchasers of those commodities need to spend a smaller proportion of their income than they did formerly to buy those commodities. That is, if I had an income of $2,000 a year, and had been buying these commodities for $1,000, and their cost of production falls, I would then pay, say, $800 for those commodities and have $1,200 to buy other things. That will immediately stimulate the demand for the other things, because I will want to buy $1,200 of something, and the tendency will be for the other things to rise in value.

Professor Fisher has used this illustration which I think is very appropriate. He says that we can think of the general price level as being the level of a lake that is controlled by locks at the entrance and the exit. We can think of the individual prices in the lake as being the waves on the surface of the lake. Now, if you have a heavy windstorm, you may pile up one area of the lake on one side, but you will reduce it by an exactly equal amount on the other side. You will have high waves, that represent high prices of some commodities, but they will be balanced by an exactly equal diminution elsewhere.

So that you can not affect the average level of the lake by any degree of wind on the lake, or by any unevenness of the cost of production of various things. But if you change the lock gate, that means the amount of money that you are putting in in proportion to the needs of business, then you will affect the level of the lake and all the prices tend to rise or fall, not that they all will rise and fall in the same proportion.

Mr. LEWIS. That assumes, however, that all the income of society, wages, profits, and so on, will be spent each year either on consumable goods or in capital investment or capital construction. Is that a fair assumption at all?

Doctor KING. I think that is a reasonably fair assumption; yes. Of course, it is not true of any particular year, but it will be true on the average over a period of two or three years. The money we say we save we spend for capital improvement. That is, if we put it in the bank, the bank loans the money to some one else who proceeds to improve his business, and so we invest it, without our knowing it, perhaps, in capital improvements. If we think we are spending it, then we are spending it usually for consumption goods.

Mr. LEWIS. Was it not supposed to be true even in 1929 that not more than 75 per cent of the production agencies in this country were employed? In other words, 75 per cent only of the floor capacity was active, even in that alleged prosperous year. If you already have such an excess of industrial machinery, where are these savings to go that are not expended on consumable goods?

Doctor KING. My feeling about that would be that it is true that there was a considerable excess of capacity in 1929 and there always has been and always will be under a competitive system. I can think of no way of remedying that except to adopt a socialistic system. That has other difficulties, as you well know, that tend to offset the benefits. But under a competitive capitalistic system, every man is always trying to take advantage of the market at the expense of his competitor. Unless he has a complete monopoly in the feld he says, "Why, I am going to get this business," and when he has a good year, he builds more plants than he needs. When the other fellow happens to have a good year, he builds more, and so there is always a tendency to overbuild. That situation is impossible to remedy under a competitive system. You are bound to have always an excess of plant. You have just about enough in every particular line so that all are busy at the peak of the boom. Each employer will build up to that point in his own particular line. I can not see how he can avoid it.

Mr. HAWLEY. Doctor, I have been giving very close attention to your statement. This committee has recently reported legislation for an increase in taxation to balance the Budget.

Doctor KING. Yes.

Mr. HAWLEY. Do I infer correctly from your argument that it would have been better if the Government had issued some form of paper currency to balance the Budget in 1933 rather than try to collect taxes for that purpose?

Doctor KING. I think that I would answer that with a yes and a no. It would have been better for the public welfare to have issued paper currency, except for the very dangerous precedent that it would set, and that precedent is so dangerous that I am dubious about the whole idea. It has been tried in so many countries and it has worked very disastrously. I would think it was a very dangerous thing to do.

I think that the more scientific method is for the Government, when it wants to put more currency in circulation, to buy with the currency something that it can have to sell again when the occasion arises. So that if the price level rises too high it will always have something to sell to get the money back. That is, I do not think it is wise to issue paper money to pay current expenses. I think it permissible to issue new currency either in the form of paper money or credit as a substitute for other indebtedness, but I doubt that it is ever advisable to issue it for current expenses.

Mr. McCormack. In other words, Doctor, so far as I understand, it is your opinion, or am I to infer from what you say that it is your opinion, that in the event of the expansion of the currency as contemplated by the discharge of this obligation to the veterans, it would be better for the Government to issue bonds and then buy the bonds themselves; if the Government had these bonds and later the price level had increased too greatly, it could sell sufficient of the bonds to the general public to maintain the price level at a point where it is for the best interests of American society?

Doctor King. I should think that would probably be the more scientific way of attacking the problem.

Mr. McCormack. Rather than issue currency to discharge these adjusted-compensation certificates, which, of course, could not be reissued?

Doctor King. Yes. I should think that would be a more scientific method; yes, sir.

Mr. McCormack. May I ask you to state for the record your background and experience as an economist? It might be important. Of course, we all know of your standing as an economist. I am not intending to cross-examine you on your qualifications, but some one reading the record in future years may want to know. The record stands long after we do.

Doctor King. Yes. I began teaching economics in the University of Wisconsin in the spring of 1910. I have been engaged in teaching economics or studying economics since that date. I taught in the University of Wisconsin in the economics department, economics and statistics until 1917. Then I was statistician in the United States Public Health Service, studying the economics of pellagra down in South Carolina until 1920. From 1920 until 1928 I was economist for the National Bureau of Economic Research at New York, studying questions relating to the income of the people of the United States, most of the time. That was my prime job and also incidentally I studied questions of employment and earnings of labor, and several other things of minor importance in that connection.

Since 1927—there was a lap-over there because I had both positions for a while—since 1927 I have been in charge of the work in statistics at the School of Commerce at New York University and I have been continuing on the side investigations into money and that sort of thing, while I have been there. I have been interested in the money question ever since I can remember. But I have been studying it rather seriously since about 1911.

Mr. McCormack. Have you an opinion as to whether or not a reasonable expansion of the currency under existing circumstances is necessary for the purpose of reflation?

Doctor King. I should think it was highly important to have a reasonable expansion of the circulating medium, either currency or bank deposits. It seems to me that there is nothing that is more important at the present time than that. That would be my opinion.

Mr. McCormack. In answering that question, you have the general interests of the people throughout the country, all elements, all classes, in mind. I assume that is the object, to serve the best interests of American society in general. You have that in mind?

Doctor KING. Yes. I think that it would benefit 90 per cent of the people of the United States, to put it mildly, and probably more that 90 per cent.

Mr. McCORMACK. Your discussion to-day was on the fundamental question of a reasonable expansion of currency for the purposes of reflation?

Doctor KING. Yes; you understand, I have no interest whatever in the particular legislation, except in so far as I am a citizen of the United States, and we are all interested in it from that point of view.

The ACTING CHAIRMAN. Doctor, I would like to ask you one question. You stated, and I think correctly, that a dollar in 1945 is not worth as much as a dollar in the hand to-day?

Doctor KING. Yes.

The ACTING CHAIRMAN. And you place the present cash value of the dollar due in 1945, but payable to-day, at about 50 cents?

Doctor KING. It would depend on the interest rate; something like that.

The ACTING CHAIRMAN. Of course, it depends on the discount rate?

Doctor KING. Yes.

The ACTING CHAIRMAN. I was taking your figures. You said it would be about 50 cents on the dollar?

Doctor KING. Yes.

The ACTING CHAIRMAN. A large majority of the veterans have borrowed 50 cents on the dollar, on the face value of their certificates due in 1945. What is your idea about this? If there should be an inflation to the extent of 50 per cent of the face value of the policies due in 1945, what relief under this bill would be granted to those veterans who have already borrowed 50 cents on the dollar on the face value of their certificates, and what do you think Congress should do, if anything, for those veterans?

Doctor KING. I have not gone into the actuarial side of this in detail, but it seems to me that it should be figured out on a purely banking basis, that if a man has borrowed, the loan should be deducted from the amount that would be paid to him, unless you want to legislate to increase the bonus to the veterans. I see no reason why the amount should not be deducted, on a perfectly square banking basis.

The ACTING CHAIRMAN. Then where a veteran has received 50 cents on the dollar, of the face value of his certificate in 1945, if that is the amount at a reasonable rate of interest, he should not be given any additional relief at this time?

Doctor KING. It would seem to me that he had already received the value of his payment in 1945. If it was worth about 50 cents and he had received 50 cents, I should think that he was paid off, to all intents and purposes.

Mr. SANDERS. You stated to Mr. McCormick, Doctor, that you thought a reasonable expansion of the currency at this time would be a good thing?

Doctor KING. Yes.

Mr. SANDERS. I want to ask you, what do you call a reasonable expansion? Do you think $2,200,000,000 that is called for in this bill would be reasonable?

Doctor KING. I would suppose that it would probably take considerably more than that to put prices back to the 1926 level.

The scientific idea would be to put prices back to the place that represented the weighted average of all our outstanding obligations at the present time.

I am not sure just where that would be. I would guess it would be very close to the 1926 level. The contraction in the volume of banking currency since that time has been very much more than $2,000,000,000. I would suppose that it would take more than that to put the price level back; I do not know how much it would take, because—and this would bear on Mr. Lewis's question—experience in different countries shows that the amount that the price level moves in proportion to a given issue of currency differs. That is, you can not say that if you increase the currency of a country 10 per cent prices will rise 10 per cent. They may rise 7 per cent or they may rise 12 per cent or 14 per cent. There are a great many variables. True, you can always say that if you increase the circulating medium of the country prices will rise, if you increase it rapidly. But how much they will rise for a given amount of increase is a question that I think you could not answer in advance.

Mr. McCormack. Doctor, Mr. Crisp asked you a very pertinent question and the question and your answer brings another thought to my mind. The present law which provided for the adjusted-service compensation certificate payable in 1945 was passed, as I remember, in 1924, and went into effect in 1925 and each veteran was to get a dollar a day for domestic service and a dollar and twenty-five cents a day for service overseas, with a certain maximum number of days which, with the interest compounded to 1945 brought the total amount of the certificates on the average to approximately $1,000 each. The interest started to run from 1925.

The war was over November 11, 1918. The veterans, of course, get no consideration for interest from November, 1918, to 1925.

What would be your opinion as to whether he is entitled to interest in the interim? Should we withhold from him that interest, or might the committee as a matter of equity and justice properly consider that or include it in determining our course of action?

Mr. Hawley. Will my colleague yield?

Mr. McCormack. Yes.

Mr. Hawley. There was added to the amount computed on the service at home and abroad an additional 25 per cent to determine a base on which to issue the adjusted-service certificates to take care of that interim.

Mr. Hill. Mr. Chairman, as I understand it, the bill now before the committee eliminates that 25 per cent provision.

The Acting Chairman. Doctor King has not as yet had an opportunity to answer Mr. McCormack's question.

Mr. McCormack. My question was as to that seven years of interest, from 1918 to 1925, when interest under the law commenced to run on this 20-year period.

Doctor King. I am afraid when it comes to asking a question of what is just to the soldier I am in no better position than any other person in expressing an opinion, because I am in no better position than any one else to answer that query. Justice is in this case a matter of feeling. Perhaps they should have had ten times as much as was given to them. I have no argument one way or the other. I was viewing it merely from the standpoint of the fiscal policy of the Government and not at all from the standpoint of justice.

Mr. McCormack. If it is a debt, the obligation occurred on November 11, 1918, when the war ceased, or at least when the period of service which was taking care of it in the adjusted-compensation certificates ceased.

Doctor King. Of course, we may have been morally indebted to the soldiers ten times as much as we have paid them. But the Government did not recognize the debt until a later date. That was merely a new contract.

Mr. Watson. Doctor, you made the statement that a year or two ago our incomes amounted to about $90,000,000,000. But they have all now been decreased. For example, let us say they have decreased $10,000,000,000. What has become of the $10,000,000,000 that has been taken from our incomes?

Doctor King. The income of the people is made up of the stream of goods and services that is turned out. Now, what has become of it is that it has not been turned out. Our factories have been idle.

Mr. Watson. Where is the cash? Where is the money? That is what I want to know. What has happened to the money that was taken from your income and from mine? Where is it?

Doctor King. The money value of the goods has decreased primarily because of the curtailment of the volume of purchasing power, a curtailment due to the paying off of the indebtedness at the banks.

Mr. Watson. But there is just as much money in circulation now, is there not?

Doctor King. No, not when you count bank money. There are several billion dollars less, probably four or five billion dollars less in circulation.

Mr. Watson. It is in existence somewhere, is it not?

Doctor King. No. Most of our work is done with these bank deposits subject to check and those are created as new debts are incurred and new deposits grow up, and as the debts are paid off, they disappear.

Mr. Watson. What has become of the money that has been issued by the Government?

Doctor King. The money that has been issued by the Government has increased in amount, so that we have more Government money in circulation than we had before. That does a relatively small part of the work of the country, but there is more of that kind of money than there was before.

Mr. Watson. Your philosophy is to get that money back into circulation, is it not?

Doctor King. That would be my philosophy; yes, sir.

Mr. Watson. As our incomes have been decreasing, our taxes must be increased in the next year or two, 1933 and 1934, to meet this $2,000,000,000 payment, if we make it to the soldiers, because that money must be paid within the next few months?

Doctor King. Yes.

Mr. Watson. Do you believe that our taxes should be increased to pay the soldiers, although our incomes have decreased? If you followed that out, where would we land?

Doctor King. We have already agreed to pay certain debts.

Mr. Watson. But they are not due. If I agree to pay a debt in 1945, they can not collect it from me to-day.

Doctor King. No. If we substitute one kind of a debt for another, we are neither better nor worse off than we were before. I would say that is about all that I think we should do, to substitute one kind of a debt for another. I do not believe it would be advisable to raise taxes at the present time. It seems to me that what we want to do is to raise the incomes of the people so that it will be easier to collect the ordinary amount of taxes rather than to increase taxes.

Mr. WATSON. That has been the effort of the people since the world commenced, to increase our incomes.

Doctor KING. Yes.

Mr. WATSON. If you are able to point out how to do that, I think you have done a great service to the country.

Mr. CROWTHER. I do not know that you made the statement, but the statement has been made of the return of industrial activity resulting from the distribution of this $2,400,000,000 of currency. How permanent do you think that return will be, or would it be only a temporary matter, a flash in the pan? How long do you think that business renewal would last? For instance, we had a distribution of a billion dollars and some last year.

Doctor KING. Yes.

Mr. CROWTHER. That was calculated to do that. Do you think it had any appreciable effect upon the revival of business in the country?

Doctor KING. I think it had practically no effect, because it was merely money taken away from one class of people and given to another.

I can not answer your question with any degree of certainty, but I feel that we are down in the dumps now very largely because of the pessimism prevailing and in times of pessimism everybody expects things to get worse, because they have been getting worse. I believe it is highly probable that if you can turn the price level up, that the people who have been waiting to buy until the time when prices are lower, will want to buy now and that that will increase the volume of orders; that that will tend to make the people more optimistic, and any procedure which tends to turn this downward trend of prices upward is likely to mark the end of the present cyclical depression and probably would give us prosperity for the next two or three years.

That would be my guess, but you can not speak with precision on any of those things.

Mr. CROWTHER. Just one more question. You spoke about the depression of industry in this country, and of course, we have got factories of all types and kinds closed; no pay roll.

Doctor KING. Yes.

Mr. CROWTHER. We are increasing certain imports at our ports of entry. I have letters on my desk regarding pottery, crockery, rugs, glassware, gloves and textiles, toys, oil, and copper. Our imports have fallen off to a marked degree, but not anywhere near the percentage that our domestic production has fallen off, according to the records. Do you think there is a tendency during periods like this, and more especially with a depreciated form of currency, to increase those imports into the country because the demand of our people in hard times is for the attractive low-price materials that come into the country? It appears to me that on the store counters everywhere I go there has been a lowering of the grade of materials and there is a lot of trashy stuff priced attractively at low prices, and with all of that material at low prices, the people who are manufacturing in this country complain that they can not possibly compete under present conditions.

Doctor King. I do not know about the facts in that particular case. My feeling is that in general the changes in the value of currency abroad have practically no effect upon the volume of trade. I studied several years ago the effect of inflation and deflation on the trade of Germany and France, and I could not see that the change from one price level to another had any consistent effect. Sometimes it seemed to increase the volume of foreign trade and sometimes it diminished it. I do not think you could tell what was going to happen in advance by the change in the volume of currency.

Mr. Crowther. Is it not a much more attractive proposition, if a 45 per cent ad valorem duty against England has been reduced to a 30 per cent ad valorem duty on the invoice, to bring that merchandise in under those circumstances?

Doctor King. Yes. A reduction in the duty would, of course, make it more attractive to bring the goods in.

Mr. Crowther. The ad valorem duty is affected. Specific duties are only affected by volume or lack of volume.

Doctor King. Yes.

Mr. Crowther. That is where we lost at the customhouse. But if the ad valorem duty that averages 45 per cent against Great Britain is only equal now to about 30 per cent at the customhouse, we lose at the spigot at the customhouse and we lose at the bunghole by bringing the stuff in here to displace materials that our people ought to be manufacturing.

Let me give you an example. A great hotel in New York a few months ago put out bids for glassware for that hotel, tumblers, pressed glass, vases, decorative work, running into the several hundreds of thousands of dollars. Two or three American concerns bid on it at a margin of profit just above overhead, in order to keep their men working. They were outbid by firms in Czechoslovakia and Belgium, 15 per cent, including transportation and tariff. They gave the order to the two foreign concerns for that glassware. Our glassworkers are working two days a week in this country.

Doctor King. I would be glad to go into a discussion of the tariff with you, but I feel that that would take me another hour or so.

Mr. Crowther. I just wanted your viewpoint on that. I want to ask you another question. Senator Thomas the other day in discussing the Patman bill said that if the Patman bill passes—and you are acquainted with the Patman bill; it provides for the issuance of $2,400,000,000 worth of Treasury notes?

Doctor King. Yes.

Mr. Crowther. If the Patman bill passes, Treasury notes comparable to greenbacks to the extent of $2,400,000,000 would be issued and they would drive out of circulation Federal reserve notes.

Further on he says, if you put into circulation a different kind of money from the Federal reserve money that money will drive out of existence the Federal reserve money.

What have you to say about that?

Doctor King. I think that it might drive out of circulation the Federal reserve notes, but I believe that it would at the same time increase the volume of deposits subject to check. That is the relationship between the volume of hand-to-hand money and bank deposits seems to be determined by the needs of trade, and I believe that you would increase the bank deposits while you diminished the supply of notes, in all probability.

Mr. CROWTHER. Let me understand you. I have listened very carefully to your testimony and enjoyed it, because you have covered the field very clearly. I think you are going to leave the witness stand leaving a lot of us up in the air as to whether or not you are for this proposition or against it. Do you think that this is a wise thing to do at this time—this issuance of $2,400,000,000 worth of Treasury notes? Do you think it is a wise thing to do? Do you think it is a safe thing to do, or are you only objecting to it for fear that the precedent might be extended into other fields? Do you think we could just adopt this plan and be safe so far as the issuance of fiat money is concerned, and I call it fiat money in spite of the suggestions that are constantly made that it is not fiat money?

Doctor KING. As I stated before, I think it would be highly inadvisable to adopt this bill without tying it up with a definite stabilization measure such as the Goldsborough bill. I would not be in favor of doing it unless you tied it up with that. If that were done, I do not see that it would be a dangerous thing to adopt.

Mr. CROWTHER. Do you think that the method suggested in the Goldsborough bill could be followed without international conferences? Could the United States undertaks to stabilize the value of the gold dollar as against commodity prices in 1926 alone? Could we undertake that without disturbing American values in other parts of the world?

Doctor KING. I think it is highly uncertain as to whether the United States alone can stabilize the value of the gold dollar of present weight and fineness. Perhaps it can and perhaps it can not. It is a moot question, which nobody can answer in advance.

The Goldsborough bill provides, among other things—and it is one of its most important provisions—that the American Federal reserve banks shall be empowered in case of necessity to change the price of gold, or to change the weight of the gold dollar. In that way they could protect their reserves, and would be perfectly safe. Without that proviso, there is no telling what would happen, whether you could carry stabilization through without the aid of other countries or with the aid of other countries.

I think we could do it alone just as well as with the aid of other countries, but I am not at all sure that you could stabilize prices and maintain the weight of the gold dollar.

Mr. CROWTHER. Thank you.

The ACTING CHAIRMAN. Gentlemen, I want to call your attention to the fact that this witness has been on the stand an hour and a half.

Mr. LEWIS. Mr. Chairman, I desire to ask a question which I hope can be answered briefly.

What are the reasons for supposing that this currency issue would drive out of circulation the Federal reserve notes? If your reasons are brief, answer the question, but if they have to be extended, I will not ask you to enter into the discussion.

Doctor KING. They will be very brief. Experience seems to indicate that the people like to utilize about a certain proportion of paper money and a certain proportion of bank deposits in their word. That tends to be a rather constant ratio. When you get too much money in your pocket, you take it down to the bank and convert it into bank deposits. So that such conversion would occur if there were an excess of paper money. You would not carry around only a certain amount of money, in your pocket.

Mr. HILL. Doctor, as I understood you, the falling prices that we are now experiencing were due primarily to a gold shortage?

Doctor KING. I should think, primarily; yes.

Mr. HILL. Is that a world shortage of gold or a shortage of gold in the United States?

Doctor KING. A world shortage.

Mr. HILL. The shortage of gold in the United States did not influence it?

Doctor KING. We have plenty of gold in the United States. It is a fall in the world price level, as you have observed; not only in the United States price level.

Mr. HILL. I understood you further that we have now $1,000,000,000 more currency in circulation than we had in 1929?

Doctor KING. Something like that, I believe.

Mr. HILL. I thought I understood you to say that while there was a billion dollars more currency issued by the Federal Treasury, there was actually a shrinkage or a recession or a withdrawal of currency to the extent probably of two or three billions of dollars in other quarters; that is, Federal reserve notes and I take it Federal reserve bank notes; is that right?

Doctor KING. No; I mean in bank deposits subject to check. You and I and all of the people that we know pay most of our important obligations with checks on the bank. That bank money does most of the money work of the country. Probably 80 per cent of it is done with these bank deposits subject to check. This volume of bank deposits with which we do most of our money work has been shrinking two or three times as fast as the volume of actual money has been increasing in amount.

Mr. HILL. Why has that been shrinking, if we have more currency in circulation? Why would that shrinkage occur.

Doctor KING. Because of the fact that people have by compulsion or otherwise paid off their indebtedness to the banks. Bank deposits are created by borrowing money at the banks. The people have been paying off these loans. The bankers have been afraid to loan on anything except the most gilt-edge security, for fear that they will never get their money back.

Mr. HILL. In other words, the banks have the money, but not as deposits?

Doctor KING. The cash is in existence in the banks and in circulation partly because of the fact that people have been afraid of the banks and have carried more cash than usual. That is one of the main reasons why the currency has expanded $1,000,000,000.

Mr. HILL. I would like to ask you just one more question. There have been two plans presented here for the payment of this bonus and through the increase in the currency without the issuance of bonds?

Doctor KING. Yes.

Mr. HILL. Mr. Patman's bill provides for the issuance of Federal Treasury notes based upon the gold reserve now in the Federal Treasury. Senator Thomas's bill proposes, as I understand, to pay this money to the soldiers through the issuance by the Federal Treasury of what he calls consols, to be deposited with the Federal reserve system on the basis of which Federal reserve bank notes shall be issued for circulation. Which of the two plans, in your judgment, would be the more wholesome for the country?

Doctor KING. I should think that whichever plan would tend best to prevent other issues of money for current purposes would be the best one, and probably that the plan of issuing some kind of bonds would make it more apparent that we were going into debt rather than issuing the money. That would be the only difference that I see. It is a question of which will make it more apparent that we are going in debt.

Mr. ALDRICH. There is really not a very great difference in the practical effect of the two plans, is there, as far as affecting our currency is concerned?

Doctor KING. I do not think so.

The ACTING CHAIRMAN. Doctor King, we thank you for your presentation.

Doctor KING. Thank you for your attention, gentlemen.

Mr. STEMBER. Mr. Chairman, there is a delegation here that was supposed to go on to-day. I believe I did ask Mr. Patman to introduce that delegation of the Workers' Ex-Service Men's League.

The ACTING CHAIRMAN. The gentleman is out of order. I am going to try to give you a hearing if you behave yourself decently. Otherwise you will not get a hearing at all.

Mr. STEMBER. We are sticking strictly to the program——

The ACTING CHAIRMAN. You will be in order or I will take steps to see that you are put in order.

Mr. STEMBER. When will we get the floor?

The ACTING CHAIRMAN. If you behave yourselves you will get the floor, and if you do not, you will not. I will instruct the clerk to send for a policeman. I am going to have order in this room or know the reason why.

Mr. PATMAN. I desire at this time to introduce Mr. Robert Harriss, a resident of New York City, although a native Texan. Mr. Harriss is in the commodity commission business, the largest business of its kind in the world. He is also a cotton merchant, has large investments in farm and ranch lands in the South and Southwest. He is a man who has a good international reputation as an economist.

I take pleasure in introducing Mr. Harriss.

The ACTING CHAIRMAN. We shall be glad to hear him.

STATEMENT OF ROBERT M. HARRISS, NEW YORK CITY

Mr. HARRISS. Mr. Chairman and gentlemen, you can not pay a dollar debt with 30 cents. That is exactly what the American people are trying to do in this year of 1932. The approximate $150,000,000,000 debt to which as a Nation and as individuals we are committed was piled up when the dollar would buy about one-third of what it will to-day. To-day, at the present valuation of our money, this $150,000,000,000 now totals, to all practical purposes, $450,000,000,000.

In the final analysis, gentlemen, it is not gold or currency that pays debts. We have not lost our intellectual equilibrium to the extent that we refuse to recognize that gold and currency is merely the ambassador of wealth. Real wealth is identified with labor and with what comes out of the ground.

Now, when most of the obligations, represented by the $150,000,000,000 to which I have referred, were acquired—cotton, wheat, corn, oats, cattle, poultry and eggs, lumber, copper, silver, and so forth—these commodities were selling for two, three, and four times what they are bringing to-day.

When I first heard of the proposed bill to make immediate payment of the $2,400,000,000 worth of adjusted-compensation certificates, I must frankly admit that I was opposed to it. At first glance it occurred to me that although this was an existing Government obligation to be met in 1945, nevertheless this was not the proper time to pay it. This conclusion was arrived at because I thought it would increase our taxes and place an unbalanced burden upon the weakened structure of our National Treasury.

However, after having given this matter deeper study, after having discussed it with the many business men whose opinions I value highly, I arrived at the conclusion that it is most advisable that this $2,400,000,000 balance of the so-called soldiers' bonus be paid immediately. Among those men whose opinion I value highly is Mr. George LaBlanc, retired banker of New York. I understand Mr. LaBlanc will later testify in connection with this bill and I know he is better qualified to explain its advantages from a broad economic banking point of view.

Gentlemen, I make this statement not only to assist the ex-soldiers of our Nation, but rather do I make it because primarily and fundamentally the immediate payment of this so-called bonus will redound to the benefit of every American citizen.

Following are the chief advantages which I see in making the immediate payment of this so-called bonus:

First. It will not only bring to a halt this devastating and ruinous deflation, but it will create a rise or enhancement in values of all kinds. Cotton now selling at 5 cents per pound; wheat at 40 cents per bushel; corn at 30 cents; oats at 15 cents; as well as cattle, lumber, oil, copper, silver, real estate, sound stocks will all rise rapidly in value.

Second. There will later follow an equitable and fair revaluation of the dollar that is bound to follow sane legislation which will put $2,400,000,000 in circulation.

Third. This increase in circulation will tend to bring out of hoard the hundreds of millions of dollars which people have hidden away because they are afraid either to spend or to invest. Naturally when these people see values stop declining and start rising, they will quickly avail themselves of the opportunity to buy and to invest.

Fourth. It is the only way, in my opinion, that our National, State, city, and county governments can balance their budgets, as properly controlled inflation will not only reduce their external obligations but will also reduce our taxes. In this connection it is well to bear in mind that in 1914 our national debt was $1,018,000,000 and the national Budget approximately $1,000,000,000. Even in those days, when commodity values were far higher than those existing to-day, we had no easy time paying taxes, and this year, 1932, our national debt is approximately $17,000,000,000, or approximately seventeen times greater than it was in 1914. Our National Budget to-day is approximately $4,000,000,000; or approximately four times what it was in 1914. Gentlemen, this, in simple figures, tells the story why we must come to some form of inflation or revaluation of the dollar to meet these stupendous debts.

Fifth. It will probably promptly lead to an embargo against the exportation of gold and to the temporary suspension of gold payments. During the past seven months we have permitted foreign nations to take out of our country actual gold totaling approximately $800,000,000 while at the same time these same nations are not meeting their obligations to us, and are even discussing the total cancellation of their debts to us.

Sixth. This embargo against the export of gold will be of the greatest assistance in enabling our foreign debtors to pay us. With the revaluation of our own dollar so that it will be on a more equitable basis with foreign money it will be possible for France, Germany, Italy, and England, and every foreign debtor to pay us what they owe. These countries did not borrow actual gold from us, but they borrowed raw materials and products at prices, two, three, and four times as much as those existing to-day. Therefore, we are actually trying to force them to pay approximately $90,000,000,000 against the $30,000,000,000 in values that they borrowed.

Seventh. In its final analysis the immediate payment of the so-called soldiers' bonus will lead to a more equitable distribution of the wealth of our country in an orderly and legal manner. It is apparent, and as statistics show, the wealth of our country has become concentrated in the hands of too few people.

Gentlemen, for the past five weeks we have witnessed the constant decline in the prices of stocks on our market. Let us not be led astray on some futile "bear hunt" as being the cause of the most serious situation existing to-day. Mr. Whitney appeared before officers of this Government to be questioned whether or not this decline was being manipulated by dishonest men. His evidence was to the contrary. According to him the decline was not created by bear raids, but due to the fact that the American people, having lost confidence in American values, preferred to dump their stocks. This is most disquieting news. In yesterday's New York Times, Mr. Charles Schwab is reported as stating before the meeting of the stockholders of the Bethlehem Steel Corporation, "I have attended these meetings for 27 years. Never in that time have things looked as depressing or as unpromising as at the present time."

I read with a great deal of interest Mr. C. E. Mitchell's letter to Senator Elmer Thomas in connection with the proposed paying of the soldiers' bonus. I believe that under normal conditions Mr. Mitchell's letter contains some sound advice. If our country in the past had held to such economic principles, it is unlikely the situation would be so serious to-day. However, existing conditions are far from normal; are most critical, and I believe we must quickly adopt or come to some form of properly controlled inflation or credit expansion.

The principal objections which I find offered against the paying of the adjusted compensation certificates are:

(*a*) Opponents state that the bonus will lead to inflation. It is conceded that our Representatives have made many earnest efforts to stem the tide of this depression. The reconstruction fund and other measures seem to have accomplished no lasting good. The temporary suspension of gold payments would be a blessing in disguise for our Nation. Incidentally, the soldiers' bonus, which is due in 1945, if paid now would not only alleviate their great need and suffering but would bring about recovery and put money into circulation; give impetus to trade, both national and foreign, and overcome the isolation and stagnation in which we find ourselves.

(*b*) Opponents argue that the payment of these existing adjusted-compensation certificates now will throw us off the gold standard. This I dispute. However, I agree that it will probably promptly lead to an embargo against the exportation of gold and temporarily suspend gold payments, which I think most advisable and necessary for reasons previously mentioned.

(*c*) Opponents argue that credit expansion, inflation, or revaluation will not be fair to those who own billions of dollars of Government tax-exempt bonds and other bonded securities. Gentlemen, I can not agree with this viewpoint, because, when most of these billions of dollars of bonds were bought, the interest returned would only purchase about one-half or one-third of what it will to-day. In other words, the interest on these billions of dollars of still remaining prime bonds will purchase to-day two or three times what it would when most of these bonds were purchased. This does not seem equitable, and in the final analysis it is not possible. Already default and repudiation have set in on some of these securities that a year or two ago were considered prime. This default or repudiation is not growing less but continues to increase. In the final analysis it is in the interest of holders of all securities that some equitable inflation, credit expansion, or revaluation be brought about.

I would be strongly opposed to the paying of these adjusted compensation certificates by simply letting the Treasury print this amount of money. Such a procedure would be not only most dangerous, but might lead to serious financial difficulties. However, I heartily endorse paying these adjusted compensation certificates now that are due in twelve years and for which we are now being taxed, through the substitution of consol certificates payable in 40 or 50 years along similar lines as proposed by Senator Elmer Thomas. In other words, this will still maintain the Government obligation; will bring about desired credit expansion, and simply means the postponing of the meeting of this obligation for another generation or two when it can be paid off much easier with the revaluated dollar that will have equitable ratio to commodity and other values.

Gentlemen, I am an owner and trustee for some of the finest farm and ranch lands in our country located in Beckham County, Okla.; Wilbarger County, Tex.; La Salle County, Tex.; Concordia Parish, in Louisiana. There is not one cent owed against these farms. Long ago I found that I could not profitably operate these farms, and for some years have been farming them on a tenant basis; that is, where we receive one-third or one-fourth of the crops that are raised. The past season God favored us with unusually abundant crops. However, it may interest you to know that I did not receive enough return from these farms to pay the taxes. I understand that my situation is not local, and that it is almost country wide. Therefore, what is going to happen to the poor farmer who can not meet his taxes or pay the interest on the mortgage he has against his farm? The answer is self-evident. It means no taxes and no interest can be paid. This will be the beginning of default and repudiation which is now taking place. I also understand that the return on the best city real estate is not enough to meet the tax and interest obligations. With our farms, city real estate, railroads, industries, etc., under these conditions and steadily growing worse, it is self-evident that something must be done and done mighty quickly. It is primarily because of this situation that I am in favor of paying the balance of the soldiers-bonus obligation in order to immediately bring about a properly controlled inflation or credit expansion, unless you gentlemen can evolve a more effective plan for this critical emergency.

History shows that under conditions like this there is but one correct answer and that is a revaluation of the dollar. Otherwise something far more serious will happen; communism or its kind will be resorted to. Properly controlled inflation through the revaluation of the dollar, therefore, is absolutely necessary unless we wish to stand idly by and face complete financial collapse and ruin. However, this is not the cure for all our troubles, for we must still face the facts and throw off our other crushing shackles. Wasteful and unnecessary National, State, city, and county expenses must be eliminated. Our uneconomic tariff barriers must be removed. The prohibition law, which is the cause of much economic and moral havoc, must be returned to the States where it properly belongs, so as to permit the reduction in our excessive taxation.

Gentlemen, our policy is heading us toward communism. Unless some drastic measures are quickly adopted, our Government will soon find it will own the banks, the insurance companies, the railroads, farms, etc.

We have wandered far from the just principles on which our Government was founded, and let us make haste and retrace our steps before it is too late.

The ACTING CHAIRMAN. Are there any questions?

Mr. STEMBER. Mr. Chairman——

Mr. FAHEY (interposing). May I suggest this, Mr. Chairman, as to this workers' organization, I would like to have it known, as the national legislative chairman of the Army and Navy Union, that we protest against them as an unpatriotic body, interfering and mingling with veterans' legislation. I would like to ask the gentleman a question.

The ACTING CHAIRMAN. Gentlemen, this hearing is a public hearing and must be conducted in order and decorously. This committee agreed that the Members of the House who are sponsoring the legislation could agree among themselves as to some gentleman to present their witnesses, and the proponents selected Mr. Patman. The Chair is carrying out the instructions of the committee in recognizing Mr. Patman to present his witnesses. Of course, if there are witnesses here who desire to be respectfully heard by the committee in support of this legislation, and Mr. Patman does not see fit to put them on, the committee desires to give them the privilege of a reasonable time to present their case.

Of course this committee does not know the connection of the witnesses. I would not be candid if I did not say that I knew of the presence of the two witnesses who addressed the chair a few moments ago. They talked to me day before yesterday, and I explained the situation to them and told them that in time they would be heard.

I was advised this morning that they were going to try to run over this committee, and nobody can do that while I am here, if I have power to stop it.

Mr. STEMBER. Thank you, sir.

Mr. PATMAN. Mr. Chairman, Senator Thomas had invited another gentleman here this norning in addition to Mr. Harriss. He wants only about five minutes time; and at that time I understand the committee had promised some time to others.

The ACTING CHAIRMAN. Mr. Patman, these two witnesses communicated with the clerk asking to be heard, and the clerk advised them that they would be heard. That was before the committee agreed for you to present witnesses.

Mr. PATMAN. Yes, sir.

The ACTING CHAIRMAN. Personally, in view of the fact that the clerk had promised them a hearing, I would like for them to be heard, and I would like for them to be heard to-day. I understood that they had been here since Monday. However, I am going to adhere to the instructions of the committee and permit you to present your witnesses. If you get through by 12 o'clock, then I will try to hear those others up to the adjournment hour, 12.30.

Mr. PATMAN. After we introduce this gentleman, who will take only about five minutes, General Coxey is here, and I understand he has a telegram or letter from the committee stating that he had been promised a hearing to-day. I presume the committee will want to hear him.

So I take pleasure in introducing at this time Mr. George LeBlanc, retired banker. He is a former president of two Wall Street banks. He is interested in the banking business, and he is interested in this legislation. He has an international reputation as an economist.

The ACTING CHAIRMAN. Mr. LeBlanc, the committee will be glad to hear you.

STATEMENT OF GEORGE LeBLANC, NEW YORK CITY

Mr. LEBLANC. Mr. Chairman, gentlemen, to be frank with you, I was not interested in the bonus bill until it took the form of an inflation. I had been of the opinion, for the past year and a half, that we were bound to deflate, and that it would only stop through an inflation of currency or credit.

I am interested in the bonus bill because it involves an important fundamental of our economic existence in which I have spent my life in a practical way.

Unfortunately, we are just now suffering from a continual deflation which started from dizzy heights and may reach unknown depths. The present economic situation is deplorable, and without visible hope, which makes it worse.

Inasmuch as we all agree that deflation has reached the border line, is it not time for us to stop it?

Let us grasp the problem from the top.

From a financial standpoint we have enormously inflated debts created on a gold basis. On the other side, we have deflated values to offset it, which we are trying to adjust with our present mechanism, meaning the Federal Reserve.

I do not believe that it can be done; and I believe that the longer we keep this up, we will find more suits, more judgments, more bankruptcies, more unemployment, less foreign trade, and, finally, no rent and no taxes.

Therefore, if we apparently can not raise the prices and values of our commodities, naturally the dollar must be revaluated to stop the present deflation of our values; because any other program to correct the former can not be put through in time to save our delicate situation; and by that I mean before we can reduce our crops to meet the situation.

While we may not like the color of the vehicle proposed by the bonus bill to reach the necessary inflatory measure, I accept it as the only hope to avoid the present tendency to a paralysis of our gold dollar.

I realize and appreciate that we would prefer to settle this difficult problem with the present financial mechanism at our disposal. Unfortunately, we do not believe it can be done. Remembering that the usual means have failed to stop the bulge at the top, there is no reason to believe that comparatively the same means will stop the bulge at the bottom.

Therefore, it is evident that a more radical program is imperative to stop further disastrous deflations of our values.

Gentlemen, let us not forget that those inflated debts were begun during the war; and let me repeat what the late Lord Northcliffe told me in 1916. He said:

> They are socializing the country. They are handing money right and left. But how will they reverse themselves and continue to live? I can not see the solution.

And that is what we are going through right now.

We in America have gone further than this, gentlemen. Our effort beginning in 1924 to raise the standard of living throughout the world, as well as our own, with our American gold dollar and credit, has failed, and in consequence we have eliminated the possibility of adjustment with our present mechanism. It was evident that we could not raise the standard of three to four hundred million people with the surplus from 120,000,000 people.

We have committed sins. Let us acknowledge them, rectify them, and start afresh with courage. Not until then can we see the psychology of our people change from "hopeless on, hopeless ever," to "hope on, hope ever."

Now, if there are any questions on this point of the inflation as brought out by the bonus bill, I should like to answer them.

Mr. ALDRICH. Mr. LeBlanc, what two banks were you president of, in New York?

Mr. LEBLANC. I was president of the Interstate Trust, president of the Equitable Eastern Banking Corporation, and senior vice president of the Equitable Trust.

Mr. ALDRICH. Then you are familiar with international banking relations?

Mr. LEBLANC. Yes; not securities, though.

Mr. ALDRICH. No; I mean relations.

Mr. LEBLANC. Banking, finance, exports and imports.

Mr. ALDRICH. Don't you think that if we depreciate our currency by inflation there will be a tendency for the foreign governments to withdraw their gold and their reserves? Would not that be the natural tendency?

Mr. LeBlanc. You are quite correct; and it would be a blessing in disguise, sir.

Mr. Aldrich. Would you develop that a little further?

Mr. LeBlanc. We are the only country left that went to war that has not revaluated its currency. They have all had to come to it, one after the other. I spent quite a little time in France and England; in France, particularly, when they were going through the process; and in view of our enormous debts on the gold basis, we will never be able to balance them with our values until we revaluate our dollar. I said that a year and a half ago. London has gone through it, and eventually we will have to go through it. It is a question whether we do it now or later on.

Mr. Aldrich. In other words, it would be an indirect way of reducing the debts of foreign governments to us?

Mr. LeBlanc. Frankly—I am retired from the bank, and I want to speak to you frankly, gentlemen—it will probably come to that point; and it explains this gentleman's statement when he says that the other countries with the revaluated currency can sell their goods and we can not.

Mr. Aldrich. And you do not fear that it would cause, through the psychological effect, withdrawals of money from our banks in the United States?

Mr. LeBlanc. No. If we want to keep on the gold basis, we can, just as I believe that England could have done. But in order to settle their domestic problems they decided to go off the gold basis.

Just imagine a country with $35,000,000,000 dollars of national debt. How could they ever collect taxes sufficient to balance their budget? Ours is a similar case. We are going to make a book balance of our Budget. Are you going to actually balance it? That is another question, gentlemen. I tell you truthfully, I do not believe the Budget can be balanced on a gold basis.

Mr. Crowther. Mr. LeBlanc, following that line of thought, your suggestion is somewhat like the suggestion made by Mr. Harriss a few minutes ago regarding the revaluation or the deflation of the dollar?

Mr. LeBlanc. Yes.

Mr. Crowther. Now, if you think that would be advantageous, do you think that we ought to go the whole route, and go off the gold standard?

Mr. LeBlanc. I firmly believe that it will be our only salvation in the end. And that is what made me interested in this bonus; because it has inflationary virtues to save our present situation.

Mr. McCormack. Mr. LeBlanc, you have stated what your banking experience has been. How many years did that cover?

Mr. LeBlanc. A period of 20 years.

Mr. McCormack. Have you ever acted in an advisory capacity to any American financial institution?

Mr. LeBlanc. I probably handled one of the largest foreign businesses in this country—exports and imports; not the security end of it.

Mr. McCormack. In what manner did you handle that, Mr. LeBlanc?

Mr. LeBlanc. For instance, I had banking and business connections with every country in the world. Our exports of cotton, our exports of oil and grain, and imports into this country caused us to have general banking relations with the great banks of the world.

Mr. McCormack. Have you ever occupied an advisory position to any foreign banks or governments?

Mr. LeBlanc. When I visited the foreign banks I spent some of my time with the governors of the large foreign banks abroad.

Mr. McCormack. Have you any opinion as to whether there is anything unsound in utilizing America's enormous gold supply to restore a reasonable balance between money value and commodity prices?

Mr. LeBlanc. Not at all. I take it it is imperative that we do it.

Mr. McCormack. Not only the farmers; but does that go into city property, home owners?

Mr. LeBlanc. Real estate is always the last thing. It comes in at the tail end. First your commodities, then commerce and industries, and then your real estate comes in last, because if you bring up the others, real estate takes care of itself. You can not take it first.

Mr. Crowther. Would you agree that we are at a very material disadvantage in this country as regards the reduction of industrial activity, due to the fact that the other principal countries are off the gold standard?

Mr. LeBlanc. Absolutely. England saved herself, but——

Mr. Crowther. I want to get this clear in my mind, that you think it would be a material advantage to us to go off the gold standard?

Mr. LeBlanc. Absolutely.

The Acting Chairman. Thank you, Mr. LeBlanc.

Gentlemen of the committee, I would like to have your attention and advice. Under date of April 11, the Ways and Means Committee received a letter signed by the Workers' Ex-Service Men's League, by E. Levin, chairman, asking that that organization be given a hearing on this proposed legislation, and stating that they had selected as a committee to represent this organization, J. W. Ford and S. J. Stember. The clerk of the committee replied, stating that they would be given a hearing. They have been in attendance since last Monday.

In view of the fact that they are non-residents and have been here since Monday, and the further fact that the clerk wrote them that they would be given a hearing, and as they are ex-service men, I think they ought to be heard. I should be glad if the committee will agree, for them now each to be heard for ten minutes.

The committee has also, so the clerk advises me, allotted time for General Coxey to be heard. Mr. Patman desires General Coxey to be the next witness. The committee has decided that they would not have hearings in the afternoon, but I would like to ask the committee if they would be willing to make an exception and have a hearing this afternoon at 2.30, to hear General Coxey, and to hear each of these other two witnesses now for 10 minutes.

Mr. Eslick. Why not go forward with the hearing now, because there are some matters in the House this afternoon under a special rule?

Mr. CROWTHER. I move that we sit until 1 o'clock and hear these witnesses whom you have named.

(The motion was agreed to.)

The ACTING CHAIRMAN. The next witness is J. W. Ford, who will be heard for 10 minutes.

STATEMENT OF J. W. FORD, NEW YORK CITY, REPRESENTING THE WORKERS' EX-SERVICE MEN'S LEAGUE

Mr. FORD. Fifteen years after the World War the war veteran is again on the front pages of all the newspapers. This occurred regularly since the first time the masses of war veterans demanded the cash payment of the bonus. Each time we are either attacked as making a "raid on the Treasury" or there are groups of Members of Congress, because of our pressure, come forward as favoring the payment of the bonus, but we have found in each case that although we receive a little relief we have to pay dearly for it. We saw in turn the "tombstone bonus" and then the last amendment permitting us to borrow 50 per cent of our own money at 4½ per cent compound interest.

To-day we see the same maneuvers of Members of Congress making it appear that they are favoring us and again we see the same attacks being made against us. We recognize these as smoke screens and camouflage colors of our enemies behind which the bankers, the owners of big industry, the railroads, are receiving billions of dollars to protect their profits, while there is no money for relief of the workers as a whole or for the war veterans. We want to point out here that it took just a few minutes to pass the Reconstruction Finance Corporation bill which turned over $2,000,000,000 to the banks.

We will not be deceived by the maneuvering in Congress by those who are claiming to support us, nor will we be intimidated by the attacks of those who are opposing us.

The Workers Ex-Service Men's League will continue to mobilize the war veteran so that we can again force the Members of Congress to yield to our demands.

To-day, when there are 12,000,000 or more workers in the United States unemployed, many uncounted millions working only part time, and when at this time wage cuts are asking place in practically all industries, the question of the immediate needs and welfare of these millions must be of first consideration.

Among these millions are over 4,000,000 war veterans whose average in age is 39; 234,300 of these were wounded during the World War. Many others, subsequent to the World War have become physically disabled as a result of their participation in that war. Thousands of widows, orphans, and dependents of war veterans need immediate relief.

About 1,000,000 of the war veterans are unable to find work and have no means of supporting their dependents. They are practically at the age, even if there were employment they would be the last ones to be taken. The age of 40 is a dead line at which any worker can obtain employment to-day. A war record for a veteran is a detriment for employment. Employers do not want to pick those who might still carry the defects, shell shock, gas, and other ailments arising from the war.

The war veteran at present is even in a worse condition than the other workers due to his advancing age, due to the fact that as a result of the war his whole former life was disjoined and destroyed. He had to build up a new life.

The welfare and the needs of the war veterans and their dependents are not special problems but are part of the needs and welfare of the masses of the people.

At the present time the Negro ex-servicemen are especially hard pressed, then greatly unemployed, discriminated against on jobs, without any relief. He is constantly being pushed out of what jobs he has.

We, the war veterans, however, have an unpaid claim of wages against the Government. Through the mass pressure of the returned soldiers Congress was forced to recognize that our wages during the war had not beèn properly paid. Under this pressure, in 1924, Congress passed the adjusted service compensation bill recognizing the fact that the war veteran should have his pay adjusted. This amounted to an average of $1,000 due each war veteran.

The betrayal of the American Legion, the opposition of the bankers, big industry and their political parties, Republican and Democratic Parties, jointly with the opposition of the liberals and the Socialist Party helped to defeat the immediate payment in cash of what is commonly known as the bonus. Instead of paying this recognized claim, the money due was adjusted on a basis of a life-insurance policy, maturing in 1945. This was commonly nicknamed the "tombstone bonus." We were permitted to borrow a small amount and paying on it compound interest rates varying from 6 per cent to 8 per cent.

Again in 1930, the mass pressure of the war veterans forced Congress to permit the veteran to borrow 50 per cent of the money (averaging about $500) still due us, but again we must pay 4½ per cent compound interest for borrowing on our own money. By 1945 the balance of $500 due would be eaten up by the interest, leaving only a balance of about $30. For all these years the Government has refused to pay this $1,000 and the interest extorted from the war veteran.

In many States where the married war veterans who were getting a little relief, this is now being discontinued—New York State and others. Single war veterans are refused relief entirely. For 15 years we have lived upon the good will of our friends and our relatives. Many of us who had no relatives were thrown on the human junk pile, discarded, filling the breadlines, many of us forced into avenues of crime, with the result that large numbers of us are now in prisons due to conditions over which we have no control.

These facts become even more grim and real when we see the arrogance and brutality of the present representatives of the bankers and financiers sitting in the millionaire Congress of to-day, where no workers' representatives can be heard. Congress, to meet this emergency, this crisis, this starvation of not only the war veterans but of the millions of unemployed, has carried out a very fruitful program of spending and of loaning millions to the bankers.

In this period of 15 years since the World War those who were engaged in manufacturing the necessities of war were not forgotten. When the house of Morgan, Schiff, and the other bankers decided that the United States forces be sent to support the Allies in order to be better able to collect the billions loaned to the Allies during the war, spread their influence and control of foreign markets, they were sure that they would profit by that transaction. Seven thousand war contractors received more than $2,000,000,000. Former Secretary Mellon profited more than any one else. Railroad owners were paid adjusted compensation of one and one-half billions. War industries were given billions in refund and income tax because they did not make proper deductions on their property during the war in 1917 and 1919. Those were paid, with interest, between 1922 and 1929. On one refund to the United States Steel Corporation, amounting to almost $16,000,000, the interest paid on this was more than $10,000,000.

The representatives of the Workers Ex-Servicemen's League point out, not only to the Ways and Means Committee and to the Members of Congress, but particularly to the great masses of the war veterans, their working-class section, and the rest of the workers and farmers, that the war veteran must be paid now and in cash the adjusted-service compensation and all interest deducted on loans already made.

In order that the demands for the immediate cash payment of the bonus will be made clear and that we can be organized to carry on a successful fight for the bonus, we will expose both the actions of those who claim to be the friends of the war veterans as well as those who openly oppose the immediate payment of the bonus. We will organize the masses of the war veterans and our support in the various workers organizations in order to finally force Congress to give the relief to the war veterans that is due us.

We have seen that the present session of Congress has utterly disregarded the demands of the workers for unemployment relief. Fifteen hundred delegates who appeared in Washington in the historic hunger march represent part of the mass pressure which has been carrying on a struggle for a number of years to obtain relief. In this delegation the Workers Ex-Servicemen's League had over 300 war veterans from 49 different cities. Congress has so far refused to pay any attention to these demands for relief, for unemployment insurance and also our demand which was included within it, the cash payment of the bonus. Even the fake relief measures presented by a committee of insurgent Members of the House of Representatives, were voted down and the Democratic Party accepted the Hoover program of starvation for the masses.

The sham attack of the insurgents to fight against the sales tax bill was clearly exposed when Mr. Garner, Speaker of the House, brought his party, the Democratic Party, into full support of the administration program, and taxes in various forms will now be levied on the masses of the people. These point out clearly that the policy and the determination of the Hoover government, representing the Republican Party, and the policy of the Democrats are one, namely, millions for big business, millions for war, and starvation for the masses of the people.

This same Congress has already voted $2,000,000,000 for a reconstruction fund so that the bankers can borrow additional money and become further entrenched in the control of the resources of the country. Millions have been voted for immediate war purposes, and not a cent has been voted for relief. It is under such an atmosphere in Congress, in the press, on the eve of the presidential election, that the demands for the bonus are now being brought forward in Congress and throughout the United States.

We, the war veterans, must guard ourselves against our pseudo friends as well as against our outspoken enemies. The House of Representatives bill No. 1 providing for the cash payment of the bonus was introduced by Mr. Patman of Texas (Democrat) and sponsored by the Veterans of Foreign Wars. Although it demands the immediate cash payment of the bonus, it does not demand the return of interest paid by the war veterans on his own money, does not remove the restriction clause "war veterans must wait two years after applying for their compensation."

Not a word is said of the long waiting of the money, inconvenience, and degration suffered by the war veterans during this period. Full hope is laid in the maneuvering in Congress of the congressional committees and insinuation and threat of the voting power of millions of war veterans.

These gestures of the Democratic Representatives, supported by the officers of the Veterans of Foreign Wars, are advisedly carried out during this preelection campaign period to fool us and to try to gain our vote against the Republican Party.

The war veteran must clearly understand these maneuvers.

We therefore must not depend upon Congress passing the bill unless they are forced by mass demands, and there is no liklihood of both Houses overriding Mr. Hoover's veto without carrying on an intensive mobilization of the masses of workers and the war veterans themselves.

The subterfuge and demagogic statements of Mr. Patman that the payment of the bonus will not unsettle the Budget and the proposal of some other means of raising of the money is a sign of capitulation to the administration and the Democratic Party. The suggestions for the printing of additional money at best is another form of deflating the value of the money to be returned to the war veteran. His statements that this money will help tide over the crisis and alleviate unemployment are demagogic and have no foundation in sound economics.

The question of relief to the war veterans and the payment of the bonus must be faced on its merits. It is only a partial relief for a small section of the millions of workers, a small section of whom this money is due, for making it possible for the bosses, the big industrialists to become millionaires and billionaires as a result of the World War.

But, we will not be deceived by this trickery. We know that the bosses' and bankers' representatives use all kinds of phrases and sweet words to break down the militancy and protest of the masses of war veterans by giving them an unfounded hope that the bill will be passed without independent mass struggle of the war veterans themselves, in this way demobilize and weaken the protest of the war veterans and therefore be unable to force Congress to pay us now, in cash, and in full, all that is due us.

While at the last convention of the Veterans of Foreign Wars the mass pressure of the demands of the war veterans for the bonus forced the convention to pass a resolution favoring the immediate cash payment and carried on a quiet campaign, in which millions of signatures were secured, we must guard ourselves again from being fooled and confident in the fact that these signatures themselves will make Congress pass the bonus bills.

The leaders of the Veterans of Foreign Wars in giving full support to Mr. Patman and the Democrats in Congress are assisting the Democratic Party in breaking down the militancy and the pressure needed to force Congress to concede to our demands.

Mr. McCormack. You say that a large number of veterans are in prison. I am a veteran myself Do you mean to say that there is a larger percentage of veterans in prison in proportion to the total number of the population than in any other group of our citizens?

Mr. Ford. I am only speaking here in the interests of war veterans. We have facts to indicate that there are a number of war veterans in prison. I do not know the exact number.

Mr. McCormack. But there is not a larger percentage of war veterans who violate the law than any other group of our citizens?

Mr. Ford. Perhaps.

Mr. McCormack. You do not want yourself to go on record saying that a larger percentage of war veterans are in prison?

Mr. Ford. I should think there is a large number of veterans in prison.

Mr. McCormack. I wanted the record clear. You do not think there is a larger percentage of veterans in proportion to the total population, in prison, than any other group of our citizens, do you?

Mr. Ford. I do not know exactly, but probably.

Mr. McCormack. Well, I know that there is not and I challenge any such opinion expressed by anyone.

The Acting Chairman. The next witness is S. J. Stember, representing the Workers Ex-Service Men's League, New York City.

STATEMENT OF S. J. STEMBER, NEW YORK CITY, REPRESENTING THE WORKERS EX-SERVICE MEN'S LEAGUE

Mr. Stember. Mr. Chairman and gentlemen, to-day Henry L. Stevens, newly elected national commander of the American Legion, carrying out the full program of the American Legion and its original objectives giving full support to Mr. Hoover, and claims that members of the American Legion do not want the passage of the bonus. He strays from the truth when he states that the majority of the men do not want it.

We dare and challenge Mr. Stevens to permit the rank and file, under their own control, under their own committee, to carry out a referendum among the membership, without interference from the adjutants and will prove that the great majority of the membership of the American Legion want the bonus.

The American Legion, claiming a million membership of those who participated in the World War, is the most outspoken and bitter enemy, fighting the demands of the war veterans.

Mr. H. McNider, now the United States representative in Canada, former national commander of the American Legion, when the agitation was strong for the bonus in 1919–20, made many pious wishes lauding the herosims of the war veterans, making it appear that he was in favor of the demands of the war veterans. But through this means betrayed the ex-soldier and converted this demand into the "tombstone bonus."

In 1930 the American Legion, instead of fighting for the immediate cash payment of the bonus, again betrayed the demands of the war veterans and assisted in putting over the bonus "steal," that is, in giving 50 per cent of the balance due on the bonus, while at the same time robbing the war veteran of the other 50 per cent through the 4½ per cent compound interest that was charged.

At the convention of the American Legion in Detroit (September, 1931), Mr. McNider and Colonel Roosevelt, who is given the credit for organizing the American Legion, were active against the payment of the bonus. Delegates instructed by their posts to vote for the bonus, voted against it. The working-class rank and file of the Legion were again betrayed. But this was not easily done. Mr. Hoover was forced to attend the convention even though he had previously refused to do so. Messrs. Stimson, Lamont, and Mellon forced Mr. Hoover to attend that convention to use his influence against any demand favoring the cash payment of the bonus.

The American Legion was organized basicly for the purpose of stopping the masses of the war veterans from fighting for their demands. It was organized purposely to use the war veterans at home after armistice against the other workers. This is seen clearly in the participation of many legionnaires on strike duty against the workers, as in Kentucky, and the recent strikes in the coal fields. The proof of our statement can be read on page 14 of the History of the American Legion, by Marquis James.

During the period of the armistice all of the soldiers were stirring with unrest. They were disillusioned. They realized that they were sent across, that it was a war for profits, for the division of the world markets.

The unrest of the men in the trenches is part of the some unrest of the men and women in the shops and factories immediately after the World War. It is part of that unrest which terminated in a successful change in the form of government in old Russia, former ally of the United States. It was this unrest as was shown by the Michigan regiment which was transported from the trench—as in France, after armistice day, to Archangel and there mutinied and refused to join the other allied armies in their attack against Soviet Russia. This unrest and discontent arising from the disillusion of fighting in a "war to end all wars," fighting for "democracy," had to be quelled and because of this a group of officers, headed by Colonel Roosevelt, now the Governor General in the Philippine Islands, organized the first caucus in Paris. Congress gave this organization its official sanction and chartered it in 1919.

These four million of men have been controlled almost under the same military discipline as they were actually in time of battle. Their every demand has been betrayed. They have been subjected to all kinds of chicanery, dressing them up, selling poppies on the street, selling the history of George Washington at the bicentennial, selling toothpicks, shoe-laces, nail-files on the subways, but always opposing the demands of the war veterans for relief.

Brigadier General Hines, head of the War Veterans Bureau, only recently pointed out that other sources were available for the bonus, but now comes forward with a statement that the needs of the war veterans are less than they were before. He states unemployment amongst the war veterans is decreasing. Undoubtedly, he uses the figures of a notorious campaign to get jobs by the American Legion. We need no statistics or profound figuring. The only way jobs are created to-day is by depriving others who are now employed. The slogan of give a job, is only for the purpose of diverting the attention of the war veteran from his demand and struggles for the immediate cash payment of the bonus.

The bosses' press, owned and controlled by the different political parties and the big bankers, are opposed to the cash payment of the bonus, bitter, sarcastic and unrelenting. They forget the praise and phrases of honor they showered on us when we had our first big parade and then when we demobilized after Armistice Day.

The liberal press, too, in the United States, such as the Nation, the New Republic, which at times comes forward with statements of fair play, honesty, fairness, and so forth, exposed their treachery in their support of the bosses by siding with the American Legion and Mr. Hoover. They also characterize our demands as a "raid on the Treasury."

The Socialist Party, claiming to speak for workers, further shows the side that it supports in their attitude toward the cash bonus. Norman Thomas is opposed to it. In his editorial in the New Leader, February 7, 1931, he states as follows:

> It is probable that so great a bond issue and tax program as this sum would require would create certain financial and perhaps slow up business recovery. What we ought to be working for is a bond issue to begin a great program of public works.

They want roads to be built and national parks, monuments, fine gateways to national parks, but let the war veteran starve. Let the unemployed freeze.

The leadership in the A. F. of L. has definitely shown that it supports the American Legion in its entirety. At its conventions and at the convention of the American Legion, speakers of both organizations greeted each other and pledged their support. It was so in Boston and so in Detroit.

The great rank and file of the membership of the A. F. of L., however, support the demands of the workers for relief, supported the demands of the war veterans for their bonus.

We must here say a few words on behalf of the disabled war veterans who are not included in this, except that it relates to his adjusted service compensation.

In view of the statements of Brigadier General Hines, head of the Veterans' Administration Bureau against the bonus and against additional hospitalization, the representatives of the Workers Ex-Servicemen's League must answer the misleading statements and expose his actions against the interests of the war veterans.

Mr. Hines's statement to the press that he believed veterans as a group were in a more favorable economic condition and that requests for hospitalization had decreased except in the larger cities, on the face of it, without any need of presenting further evidence, are false.

The head of the Veterans' Bureau, Mr. Hines, is in full agreement with the policy of the Hoover administration.

The physical condition of the war veteran is becoming worse.

Those who are disabled are getting less hospitalization than they did before.

The administration of the Veterans' Bureau is not only known for its excessive overhead expenses but for the existence of graft from its very inception. War veterans on discharge from and while in the hospital as a stay in the "butcher shop."

Under the retired officers act are included the figures of relief for the veterans. Many of these are receiving additional pay in the administration office of the Veterans' Bureau itself. Hundreds of thousands of dollars in padded accounts for construction purposes are all included in veterans' relief.

Placing the disabled war veteran under the control of the Veterans' Bureau immediately precludes any fair treatment for disability compensation.

The only way to give the disabled war veteran disability relief is for the right to choose his own physician at Government expense.

The question of cutting down and restricting bonuses, pension, and relief for the war veterans is not a problem that concerns only the Government of the United States but is part of the basic problems in all the allied and central power governments except what is now the U. S. S. R. formerly czarist Russia, an allied power. It is just as international in character as are all the problems arising from the international crisis and depression.

After the World War these returning soldiers, who were longer in the trenches than we were, came home disillusioned just as we did. They all recognized that they bled, that they butchered, that they were gassed and they in turn gassed so that they could help their bankers and industrialists pile up profits, protect their industries and divide up the world market among themselves. These returning soldiers reacted immediately after the World War and forced relief and bonuses from their respective governments.

As a result of the constant agitation, the French Government in some form or other had to give relief to its war veterans. The Canadian Government paid in cash from $600 to $4,500 to its war veterans. The English paid from $280 to $4,750. Yes, even the German Government was forced to give relief. These foreign powers also built up organizations of war veterans, supervised them and used them to offset the demands of the returning soldiers. Just as now in this Congress every effort is being made to cut down the relief of the war veterans.

This is now taking place in France. This is taking place in Germany. The war vetrean is answering these attempts to stop our relief by united action. The war veterans recognize their common enemies. The answer of the world war veterans in the United States and in other countries against these, is organization of the working class elements of the war veterans to a powerful and international organization to study more carefully the best means of opposing the constant restructions of relief to the disabled, to the orphans, to the widows, the constant cutting down of the pensions and bonuses and working out the best means of gaining their ends.

The above analysis of the attempt to stop the giving of the bonus to the war veterans and the camouflage moves of those who are supporting it, proves to us conclusively that unless the world war veterans themselves organize their forces we will not be able to gain our demands.

We are mobilizing the war veterans around the following concrete demands and program:

1. The immediate payment of the balance of the adjusted service compensation commonly known as the bonus, to be paid in cash and in full, plus all interest that had been deducted from the war veterans who had already made loans.

2. The immediate removal of the 2-year restriction clause.

3. Payment of this money to be in such form and in such way that the full value of the money will be received and that in no way will the war veteran be forced in any position to discount his payment, either at banks, loan associations, and so forth.

4. Disabled war veterans to be permitted to choose their own physicians at the expense of the Government.

We call upon the masses of war veterans to carry out the following program:

1. Organize bonus committees in every shop and factory to send resolutions to Congress demanding the immediate cash payment of the bonus.

2. The rank and file of the American Legion to institute a national referendum to be carried out by themselves, not their officers, in every post.

3. War veterans, not affiliated with any veteran organization, to form committees for the cash payment of the bonus, to pass resolution to Congress.

4. Additional posts of the Workers Ex-Servicemen's League to be organized.

5. United committees representing these various groups of war veterans to form committees of action for the support of the program outlined above and to carry on a fight for the interest of the war veterans.

6. Provisional committee to be set up in New York City of these various groups and immediately lay out a program for a march of delegates of war veterans on Congress before it adjourns its Seventy-second session.

We can see from the front page articles of the boss press and of "big business" that a determined fight is being made against us—array of forces at these hearings who are fighting against the bonus directly and indirectly, gives us new determination to carry out our fight for the immediate cash payment of the bonus.

No mention is made of the billions of profit made in the last war when $18,000,000,000 went to make millionaires.

No mention is made now of the millions being spent in the feverish preparations for another world war where again thousands will be slaughtered for the interests of profit.

No mention is made of the billions in tax exemptions, or of the present plans of Congress placing the burden of taxation further on the masses of the people. The war veteran is being looked upon as a "racketeer." In our first parade when we marched down the main streets of every city in the United States on our way to the front, again when we came up the Broadways of the important cities of the United States returning from making the world "safe for democracy", we were not blackguards, we were not racketeers. We were heroes.

We have since learned, just as all the other workers have learned, that was a bosses' war. (Even President Wilson stated that the last war was a commercial war.)

Not only does the American Legion fight the bonus, but now in this period of depression is sending many on their famous "get a job" campaign into the various shops, on strike jobs and at lower wages than the prevailing rates.

We see this same Ways and Means Committee holding hearings on legislation which will restrict the foreign-born war veterans as well as the other workers. We have already sent our representatives to these hearings against the foreign-born workers, protesting against these attacks on the workers.

The negro war veteran is being discriminated against, has more difficulties in obtaining relief and the bonus than the white workers. We see again, as we saw 15 years ago, increased lynching of the negro people. When the negro war veteran returned from the war the bosses threw him and the white workers into race riots. Negro war veterans in uniform were lynched. To-day, again we see the increased lynching of the negroes—discrimination on jobs, being taken off by force. We now see also the legal form of lynching as in the case of the frame-up of the nine Scottsboro boys. These are all part of the struggles of the workers as a whole. Negro and white worker together, to-day, are fighting against wage cuts, fighting together for the bonus, fighting together against unemployment.

The fight for the bonus is not a fight on our part for special privileges. It is wages due. Our fight is part of the general struggles of the masses of the people against starvation.

The present proposals in Congress are insufficient as we have pointed out, and furthermore, the means by which they are proposing to raise the funds will not in any way add to the relief of the war veteran or of the masses of the people.

We propose that the money be raised by—

1. Using the money voted for immediate war preparations.
2. By taxing inheritance.
3. Removing the tax exemptions on securities.
4. Imposing a surtax on industries.

In conclusion, we are calling on all war veterans, particularly on the members of the Veterans of Foreign Wars, not to put their confidence in the actions of the Democratic or some of the Republican Representatives who may vote or speak for the bonus. It will be only our mass pressure that will force Congress to heed to our demands.

We call upon the rank and file members of the American Legion to demand a referendum of the membership to call upon all war veterans not affiliated in veteran organizations, to form bonus committees.

We call upon the veterans in shops and factories to form bonus committees in their shops.

We call upon the workers to form their own Workers Ex-Servicemen's Leagues and unitedly carry on monster demonstrations in every community, winning over to our support the masses of the war veterans and the workers in general. Through this united action we will carry on an insistent campaign and elect mass action will we be able to force Congress to pay us now and in cash the balance due us on the adjusted-service certificates.

Mr. RAINEY. I would like to ask a few questions. Are you a member of the American Legion?

Mr. STEMBER. I am a member of the Workers Ex-Servicemen's League. We have many members of the American Legion who have joined us, and many are joining. We can not take them in fast enough.

Mr. RAINEY. Are you a member of the American Legion?

Mr. STEMBER. Am I?
Mr. RAINEY. Yes.
Mr. STEMBER. No.
Mr. RAINEY. What is your business?
Mr. STEMBER. I am a textile worker.
Mr. RAINEY. Were you a soldier in the World War?
Mr. STEMBER. I was a sailor.
Mr. RAINEY. On what ship?
Mr. STEMBER. On the U. S. S. *Birmingham.* I was stationed in Mediterranean waters, Gibraltar, base 9.
Mr. RAINEY. Where were you born?
Mr. STEMBER. I was born in Latvia.
Mr. RAINEY. That was a part of Russia?
Mr. STEMBER. It was a part of the Russian Empire, of czarist Russia.
Mr. RAINEY. It is not now?
Mr. STEMBER. It is not now.
Mr. RAINEY. It is an independent State?
Mr. STEMBER. Yes.
Mr. RAINEY. How many ex-service men belong to the Workers Ex-Servicemen's League? What is your membership?
Mr. STEMBER. The ex-service men are going into the Workers Ex-Service Men's League at a very fast pace. We have not enough organizers to take care of them, so that while we have been here during the last four days there may have been tens of thousands of others who have gotten into the organization.
Mr. RAINEY. What is the membership of the Workers Ex-Service Men's League?
Mr. STEMBER. It would be approximately 50,000.
Mr. RAINEY. Where are they located?
Mr. STEMBER. They are located in every part of the United States.
Mr. RAINEY. Do you advocate the overthrow of the Government by force? Does your organization advocate the overthrow of the Government by force?
Mr. STEMBER. We are advocating the immediate cash payment of the bonus.
Mr. RAINEY. I am asking you, does your organization advocate the overthrow of this Government by force?
Mr. STEMBER. We do not. I will read you the demands of the Workers Ex-Service Men's League. I have it right here in my pocket. Do you wish to hear it?
Mr. RAINEY. No. Are you an officer in that organization?
Mr. STEMBER. I am.
Mr. RAINEY. Do you receive a salary?
Mr. STEMBER. Do I receive a salary? No. There is not one single solitary worker in the Workers' Ex-Service Men's League who receives a salary. I have been given fare by the veterans who chipped together with nickels and dimes. That is how the delegation was sent here; and that is why, gentlemen, we wanted to get the floor, so that we could get away and not incur any expenses for the Workers' Ex-Service Men.
Mr. RAINEY. You have a paper representing your organization?
Mr. STEMBER. Yes; I handed that to the chairman. I believe the chairman has it.

Mr. RAINEY. What is the name of that paper?
Mr. STEMBER. Oh, you mean a newspaper?
Mr. RAINEY. If it is a newspaper.
Mr. STEMBER. We have a bulletin—the Workers' Exservice men's League Bulletin.
Mr. RAINEY. How often is it issued?
Mr. STEMBER. It is issued weekly.
Mr. RAINEY. Does that advocate the overthrow of the Government by force?
Mr. STEMBER. Not at all. We are advocating the bonus; the immediate cash payment of the bonus. That is what we advocate. We advocate better hospitalization and better treatment for the disabled veterans.
Mr. RAINEY. Are those the only propositions that your organization stands for?
Mr. STEMBER. I will read them to you if you want me to.
Mr. RAINEY. I am just asking you: Are those the only propositions that your organization stands for?
Mr. STEMBER. We have also: "Unity with the working class in its struggles for a better living."
Mr. RAINEY. That is what you advocate?
Mr. STEMBER. We advocate "No jimcrowing of any kind, or discrimination against the Negro war veterans." "Fight against another imperialist war." That is one of our demands. We are actively engaged in teaching the workers and the youth of the United States that another imperialist war benefits the capitalist class only, and does not benefit the working class.
Mr. RAINEY. Do you advocate the principle that your members ought not to join in defense of the country in the event of war?
Mr. STEMBER. We do not advocate that. We are not pacificists. We do not believe in the pacifism that the pacifists advocate.
Mr. RAINEY. Your organization is ready to enter into any defense of our present system of government if an emergency arises?
Mr. STEMBER. Under the present system of government it does not go to any length on that. We are primarily organized for our immediate needs, because we know that at the present time, with 12,000,000 workers unemployed in this country, the veteran has no more chance of getting employment than the rest of the workers.
Mr. RAINEY. Are you affiliated with the Communist Party?
Mr. STEMBER. I am not. Our organization is composed of Democrats, Republicans, socialists, communists, and those who do not belong to any party.
Mr. RAINEY. That is all.
Mr. STEMBER. We are united on the question of the bonus, and we are also demanding unemployment insurance; because if we receive the bonus it will only last a very short while under the present conditions of unemployment. Why? Because you are looking at one who lives on charity, because his sister and his relatives support him. He has no job; and we have thousands of them. If I get my bonus, I will just have to hand it over to my relatives and friends who have supported me, the same as the other workers who are ex-service men and unemployed.

Therefore our demand is for unemployment insurance as relief that would tide over the ex-service men as well as the workers.

Mr. RAINEY. That is all.

The ACTING CHAIRMAN. Are there any other questions?

Mr. MULLEN. Mr. Chairman——

The ACTING CHAIRMAN. Who are you, please?

Mr. MULLEN. Mr. Mullen. I would like to question the gentleman.

The ACTING CHAIRMAN. No; the committee does not allow that. Mr. Patman, present your next witness.

Mr. PATMAN. General Coxey is here and wishes to be heard.

The ACTING CHAIRMAN. General Coxey, the committee will be glad to hear you.

STATEMENT OF GEN. JACOB S. COXEY, SR., MASSILLON, OHIO

General COXEY. Mr. Chairman, gentlemen of the committee, I want to thank you for this opportunity of presenting my ideas on this so-called bonus bill.

You, as the Committee on Ways and Means, must raise means in accordance with the Constitution of the United States; and I want to call your attention to the most important provision in that Constitution, which is the fifth clause of the eighth section of the first article, which provides:

> The Congress shall have power to coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures.

The Congress comprises 435 Members of the House and 96 United States Senators. They are all elected by the people. Therefore my contention is that the Congress is the people, and should coin all the money for the people, at cost to the people, instead of at cost to the banks exclusively.

I want to show you how you have handled that provision of the Constitution by making an exhibit of the kind of money that the Congress has provided for the exchanging of the products of the people and the employment of the people.

First I want to exhibit a gold certificate. That gold certificate is in the denomination of $10. That gold certificate is legal tender for all debts, public and private. It is based upon a $10 gold piece that is deposited in the Treasury Department in your city.

Then I want to call your attention to a legal-tender note issued by Abraham Lincoln for $5. On the face of this note it says:

> This note is a legal tender for all debts, public and private, except for duties on imports and interest on the public debt.

The first $60,000,000 issued under Lincoln's administration in 1862 was full legal tender for all debts, public and private, legal tender for imports, and legal tender for the payment of interest on the debt. When they needed more money they made this issue in 1863. That was when the act was passed authorizing the Secretary of the Treasury to print these notes. They called it coining.

When that act was under consideration by the Ways and Means Committee at that time, the bankers of New York, of Boston, of Philadelphia and of Chicago came and flooded the committee room, demanding that they put on an exception clause. That exception clause was put on here for the sole purpose of allowing the gamblers of New York to corner the gold, so that when a man came to pay his import duties on goods, as Stuart did—one of the greatest importers and one of the largest business men in the city of New York—he needed $100,000 in gold to pay duties on imports. He had sold his goods for this kind of money. That had the exception clause on it; and the bankers of New York cornered the gold so as to compel him to give up $285,000 of legal tender except for duties on imports and the interest on the public debt.

Now, that is not the kind of money that is proposed to be issued for the payment of these soldiers under this bonus bill. That is to be a full legal tender, exempt from all taxes.

(General Coxey submitted the following statement for the record:)

AMOUNT OF CURRENCY ISSUED DURING CIVIL WAR

United States notes (issued under three acts):	
Feb. 25, 1862	$150,000,000
July 11, 1862	150,000,000
Mar. 3, 1863	150,000,000
Largest amount outstanding at any one time (Jan. 3, 1864)	149,448,902

Old demand notes: Issued under acts of July 17, 1861, August 5, 1861, and February 12, 1862. Amount issued under that particular class was $60,030,000. This includes reissues.

Fractional currency: Issued under the acts of July 6, 1862, March 3, 1863, and June 30, 1864. Total amount issued under this class, $368,724,079.45. Amount includes reissues. Largest amount outstanding was $49,102,660.27 on March 31, 1874.

Compound interest notes: Issued under acts of March 3, 1863, June 30, 1864. Amount issued under these acts was $266,599,440.

One and two year notes of 1863: Amount issued under this particular class, $211,000,000.

Seven-thirty notes: Issued under acts of July 17, 1861, June 30, 1864, January 28, 1865, March 3, 1865. Amount issued under these acts, $969,992,250.

Treasury notes of 1861: Notes redeemable 60 days or 2 years after date of issue. Issued under act March 2, 1861, $35,364,450.

General Coxey. On February 4, 1931, I was before your committee, and I wanted this committee at that time to issue $3,400,000,000 of that kind of money. They did not see fit to do it; but if they had done it, it would have been in circulation to-day, and it would have been the foundation for 34,000,000,000 of bank loans—bank credits.

I want to call your attention to the fact that we do not do business in this country on money. We do it on credit—3 per cent of money and 97 per cent represented by checks, taking the place of money, answering the purpose of money, canceling debts, checking against notes that have been discounted in the banks, creating a credit which becomes demand deposits subject to check.

That would have relieved the money stringency if that had been done in February, 1931. You did not see fit to do it. It is necessary, my friends, that you do it now.

But I want to continue with this exhibit.

We have another note here, a 5-dollar note. That is a national bank note. What is back of that note? A Government bond, bearing interest; and the Government has taxed the people of this country $723,980,000 from 1873 to 1929, inclusive, to pay interest on bonds that they might issue an equal amount of national bank notes against those bonds, and another interest must be obtained upon that note before it gets into circulation.

A bond is deposited, upon which the Government taxes the people to pay the bondholder interest; to pay the banker interest. Then they issue the face of the bond in national bank notes, which he loans out again to the manufacturers and others at 6 to 8 per cent. There are two interests on that kind of a note before the note can get into circulation.

Now, what are all of these notes? They are simply a legal instrument to cancel a debt. That is all that that money is. Congress can give to money but one function, and that is the power to cancel a debt. That is what that provision of the Constitution means.

The Congress shall have power to coin money—

That is, to print money—

Regulate the value thereof.

What does that mean? Congress, by the act, gives that money the power to cancel a debt, according to the denomination of that money.

And of foreign coin.

That means of any foreign money coming into this country. Congress, under that provision, has the same authority over that foreign money and its debt-paying power, as over the money that it has authorized to be coined.

I will explain another means that you have, as the Ways and Means Committee, of obtaining money to pay this bonus, to overcome the deficit, and to pay the bankers that hold $6,400,000,000 of our Government bonds.

Here is a Federal reserve note. How does that get into circulation? The Government prints that note in our own print shop. It costs the Government 7 mills to print that note. It matters not whether it is a dollar note, a five dollar note, a ten, fifty, one hundred, five hundred or ten thousand dollar note. It costs the Government only 7 mills to print the note. Then what does the Government do with it? It turns its own money, the money that belongs to the 122,000,000 of people, over to 12 privately owned Federal reserve banks, at cost of printing and a franchise tax. And they did not pay any franchise tax last year. I was at the Treasury Department this morning, and I asked the question, and they gave me that information.

Now, my friends, how does the Government get any of this money to pay for what it needs? It issues a bond bearing interest. It sells it to these banks. It borrows its own money; then it taxes the people to pay the banks interest for the use of the Government's own money.

Now, if you can get a more ridiculous system than we have here, my friends, I can not imagine how you could do it. It is a crazy-quilt system.

Here is another note. This is a silver certificate. That is based upon a silver dollar held by our Government in the Treasury Department.

All this paper that I have exhibited here, including this gold, has been issued in accordance with that provision of the Constitution of the United States that I cited to you before.

Now, all you will have to do, my friends, under this provision of the Constitution, and under this bill, is to print the money. It will cost you 7 mills for every bill printed. Pay it to the soldiers, and make it full legal tender, in accordance with this bill, for all debts, public and private, exempt from all taxes; and, my friends, you will have a circulating medium here and get off of the collapsed credit system that we are suffering from to-day.

It is well for us now, at this stage, to inquire what we are doing business with, or what we did do business with in 1929. That was the peak. We did a business of $726,000,000,000, in dollars. We did it with $276,000,000,000 in checks that cleared through the clearing houses of the country, and those checks were checking against notes that had been discounted by the banking institutions, with the inflated collateral, stocks and other securities placed as collateral to these loans. They were demand deposits then, subject to check, and they used $276,000,000,000 of checks in transacting that commerce in 1929, with only $600,000,000 of gold used in all those transactions, and less than five billions of currency in circulation.

Now that great volume of checks and credit has collapsed. Business men can not go to the banks to-day and get their notes discounted. Therefore we are in this condition. You can not use any checks because you can not get any credit. We are trying to do business now on 3 per cent of money, and the 97 per cent has collapsed, and you find the condition as described by these three witnesses that preceded me to be the actual case.

In my home town—and I happen to be mayor of it at the present time—we have men at the incinerator plant that are waiting for the garbage trucks to come, so as to take the garbage that they can live on. In the city of Cleveland they are even going to the swill and taking it out of the swill. Is that the high standard of American living that President Hoover brags so much about?

My friends, what you have got to do is to change this system; get off of this credit system and on to a money system. And when you do that, we need at least 25 to 30 billions of money to get onto the money system; and when you make a loan and you make a check against the loan, there will be money to transfer from one account to the other instead of credit.

I have another method, and this method is under that provision "and of foreign coin"—regulating the value of foreign coin. My suggestion to this committee is that they ask President Hoover to suggest to Germany that Germany print eleven and a half billions of full legal tender German money, making it full legal tender for all debts, public and private. When they do that, then they obligate themselves to take it in payment of import duties; they obligate themselves to accept it in payment of all taxes; they bind their citizens to take it in payment of all contracts, for all goods manufactured and sold.

Then I suggest that Germany tender four billions to France, four billions to England, and three billion and a half to the other nations that were engaged with us in the World War, and that then France pass a law to make it full legal tender in France, both public and private, which will then bind France to accept it in payment of import duties, to accept it in payment of taxes, to accept it in payment of everything due and owing France. It obligates her citizens—and likewise in the other countries, in the same way—to accept it in payment of all contracts and for all goods manufactured and sold. Then tender that four billions of France to the United States; England, four billions to the United States; and the other countries, the three billion and a half; and then that you gentlemen recommend a bill to the Congress to make it full legal tender here. Place it in our Treasury; and when you have done that, you have obligated yourselves to take it in payment of your salaries, to take it in payment of import duties, of taxes due the Government, and, for all of our citizens, in payment of all contracts and in payment for the goods that they manufacture.

When you do that, my friends, you will be in the position to overcome the deficit of two billion in the Treasury. You could then pay the two billion four hundred million out of that money to the World War veterans. You could then take up the six billion four hundred million that the banks hold of our Government bonds, which would give the banks money to loan. You would have money in place of the collapsed credit. The business men of the country could take their notes into the banks and have them discounted. They could commence to employ labor. You would bring prosperity here; and after we had consumed all of our American goods that we needed, and when we purchased any German goods, any French goods, any English goods, or goods from the other countries, we would pay them with their own money. We would have an international currency. We would have three nations on that currency—Germany putting its stamp upon the face of it, paying its reparations; France putting its stamp on one-half of the other side, paying its debt due the United States; the United States putting its stamp here; all three nations making it full tender for all debts, public and private. It would pay off the World War veterans, and give us money to do business with. Then you would reduce our taxes. This will be a taxless and a costless payment from Germany. Its citizens will not be taxed 1 cent, but it will bring prosperity not only to this country but to every country that was engaged with us in the World War.

Now, there are two methods by which you may obtain the money to pay the soldiers' bonus, to overcome the deficit in the Treasury, and to reduce our taxes instead of raising our taxes. I would not be in favor of this bill if it provided for an issue of interest-bearing bonds. My friends, we have arrived at the point in the history of this civilization where interest must be abolished, just the same as chattel slavery was abolished by Abraham Lincoln during the Civil War. What was the condition of the people under the slaveholders at that time? The slaveholders were compelled to feed, to clothe, to house, and to doctor those slaves, because, if they should lose one of them, they would lose a thousand to fifteen hundred dollars. Here we have today 12,000,000 of unemployed people on the verge of starvation, and many of them starving. They are in a worse condition than the chattel slaves were under the slaveholding system prior to the Civil War, because if they have paid three-fourths on their homes and have failed to pay the balance of the mortgage because they are out of work, and have failed to pay the interest upon their mortgages, their property is sold away from them. Six thousand farms sold away from the farmers in Mississippi in one day. In the city of Philadelphia, 25,000 with their homes going away from them. They are turned out on the highway, and they are not fed, clothed, housed, and doctored.

That is the system of interest-bearing bond slavery. We have got to abolish interest. This is the first step during my 50 years of effort along this line. For 50 years I have been battling; I have been spending all the money that I could obtain to print literature appealing to the intelligence of the American people; but I find that the only way the American people think is through their bellies. Their bellies have got to become empty; the business man has got to have an empty pocketbook; he has got to have the sheriff on his doorstep before he will listen.

Therefore, my friends, I think that this depression is going to bring the people together. As the saying is, "God moves in a mysterious way his wonders to perform."

This condition has been brought on, not by God, but by the gold gamblers of New York. This conspiracy that was hatched and pulled off in 1929 was the greatest changing of the property and the money from the hands of the many to the hands of the few that ever happened in the history of the world; and I am sorry that my time has expired, because I would like to explain to you how that conspiracy was brought about. It was brought about first by expanding the currency, and then getting the mergers started, and through the financing of the mergers by the Wall Street banks they got the savings of 20,000,000 of people up on margin, and from three billions and a half of brokers' loans on call they took it up to $8,549,000,000, with less than five billions of money in circulation. This was margin money, with liquid stocks up as collateral. They have gone to the very banks that did the underwriting, and put these stocks up as collateral, at 75 per cent of the ticker value of these stocks.

Then in the spring of 1929 the bankers of New York met. They made this agreement: That they would not accept any deposits to be loaned on call loans short of a hundred thousand dollars or multiples thereof. What was that for? It was to skin the bankers after they had skinned the people.

Now, my friends, in September and October, 1929, after they had gotten the savings of 20,000,000 of people up on margin, the New York bankers broadcasted all over this country that they would pay 18 to 20 per cent interest for call loans with liquid stocks up as collateral. The banks fell for it. They commenced to ship the money, at no less than a hundred thousand at a crack, and from that up to millions, in to the Wall Street banks to be loaned at 18 to 20 per cent interest for call loans with liquid stocks as collateral. They ignored the fact that a bank is a public utility and should serve the community where it is located. They refused to furnish men that wanted to employ labor with money at 6 to 8 per cent, but sent it down there. They created the system of unemployment; and after they had got the banks' money there, and knew they could not obtain money anywhere to protect their stocks, then they called the loans. They broke the market. They kept the money and the choicest of the manufacturing stocks, and since that time they have named the directors of the choicest of the manufacturing plants in this country, and now own and operate them at the speed at which they are being operated at the present time.

Now, when these banks got their call money back, what did they find? They found that there were millions of people out of work. They could not buy the products that were stored on the merchants' shelves, and the banks held the notes of the merchants representing those goods, and they were not selling goods enough to pay the interest on the notes. There was frozen credit. They had frozen assets in the shape of depreciated stocks, depreciated bonds, and they had a bank credit collpase; and since that time, my friends, the banks have refused to discount. Banks have closed by the hundreds; and we have in my home town two banks less than we had three years ago.

Now, this is the condition: The banks have refused to discount. The banks have closed by the hundreds. We have them in my own town, two banks less than we had three years ago. This is the condition. A lady came into my office about two weeks ago and said, "We do not want charity but I do need to get some money out of the bank that I have on deposit." She said, "I need shoes for my children so that they can go to school. I have three children and need shoes for them." I said, "How much money have you there?" "Two hundred and fifty dollars." "Is it in your name?" "No, it is a joint account of my husband and I." I said, "I will call up the president of the bank." I called him up and I said, "King, there is a lady here who says she has $250 on deposit and she can not get any money out." This is a building and loan association. He says, "Who is she?" I gave him the name and he looked it up and said, "Yes; send her down." I told her to go to the bank and in a week she came back and had a little card about that long and it was printed on that card that she could get $2. I called Mr. King up again and said, "Mr. King, that lady is back here and shows me a card that the board has decided that she could have $2. That will not buy the nails in the shoes for the children." He says, "I do not know anything about it; I will turn it over to the man that does, one of the employees in the bank." I asked him about it and he said the board had decided that was all she could get. I said, "Can not she get more than that?" "No; that is the decision of the board." I said, "Turn Mr. King over to me again." I said, "Mr. King, that man says the board decided that is all she could have. That will not do. You have got to try to give her some money so that she can get shoes for her children." He said, "Send her up again."

A couple of days later another complaint came from an old lady 77 years of age who had $300 in the same bank and could not get any money out on which to live. She went over to the charity association and they told her she would have to go to the poorhouse. I called Mr. King up again and told him this situation. He said, "Send her up and I will see what I can do for her."

I have only cited a few of the things that are going on that I came in contact with there as Mayor of Massillon. My door is open. Rich and poor walk in there whenever they choose. I try to serve the people. I was elected as mayor of Massilon by over a thousand majority over the other candidates in spite of the fact that the public utilities paid $25,000 to defeat me. I had the only newspaper in the town, the daily newspaper in the town against me. I had the banks against me. I had the chamber of corruption against me. And I had the bootleggers and the gamblers against me, but I had the people with me. Now, my friends, I thank you for this and I am subject to questions if you want to ask me any.

Mr. Eslick. You mentioned the fact of bank deposits in the Treasury as bank notes are issued. Is there any deposit of gold to guarantee these?

General Coxey. No, they are redeemable in gold. The bank note is not money. It is only receivable for debt. It is not legal tender, a silver certificate.

Mr. ESLICK. But it is redeemable in gold.

General COXEY. Redeemable in gold. That is what they state on the face of them.

The ACTING CHAIRMAN. We thank you for your attendance.

(General Coxey submitted the following correspondence for the record:)

THE MONEY QUESTION

[Printed in the CONGRESSIONAL RECORD of February 21, 1931, by request of Hon. J. THOMAS HEFLIN, of Alabama]

Mr. HEFLIN. Mr. President, I ask unanimous consent to have printed in the Appendix of the RECORD an open letter from General Coxey to the President, and some other correspondence regarding the money question.

There being no objection, the matter referred to was ordered to be printed in the record, as follows:

OPEN LETTERS TO PRESIDENT HOOVER FROM JACOB S. COXEY, SR.

MASSILLON, OHIO, *March 4, 1930.*

Hon. HERBERT HOOVER,
President of the United States, Washington, D. C.

DEAR MR. PRESIDENT: One year ago to-day you took a solemn oath to support the Constitution of the United States. The fifth clause of section 8 of Article I of such Constitution provides:

"The Congress shall have power to coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures."

Definition and serious consideration of such provision, in view of the widespread unemployment situation caused by the withdrawal of money from the arteries of trade into the channels of speculation and destruction of bank credit, resulting in slackening of production and distribution, is what the writer wants to impress upon your mind.

DEFINITION: THE CONGRESS, WHICH IS THE PEOPLE

The Congress, comprising 1 Congressman from each of the 435 congressional districts and 2 United States Senators from each of the 48 States, all elected by the people.

SHALL HAVE POWER

Means the 13 States when they ratified such constitutional provision commanded the Congress and authorized through such delegation of a soverign right from all such States to the Congress.

TO COIN MONEY

Means to print money for the use of the Nation, States, counties, townships, cities, towns, villages, school districts, and for the people at cost of printing and of service.

REGULATE THE VALUE THEREOF

Means the Congress gives by an act authority and debt-paying power to money, a legal instrument to pay and cancel debts.

AND OF FOREIGN COIN

Means the Congress have power to give authority and debt-paying power to foreign coin (money) coming into the United States, the same as what it authorizes to be coined or printed.

AND FIX THE STANDARDS OF WEIGHTS AND MEASURES

Means the Congress, by an act, fixes the weight of the ounce, number of ounces to the pound, and number of pounds to the ton; size of the quart, peck, and bushel measure; length of the inch, number of inches to the foot, and yard measure.

Money is a representative and not a measure of value.

It is just as essential to have enough money to represent value as it is to have enough weights and measures to weigh and measure values.

On March 5, 1929, the writer addressed an open letter to your Excellency, a printed copy find inclosed, which please give further consideration.

Yours truly,

JACOB S. COXEY, Sr.

ANSWER

TREASURY DEPARTMENT,
Washington, March 7, 1930.

DEAR SIR: For the Secretary of the Treasury, receipt is acknowledged of your letter of March 4, 1930, with inclosure, addressed to President Hoover, which has been referred to this department for consideration.

Very truly yours,

H. ALLEN HOPE,
Assistant Secretary of the Treasury.

Mr. JACOB S. COXEY, Sr.,
Massillon, Ohio.

OPEN LETTER TO THE PRESIDENT

HOTEL WILLARD,
Washington, D. C., or Massillon, Ohio, March 5, 1929.

Hon. HERBERT HOOVER,
White House, Washington, D. C.

DEAR MR. PRESIDENT: I here submit the following for your serious consideration:

A BILL To provide for the nationalization of legal-tender money without interest, secured by community non-interest-bearing, 25-year bonds for public improvements, market roads, employment of unemployed, and for community needs of the United States

HOW IT WILL WORK

All of the States, counties, townships, cities, towns, villages, and school districts may issue $2,000,000,000 of 25-year non-interest-bearing bonds for public improvements and needs of such communities during the first year, after a vote of the people has been taken, such communities authorizing the issuance of such non-interest-bearing 25-year bond issue.

ISSUE OF MONEY BY THE PEOPLE

Such $2,000,000,000 of non-interest-bearing 25-year bonds having been deposited with the Treasury Department at Washington, D. C., as security, there will be an equal amount of legal-tender money printed by the Government, 1 per cent, or $20,000,000, will be retained to pay for printing and caring for the Treasury Department handling that department during the 25-year period.

HOW IT GETS INTO CIRCULATION

All the communities depositing such bonds and receiving from the Treasury Department $1,980,000,000 of legal-tender money pay such money into circulation to the now unemployed and others for service rendered and material furnished.

HELP BUT NOT HARM THE BANKS

When the people receive such moneys for services rendered and material furnished they will pay their debts to the merchants, landloards, taxes, and then it is deposited in the banks to the extent of $1,980,000,000 the first year.

MONEY INSTEAD OF CREDIT

Thus it will substitute gradually a legal tender money system to take the place of a bank-credit system, represented by checks, circulating and transferring a credit in a bank, instead of checks circulating and transferring real money when deposited in a bank.

ABOLISH INTEREST ON PUBLIC BONDS

Under this system the banks will be divorced from the further dealing in States and subdivision tax-exempt interest-bearing bonds. Such banks will then confine their loans for commercial, producing, and agricultural purposes at a more reasonable interest rate and allow the banks to stop the further payment of interest on deposits.

ELIMINATE PANICS

No sudden contraction of the currency can occur, as only 4 per cent of the total amount issued, $80,000,000 annually, would be retired through taxation, cancellation, and redemption.

STEADY EMPLOYMENT

The further issues of $2,000,000,000 annually would overcome the contraction of 4 per cent, or $80,000,000. redemption the second year, and an increase of 4 per cent on the amount issued thereafter, would be redeemed, retired, and canceled through taxation each year:

The amount of money in circulation is less than $5,000,000,000, and $40,000,000,000 of loans, bank credit, represented by checks circulating which are a substitute for money and when deposited transfering credit in a bank, which allow the people (with the present system) to produce, transport, exchange, and consume one hundred and twenty-five to one hundred and fifty billion dollars of products annually.

A careful study of the foregoing will convince anyone that it is constitutional, sound, practical, and will provide money for the development of the resources of the States and subdivisions, solve unemployment, diminish (if not abolish) poverty by providing work for the unemployed that will work, and not feeding those that will not work, and make continuous prosperity to all, as well as a tax saving of 20 per cent of your taxes annually.

Yours respectfully,

JACOB S. COXEY, Sr.

ANSWER

TREASURY DEPARTMENT,
Washington, March 8, 1929.

MR. JACOB S. COXEY, Sr.,
Massillon, Ohio.

SIR: Receipt is acknowledged by reference from the White House of your open letter to the President dated March 5, 1929, in which you submit for consideration a bill to provide for the nationalization of legal-tender money without interest secured by community noninterest-bearing 25-year bonds for public improvements, etc.

Respectfully,

HENRY HERRICK BOND,
Assistant Secretary of the Treasury.

OPEN LETTER

MASSILLON, OHIO, *March 12, 1930.*

Hon. HERBERT HOOVER,
President of the United States, Washington, D. C.

DEAR MR. PRESIDENT: If you will recommend to the Congress the following measures, when such are enacted into law it will bring about immediate and continuous prosperity:

First. A bill to provide for the nationalization of legal-tender money without interest secured by community noninterest-bearing 25-year bonds for public improvements, market roads, employment of unemployed, and for community needs of the United States.

Second. A bill to authorize the Secretary of the Treasury to have engraved and printed a sufficient amount of legal-tender Treasury notes to care for any deficiency that is or may occur in the Treasury Department and to pay interest on the public debt as it becomes due, as well as the debt as it matures, and prohibit such Secretary from the further issuance of interest-bearing bonds for any purpose or purposes whatsoever.

Third. A bill to authorize the Secretary of the Treasury to have engraved and printed a sufficient amount of legal-tender Treasury notes to redeem all outstanding national-bank currency and cancel all interest-bearing bonds now held by such Treasury as security for such national-bank currency and return to such national banks such Treasury notes now held by such Treasury as a redemption fund for such bank currency.

Fourth. A bill to authorize the Secretary of the Treasury to have engraved and printed a sufficient amount of legal tender Treasury notes, to loan to all utilities under the jurisdiction of the Interstate Commerce Commission, upon the approval of such commission authorizing such utilities to issue and deposit noninterest bearing 20-year bonds for all equipment and needs of such utilities.

Respectfully submitted.

JACOB S. COXEY, SR.

Following also submitted:

TREASURY DEPARTMENT,
Washington, March 6, 1930.

MR. JACOB S. COXEY, SR.,
Massillon, Ohio.

SIR: Under date of February 3, 1930, you requested of the Comptroller of the Currency a statement of the amount of interest that has been paid to national banks since 1863, on bonds deposited by them as security for their circulating notes.

You are advised that records are not maintained by this department to furnish such information. However, as nearly as can be computed from 1873 to 1929, inclusive, the Treasury paid to national banks the sum of $723,985,342.90.

Respectfully,

G. O. BARNES, *Assistant Treasurer.*

(No record prior to 1873.)

FROM 1873 TO 1929, INCLUSIVE

The United States Treasury paid to national banks the sum of $723,985,342.90, in interest on bonds securing national bank currency.

Such bonds of the United States, issued and held by such Treasury, as security for such national bank currency, have the taxing power of the Congress (elected by the people) to tax the property of the people to pay such sum of interest.

Such national-bank currency is (not money) receivable for debt, and when demanded, must be exchanged for legal tender Treasury notes, in order to pay and cancel a debt.

Five per cent of national bank currency outstanding (about the sum of $700,000,000) amounting to about $35,000,000, of legal tender Treasury notes, are held by such Treasury as a redemption fund for such national bank currency.

If an interest-bearing bond (under the national bank act) must be issued and sold by such Treasury to a national bank and then deposited by such bank with such Treasury issuing and selling it, as security for national-bank currency, issued by such Treasury to such bank, why not issue legal-tender Treasury notes (instead of national-bank currency) to take up the $700,000,000 of bonds bearing 2 per cent interest and redeem such national-bank currency with such Treasury notes?

Would not such redemption of $700,000,000 of 2 per cent interest-bearing bonds save $14,000,000 per year?

Would not such redemption of $700,000,000 national-bank currency (which is only receivable for debt) be replaced by an equal amount of legal-tender (which would pay all debts) money?

Would the release of $35,000,000 of legal-tender Treasury notes, held by such Treasury now as a redemption fund for such national-bank currency, harm such national banks if returned to such banks by such Treasury?

Would not such national banks that have $100,000 of bonds deposited receive $100,000 of legal-tender Treasury notes for such bonds?

Would not such banks that have $5,000 (Treasury notes) deposited as a redemption fund have such $5,000 returned to such banks by such Treasury?

Would not such banks have a $5,000 (when returned) foundation upon which could be built, by such banks, $45,000 of credit loans?

Would not such credit loans be represented by checks of borrowers taking the place of money, yet answering every purpose of money?

Why does not Congress (elected by the people) give authority to the Secretary of the Treasury and command such Secretary to issue legal-tender Treasury notes instead of 3¼ per cent Treasury certificates in the sum of $450,000,000 to relieve the stringency of the Treasury at this time?

Clause 5, section 8 of Article I of the Constitution provides:

"The Congress shall have power to coin money, regulate the value thereof, and of foreign coin."

Would not such $450,000,000, of legal tenders, if issued and paid out by such Treasury, help to relieve the money stringency and give the people money to do business with?

Would the banks then have the excuse to raise interest rates, as they are doing now?

How are the people going to pay for their homes, merchants to pay their notes, and manufacturers to obtain money to do business with if we do not commence to get money at cost to the people, instead of to the banks exclusively?

Why not such Congress give authority to such Secretary at all times, when an emergency arises, to issue legal-tender Treasury notes, instead of interest-bearing bonds, or certificates of indebtedness bearing interest (which latter power such Secretary now possesses), or sold at a discount to meet a Treasury deficit, or to pay interest on the public debt and the debt as it matures?

As the national debt matures issue legal-tender Treasury notes to pay it, and stop the further refunding of such debt into an interest-bearing debt.

As the interest becomes due, amounting to about $700,000,000 for 1930 on the public debt of $16,500,000,000, issue legal-tender Treasury notes to pay it.

If such Treasury expects to reduce such public debt $1,000,000,000 annually, and the interest on such debt is $700,000,000, and legal-tender Treasury notes are issued and paid into circulation for both (principal and interest) in the sum of $1,700,000,000, would not the income-tax cut be of an equal amount?

How would such tax cut of $1,700,000,000 compare with the much-heralded tax cut of $160,000,000?

Would not such increase of legal-tender money gradually take the place of bank credit to the extent of many billions of dollars that has been destroyed on account of the savings of the people in money being withdrawn from the country banks (causing destruction of such bank credit), invested in stock speculation in Wall Street on margin, and now such Wall Street banks have both the savings (money) of the people as well as stocks held as collateral, leaving such country banks without money or bank credit to loan?

Would such country banks then have the excuse to raise interests rates as they are doing now?

Building and loan companies calling in the people owing them, compelling such people to sign up for an increase of one-half of 1 per cent (interest) on loans that still have years to run, commercial banks raising interest rates from one-half of 1 to 2 per cent.

How are the people going to pay for their homes, merchants to pay their notes to the banks, when the people are unemployed and unable to buy and pay for goods and manufacturers obtain money to do business with if we do not commence to get money to the people at cost instead of to the banks exclusively?

ANSWER

TREASURY DEPARTMENT,
Washington, March 18, 1930.

DEAR SIR: For the Secretary of the Treasury, receipt is acknowledged of your letter of March 12, 1930, with inclosures, addressed to President Hoover, which have been referred to this department for consideration.

Your recommendation for legislation to provide for the nationalization of legal-tender money without interest, etc., have been noted.

Very truly yours,

H. ALLEN HOPE,
Assistant Secretary of the Treasury.

To Mr. JACOB S. COXEY, Sr., *Massillon, Ohio:*

The Government charged the Federal reserve banks about $1.10 per $1,000 (printing and franchise tax) for over 10,000,000,000 of Federal reserve notes (money) during the past five years, then borrowed it back and pays 3¼ per cent (interest) for the use of its own money. Why should not the Government print it at the same price to the States, counties, townships, cities, towns, villages, and school districts? To-day, March 25, being the thirty-sixth anniversary of the first march of the unemployed to Washington under Cleveland's (Democrat) administration and 16 years since the second march, under Wilson's (Democratic) administration, now comes Hoover's (Republican) administration outdoing both Democratic administrations in unemployment and depression in business, should be enough to convince the dumb bells that there is no difference between Democratic and Republican administrations.

JACOB S. COXEY, Sr.,
Massillon, Ohio.

[From the Akron Beacon-Journal, March 22, 1930]

The Federal Reserve Board will boost the money in circulation by a round $3,500,000,000. This is getting pretty near General Coxey's prescription of money at cost.

The ACTING CHAIRMAN. It is beyond the hour. The committee stands adjourned until 10 o'clock to-morrow morning.

(Thereupon, at 1.07 o'cock p. m., the committee adjourned to meet again at 10 o'clock a. m., Friday, April 15, 1932.)

PAYMENT OF ADJUSTED-COMPENSATION CERTIFICATES

FRIDAY, APRIL 15, 1932.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D. C.

The committee met at 10 o'clock a. m., Hon. Heartsill Ragon, presiding.

Mr. RAGON. The committee will be in order. The chair recognizes Mr. Patman.

Mr. PATMAN. Mr. Chairman, I would like to read two letters that I have here from economists. They are at Cornell University, New York. I wired Mr. F. A. Pearson, who is a noted economist, and asked him what he thought about the issuance of $2,000,000,000 in currency to pay off the adjusted compensation certificates, on the theory that it would provide expansion of the currency and increase commodity prices and thereby promote the general welfare. He replied to me as follows:

NEW YORK STATE COLLEGE OF AGRICULTURE,
Ithaca, N. Y., April 12, 1932.

Mr. WRIGHT PATMAN,
House of Representatives, Washington, D. C.

DEAR SIR: I received your telegram of April 8 concerning the bonus and commodity prices.

The present collapse in prices is the most serious this country has ever experienced. It was much worse than in 1921. At that time the high-price level had not continued long enough for society to become adjusted to it. The present deflation follows a period of stability from 1923 to 1929, with prices about 50 per cent above pre-war. During this period transportation, wages, salaries, taxes, debts, and all other social relationships were adjusted to that price level. There is now a great maladjustment in our social structure; prices are low, wages have been reduced somewhat, unemployment is widespread, taxes are high, and the ratio of debts to the value of property is very high.

In 1929, the public and private debts of the United States are largely based on commodity prices, and if prices continue to decline, the value of the property on which the security rests is reduced until the debts are approximately equal to the liquidated value of the property. No building or other types of property is in general worth more than the cost of replacing it. Therefore, a continued decline in commodity prices means more equities are swept away and more properties must be taken over by creditors who do not want them.

Deflation has continued so far and proceeded at such a rapid pace that the welfare of the nation hangs in a balance. If deflation continues, we may expect unparalleled bankruptcies, and increase in bank failures, and an unprecedented transfer of wealth.

It is to the best interests of general welfare that prices be stabilized at the level at which taxes, debts, wages, and all other human relationships were adjusted.

Very truly yours,

F. A. PEARSON.

The next letter is from Doctor Warren, of Cornell University, an economist. I am sure you gentlemen have heard of Doctor Warren. He answered my telegram in this way:

NEW YORK STATE COLLEGE OF AGRICULTURE,
Ithaca, N. Y., April 13, 1932.

Hon. WRIGHT PATMAN,
House of Representatives, Washington, D. C.

DEAR MR. PATMAN: If a material increase in made in the currency, prices will rise. The increase would have to be sufficient to take care of the high cash reserves which the panic conditions require.

Every reduction in wages or other cut in costs, while it may be desirable from the standpoint of the individual concerned, undermines the security for debts previously incurred. For example, a house is not worth more than the cost of building a new house. If a new one can be built for 30 per cent less than the old one cost, the old one shrinks in value by 30 per cent. This wipes out the equities of many owners, throws bankrupt properties on the market to be sold not at a reduction of 30 per cent, but at almost any price which the buyer will offer. Such a panic situation stops building and other industries and causes unemployment. We must expect these conditions to continue until debts are liquidated, which will require a number of years if we follow out the deflation program. The more we cut wages and other costs, the more we destroy values of property and commodities previously produced and the more we undermine the credit structure.

Very truly yours,

G. F. WARREN.

Mr. PATMAN. I am advised by Mr. Condon of Rhode Island, who is the author of a similar bill to pay the adjusted compensation certificates, that he must go to the Committee on the Judiciary very shortly. Therefore I would like to introduce Mr. Condon, of Rhode Island, at this time.

Mr. RAINEY (presiding). We shall be glad to hear Mr. Condon.

STATEMENT OF HON. FRANCIS B. CONDON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF RHODE ISLAND

Mr. CONDON. Mr. Chairman and gentlemen, the series of bills which you have before you, providing for the payment of the adjusted-service certificates in cash, present for your consideration one of the most serious problems confronting the Congress. On one hand we have millions of veterans of the World War and their friends demanding that this legislation be passed without delay and, on the other hand come protests from bankers and big business against such legislation. Many of these protests, couched in vigorous terms and accompanied with the most alarming predictions, are grossly exaggerated and are made largely for the purpose of scaring Members of Congress rather than assisting them to arrive at a fair and proper solution of the problem. The objectors from whom I have heard personally, show by their letters and telegrams that they have given little if any thought to the ultimate effects of any of the proposed bills, but have contented themselves with merely parrotting the familiar statements continually repeated in the daily press.

I appear in support of the general proposition of the payment of these certificates at this time because I sincerely believe that such payment in addition to helping the veteran will be generally beneficial to the country at large. My own bill (H. R. 5461), provides that such payment be made in four equal payments and does not provide any method by which the funds shall be obtained by the Treasury for this purpose. The Patman bill (H. R. 1) provides for the payment in full and does set out a method by which the Treasury can obtain the funds. For this reason I prefer to support the Patman bill rather than my own. I also favor H. R. 1 because I have received several hundred letters from veterans requesting the passage of this bill and because it has been indorsed by the Veterans of Foreign Wars, Department of Rhode Island; the Disabled American Veterans of the World War, Department of Rhode Island; and many thousand citizens of the State who have signed petitions which are before the committee.

In addition to these requests the American Legion of Rhode Island has forwarded to me a copy of the resolution adopted at its State convention at Narragansett Pier in September 1931, requesting the members of Congress from Rhode Island to favor the immediate cash redemption of these certificates; also the Disabled American Veterans of the World War, of Rhode Island, have made a like request in their resolutions passed December 30, 1931. Since these actions were taken by the veterans' organizations the Senate and House of Representatives of the Rhode Island General Assembly unanimously passed a resolution, which was approved by the Governor on April 7, 1932, requesting the Senators and Representatives of Rhode Island in the Congress of the United States to support legislation providing for the payment of adjusted service certificates at their face value.

As opposed to this expressed sentiment of my State I have received a half dozen personal letters from employees of brokers' offices in Providence and four additional letters from executives of manufacturing plants protesting against the bills. In the light of this evidence I feel that I am justified in stating to this committee that the sentiment of the State of Rhode Island is overwhelmingly in favor of the general proposition of paying these certificates in cash at this time.

You gentlemen will probably answer for yourselves three main questions in arriving at a decision whether or not to report favorably this legislation. You will probably ask yourselves first: Do the veterans of the World War at present need the money represented by their certificates? May I say that I think the answer to this question is not a subject of controversy? Undoubtedly a very large majority of the veterans are in dire need of this money. The most tragic picture in America to-day is the million or more veterans in the grand army of the unemployed, mendicants for relief for themselves and for their families, notwithstanding that their Government still owes them adjusted compensation for war service. If this legislation would do nothing else to assist these men than take them out of the class of public paupers I would gladly vote for it.

The second question is: Do the veterans themselves want it? It would be ridiculous to pose this question were it not for the fact that it has been sought to persuade the country that the American Legion is opposed to the payment of these certificates. I assert that the Legion has not so spoken on this question, in fact a majority report of the legislative committee at the Detroit convention distinctly dodged the issue and presented an innocuous resolution for adoption by the convention. Not only that, but many delegates violated their instructions and voted opposite to the wishes of the department which they were supposed to represent. In the Rhode Island delegation, out of a total of nine delegates, two so violated their instructions. But, regardless of the vote of the delegates at Detroit, it is my conviction that the rank and file of the Legion throughout the country are as strongly in favor of this resolution as the legionnaires of my own State of Rhode Island.

And daily we are getting evidences of that fact, and that the high ranking national officers of the American Legion are not speaking the wishes and the minds of the rank and file of the Legion.

Gentlemen, the veterans want this legislation and if the national officers of the Legion think otherwise let them poll their own membership and they will learn something.

The third question is: Can the United States Government afford to make this payment? The answer that you will make will be determined very largely by the way in which you view the present monetary situation. If you believe that commodities ought to stay cheap and money dear and that any expansion of the currency will be harmful, then, of course, you will be driven to the conclusion that the Government can not pay at this time. On the other hand, if you believe that the major cause of much of our economic distress to-day is an extravagant and wholly unjustified contraction of the currency produced by panic and extreme fear and that what is needed is something to readjust the balance, then you will say that the Government not only can pay these certificates now, but a providential opportunity is offered to it by so doing to improve the economic condition of the country and promote the general welfare of all classes, while at the same time performing an act of justice toward the veterans.

Frankly, this legislation can not be made effective without some expansion of the currency, but a reasonable degree of expansion is greatly needed at this time. The important thing to be concerned about is that any such expansion shall not get out of bounds. To safeguard against such a possibility it would be well for the committee to study this phase of the problem, if it finally decides to report the bill.

And I believe you gentlemen are doing that and are receiving the advice of economists who have appeared and others who I understand will appear later.

This last question is so extremely important that you gentlemen will be justified in seeking the best expert advice of fiscal economists who have given special thought and study to our monetary problems. Some such experts will appear before you at these hearings with concrete recommendations. I am not a student of that subject and, therefore, refrain from taking any more of your valuable time in advancing my ideas. I am before you personally to make known to you the sentiment of my State and particularly the sentiment of the organized and unorganized veterans within the State in favor of this legislation, and also my own personal support of it. I believe that notwithstanding the widespread propaganda against this measure you can find ample arguments supported by reason and sound principle to justify a favorable report to the House of Representatives. I am confident that each of you will give this problem his most serious and earnest consideration and that your final decision, whatever it may be, will be actuated by a sympathetic sense of justice toward the veterans and a wise solicitude for the general welfare of our common country. In my own behalf and on behalf of the thousands of veterans of Rhode Island for whom I undertake to speak, I thank you for this opportunity to express my views and to convey to you their desire for this legislation.

Mr. RAINEY. Thank you for your presentation, Mr. Condon.

Mr. PATMAN. Mr. Chairman, the Members of Congress are not going to take up very much time. They have requested that I announce that their time will be very limited. Mr. Cochran is a member of the Economy Committee and is supposed to be at that committee now. I asked him if he preferred to wait over and take a longer time, or take just a few minutes now. He prefers to be heard now in regard to his own bill to pay the adjusted-service certificates.

Mr. RAINEY. We shall be glad to hear Mr. Cochran.

STATEMENT OF HON. JOHN J. COCHRAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Mr. COCHRAN. Mr. Chairman and gentlemen, I want to call the committee's attention to my bill, H. R. 11117, and if permitted will put a statement in the record in reference to that bill.

Mr. RAINEY. You have that permission.

Mr. COCHRAN. I come here this morning at the request of not less than a dozen American Legion posts in St. Louis and other parts of Missouri who have asked me to tell the committee that the commander of the American Legion does not voice their views in reference to this legislation.

Mr. Chairman, we have heard a great deal from people who say that we are liable to wreck the national credit of this country if we issue bonds. I am not very well versed to speak upon that subject, so I am going to quote from a man who is well versed to speak upon that subject. I refer to the present Secretary of the Treasury, Mr. Mills. On December 13, Mr. Mills delivered an address in New York, and on December 14, the gentleman from Oregon, Mr. Hawley, placed that address in the Congressional Record. I read a paragraph from that address.

> I do not mean to suggest that the addition of three billions or even four billions to our national debt could conceivably impair the national credit. That debt stood at $25,000,000,000 a decade ago and the national credit was unimpaired.

Mr. Chairman, my bill is the real solution for this problem that now confronts you. I am confident in my own mind that there is not a member of this committee that would not like to see the veterans receive their adjusted-service certificates paid in full, if you could be convinced that it could be done and at the same time not upset or disturb the finances of the country.

We are suffering from the greatest panic that this country has ever known. Its present-day name is depression, but call it what you will, conditions to-day in this country warrant every thinking American to lend his or her thoughts toward reaching a conclusion that will bring us back to normal.

People out of employment, naturally, are not happy. There is a feeling that the Government should do something for the unemployed. We have taken care of industry and agriculture, but what have we done for the masses in the cities out of work, dependent upon charity?

Here is an opportunity to invoke the golden rule and do something for the people who are now in want, but who in the days of plenty paid the bill for Uncle Sam. My bill seeks not only to pay the adjusted-service certificates but also to place thousands of people to work, and it affords a way to benefit the farmer. I ask you to vote to pay the certificates by issuing bonds, the bonds to be retired by placing a 3-cents-a-bottle tax upon 3 per cent beer. This tax will bring in about $400,000,000 a year and in six or seven years enough money will have been collected to redeem the securities. I have read the statement of the present Secretary of the Treasury who says our credit will not be impaired if bonds are issued up to even $4,000,000,000. Only half this amount will be needed.

You will reestablish the brewing industry. You will place several hundred thousand people to work and by so doing you will provide a market for 110,000,000 bushels of grain, if not more.

No State that does not by its own laws provide for the manufacture and sale of beer will be disturbed because my bill provides that the beer can not be shipped into that State. Therefore the States that legalize the sale of this cereal beverage, nonintoxicating, and not in conflict with the eighteenth amendment will be required to pay any of the money that will redeem the bonds.

I plead with you to give your most earnest consideration to this proposal—sound in every way. I know of no suggestion that will do more to assist to bring us out of this depression than the proposition I have placed before you.

I thank the committee for this opportunity to appear.

Mr. Rainey. Thank you, Mr. Cochran.

Mr. Patman. Mr. Chairman, we have invited here this morning Mr. John Simpson, who is President of the Farmers' Union of America, an organization composed of between two and three hundred thousand members in practically every State in the Union.

STATEMENT OF JOHN SIMPSON, REPRESENTING THE FARMERS' UNION OF AMERICA

Mr. Simpson. Mr. Chairman and gentlemen of the committee, I believe that there is but one solution for the present very unfavorable condition in which this country finds itself and that is reduction of the value of the dollar. You can not pay the debts of private individuals, of divisions of government, from school districts up to the National Government, with a dollar that has reached the place where it buys 16 dozen of eggs, 6 pounds of butterfat, 20 pounds of cotton, and 2 bushels of wheat.

We can not pay the debts and the taxes with that kind of a dollar. I believe that if you were to call every recognized economist in the United States to testify before this committee, you would find that every one of them would tell you that the quantity of money is a large factor in measuring the price of commodities.

For that reason Congress is never going to solve the problem they have been trying to solve now for four months until you increase the volume of money in the country. You have to get a bigger crop of money.

This bill provides for one of the best crops of money that has been issued in a half centruy, and I claim it is of a better quality and the best crop of money that you could possibly produce, for the reason that no banker or group of bankers would have control of it.

Every crop of money produced in this country in the last 50 years has been under the control of a few bankers. They could withdraw that crop of money from the use of the people whenever they so desired.

It is my understanding that under this bill, whatever money will be issued will be money issued by the Government. No bank will have control of it. No group of bankers can retire that money.

For that reason we are for this bill. It puts into circulation a needed volume of money to bring up the price of commodities so that people can pay their taxes and their debts. It brings into circulation a kind of money that can not be withdrawn from public circulation.

The Farmer's Union took it from the lips of a United States Senator in 1920 that during the war those who remained here at home made money, lots of it; that during the period of the war, 20,000 new millionaires were created in the United States. In other words, the folks that were here at home coined money out of the services of the 4,000,000 boys who were enlisted in the Army.

I do not care—even though it takes taxes to get some of that money from the folks who stayed here and made money to give it back to these boys who served their country.

Last night I was at a meeting in Pennsylvania where a fellow said—and I resented it bitterly—that if you gave $2,000,000,000 to these boys, the bootleggers would have it in six weeks. I say to this committee that when these 4,000,000 young men were taken into the Army, we all acknowledged them the flower of the youth of our country. They are now approaching middle age. They are still the flower of our country. As they go on down to old age, where many of us are, they will remain the flower of our country, and if paid this $2,000,000,000, just as small a percentage of it will reach places that are not legitimate as would be the case if paid to any other group.

I thank you, Mr. Chairman.

Mr. PATMAN. Mr. Chairman, Mr. Swank, of Oklahoma, has a committee meeting and can not remain very much longer. He only wants about five minutes of your time. Mr. Swank is the author of a bill to pay the adjusted-compensation certificates and desires to speak on his proposal.

STATEMENT OF HON. FLETCHER B. SWANK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. SWANK. Mr. Chairman and gentlemen of the committee, there are quite a number of bills that have been introduced having for their object the same purpose as the Patman bill. I wish to say to the committee that personally I am in favor of Mr. Patman's bill and hope that that will be the bill the committee will report out, if the committee reports out any bill, as I hope it will.

There is a mistaken belief in some sections, or at least some of the opponents of this bill would have the people believe that nobody is for this bill except the soldiers. I say to you that there are plenty of business men for this bill.

In the district that I have the honor to represent here eight chambers of commerce among the leading towns in the district have indorsed this legislation, because they understand and see the need of something being done and believe that the way to do it is to put more money in circulation. That is what everybody says who talks about relieving the conditions that now confront us.

I do not believe that anything new can be said on this legislation. I believe you gentlemen have heard about all that can be said on it from men who know about all that there is to know about legislation of this sort.

Mr. Patman has furnished you with the opinions of many of the leading economists of the country. Of course, they differ, as other men differ. Some papers, I have noticed, have sounded the call of patriotism again to these boys. That is unnecessary. As Mr. Simpson has just said to you, I resent that. The boys who defended this country during the World War are not going to do anything that would injure this country now; neither is the Congress of the United States.

I want to say that I hope Mr. Patman's bill will be reported out. He has a plan to finance this payment that I think is workable and fair. I hope that this committee will give the House of Representatives an opportunity to express their view and cast their vote on the bill on the floor of the House where we have a right to decide these measures.

I appreciate the courtesy the committee has extended to me.

The Acting Chairman. Thank you very much, Mr. Swank.

Ladies and gentlemen the committee feels honored that you who are in the audience are here and we appreciate your interest in this legislation. But the rules of the House apply to hearings before the committee. The rules of the House forbid applause from the galleries or by visitors. Therefore, I respectfully ask those present to observe those rules and refrain from applauding.

Mr. Patman. At this time I desire to introduce Mr. L. S. Ray, who is the legislative representative for the Veterans of Foreign Wars of America.

The Acting Chairman. Mr. Ray.

STATEMENT OF L. S. RAY, WASHINGTON, D. C., VICE-CHAIRMAN, NATIONAL LEGISLATIVE COMMITTEE, VETERANS OF FOREIGN WARS OF THE UNITED STATES

Mr. Ray. Mr. Chairman and gentlemen of the committee:

The Veterans of Foreign Wars of the United States have steadfastly maintained that this payment should be made in cash and each National Encampment has urged that the face value of these certificates be paid. Our thirty-second national encampment at Kansas City, Mo., September 3, 1931, went on record unanimously as favoring immediate payment. This last resolution was passed after thorough discussion and study, both in committee and on the floor.

I would like to read the resolution.

The Acting Chairman. You have that permission.

Mr. Ray (reading):

PAYMENT OF ADJUSTED COMPENSATION

Whereas the Veterans of Foreign Wars of the United States did in its thirty-first national encampment in Baltimore, Md., in 1930 go on record as favoring the immediate payment of the face value of the adjusted-compensation certificates in cash; and

Whereas the last session of Congress amended the act so as to increase the loan value from 22½ per cent to 50 per cent and did reduce the interest rate to 4½ per cent; and

Whereas it is the consensus of opinion of this encampment that we reaffirm the action taken at the thirty-first national encampment: Therefore be it

Resolved, That the thirty-second national encampment of the Veterans' of Foreign Wars of the United States, does and hereby goes on record in favor of the immediate payment of the face value of said adjusted-compensation certificates, in cash, and the refunding of all interest thereon charged on such certificates upon which loans have been made.

Approved by the national encampment, Veterans' of Foreign Wars of the United States, at Kansas City, Mo., September 3, 1931.

It has been claimed by opponents of this measure that the veterans do not need the money at this time. This statement is undoubtedly made without any study of the needs of the veterans or the actual facts. We have received thousands of letters from veterans from every State in the Union, from posts, county councils, and departments, showing that thousands of these men are out of employment and without funds to provide the necessities of life for themselves and families. Thousands of them owe their grocers, doctors, landlords, clothiers, and others, and can not pay. Many cases have been brought to my attention where veterans have been dispossessed of their homes. Many have written us who are living on farms that if some money is not forthcoming during the next few weeks they will not be able to plant crops or feed their livestock.

If this legislation is enacted into law it is certain that a large percentage of the money will be placed in circulation by the purchase of necessities, paying of debts to retail merchants and others who, in turn, will pass it on to the wholesale dealers, which will stimulate manufacture of all kinds and thereby give employment to many and a market to the producers of raw materials.

I would like to read into the record a few typical letters from veterans holding these adjusted-service certificates.

The ACTING CHAIRMAN. You have that permission.

Mr. RAY. We have many thousands of letters, but I will not take up the committee's time except to read just a few excerpts.

Here is a letter from Wallingford, Wash.

It would help me a lot to get the cash now, as I am a farmer and can not raise another crop without help from some source.

Another from Baltimore, Md.:

I have only worked three months since last June and before that time only part time for a year and a half. If I don't get some money or employment within the next two or three months I will lose what money I have invested in my home. At present I have a small grocery account which will soon be cut off. When my credit is stopped I do not know what I will do to feed my family. I have a balance of about $100 I owe on a $500 furniture bill. I have not been able to make a payment for over four months now and I am liable to lose what I have invested in it.

Another from Philmont, N. Y.:

I am a man with a wife and four children from 7 to 2 years of age. I have had no work since the first part of October, and I am very deep in debt. Also, I am five months behind in my rent.

Another:

I am in dire need of money as I have four small children and I have not had scarcely any work for two years. I hope they will pass this bonus. I feel confident you will do all you can toward it.

Another:

I need money bad. Three months behind in rent. Are going to be put out No money, nowhere to go, no job. Money is needed bad and my wife is sick so do what you can for us.

We have received many thousands of letters, Mr. Chairman, along this line, from every section of the United States and it is very unfair that the statement be made, and it has been made, that these veterans do not need the money and that they would waste it.

These men holding these certificates can not understand why they and their families should suffer and be forced to go to charitable organizations for food and clothing while holding this Government obligation on which nothing can be realized at this time.

Opponents of this legislation claim the veterans themselves are not in favor of the immediate payment in cash of these certificates. Several hundred thousand veterans were in the service less than 110 days and their adjusted-service pay was less than $50. These, of course, were paid in cash. Some of these men might oppose the passage of this legislation, but it is my opinion that most of them are in favor of this measure that would benefit their comrades who had a longer term of service.

We have had many thousands of letters from veterans from every part of the United States, a large percentage of them not members of the Veterans of Foreign Wars, and of these I do not recall one that has written in opposition to this legislation.

A ballot to be signed by World War veterans was inserted in 162 metropolitan dailies and in a few papers in the smaller towns, asking for a vote on the immediate payment of the adjusted-service certificates. These ballots were carefully checked and tabulated. Two hundred and fifty-four thousand nine hundred and twenty were received; 26,000 additional were thrown out because they did not show the organization of the signer. Of the number tabulated, 254,324 were in favor of the immediate cash payment and 59 were opposed, which is a percentage of less than 1 per cent.

I have a list made up by States of this ballot, Mr. Chairman, which I would like to insert in the record.

The ACTING CHAIRMAN. You have that permission.

Mr. RAY. It will be noted in some States the vote is very small. That is by reason of the fact that in some States the metropolitan dailies and very few of the small papers ran these ballots.

(The tabulation above referred to is as follows:)

Ballot tabulation of Veterans of Foreign Wars' nation-wide newspaper poll of World War veterans on immediate cash payment of adjusted-service certificates as of March 19, 1932

State	Affirmative	Negative	State	Affirmative	Negative
Alabama	3,287	6	Oregon	2,318	10
Arizona	1,947	5	Pennsylvania	20,233	24
Arkansas	2,301	10	South Carolina	868	6
California	14,751	23	South Dakota	1,954	7
Colorado	2,722	16	Tennessee	4,194	4
Connecticut	2,015	14	Texas	10,289	24
Delaware	116	2	Utah	2,207	1
District of Columbia	859	1	Vermont	411	4
Florida	2,225	8	Rhode Island	1,544	--------
Georgia	6,102	17	Virginia	1,971	8
Idaho	884	--------	Washington	4,251	9
Illinois	16,332	10	West Virginia	3,031	10
Indiana	6,438	10	Wisconsin	4,793	11
Iowa	7,152	19	Wyoming	484	1
Kansas	5,306	32	Alaska	10	--------
Kentucky	4,122	12	Canal Zone	31	--------
Louisiana	7,501	12	Hawaii	60	--------
Maine	799	4	Philippine Islands	12	--------
Maryland	1,730	2	France	17	1
Massachusetts	6,715	16	Porto Rico	4	--------
Michigan	23,810	10	Spain	3	--------
Minnesota	11,940	32	Mexico	3	--------
Mississippi	2,360	4	West Indies	1	--------
Missouri	9,008	89	Virgin Islands	1	--------
Montana	1,251	4	Sweden	1	--------
Nebraska	3,337	11	Denmark	1	--------
Nevada	160	--------	Cuba	1	--------
New Hampshire	630	1	Spanish Honduras	1	--------
New Jersey	9,261	11	Nicaragua	2	--------
New Mexico	757	2	Guatemala	2	--------
New York	19,744	62	Canada	25	--------
North Carolina	2,309	3	United States Navy ships	26	--------
North Dakota	672	3			
Ohio	14,177	21		254,324	596
Oklahoma	2,854	4			

Incomplete ballot returns as of Mar. 19 (lacking in service uni designation, incomplete addresses, women voters, etc.), 26,838.

These veterans who served their country so well in time of war are now accused of being unpatriotic by some. This is a most unfair statement and is hardly worthy of comment. Thousands of these men who are now asking Congress to pay their adjusted-service certificates were decorated for valor in action by this Government and foreign countries. I have before me a telegram that I would like to read from the outstanding hero of the World War, Sergt. Alvin C. York, whose patriotism no one can question. His telegram is as follows:

JAMESTOWN, TENN., *April 6, 1932.*

L. S. RAY:

Message received. Regret impossible to accept your kind invitation. Closed contract yesterday to speak in Louisville, Ky., Monday night, April 11. My stand on the bonus is well known. I favor its immediate payment now.

Sergt. ALVIN C. YORK.

I might say that Sergeant York expected to appear before this committee on Thursday, but missed some connections. He was making speeches in Kentucky and Tennessee and was unable to get here, but plans to be in Washington some time during the following week.

The ACTING CHAIRMAN. I am sure the committee will be glad to hear him.

Mr. RAY. We do not attempt to say how Congress shall pay these certificates. Several methods have been suggested to this committee.

I would like to say in conclusion, Mr. Chairman, the Veterans of Foreign Wars of the United States have made the best study possible of this question, taking into consideration the absolute needs of the beneficiaries, and from that study we believe it will be a real benefit to the country if this amount of money is placed in circulation. We sincerely hope this committee will favorably report this bill to the House and that it will be enacted into law.

Thank you, Mr. Chairman.

The ACTING CHAIRMAN. We thank you for your appearance.

Mr. PATMAN. The Veterans of Foreign Wars is an organization restricted solely to men who have seen service overseas. There is another organization known as the Disabled American Veterans who are restricted in membership to those who have service-connected disabilities by reason of their service in the World War. I now take pleasure in introducing to the committee Mr. Thomas Kirby, legislative representative of the Disabled American Veterans of the World War.

STATEMENT OF THOMAS KIRBY, WASHINGTON, D. C., NATIONAL LEGISLATIVE CHAIRMAN, DISABLED AMERICAN VETERANS

Mr. KIRBY. Mr. Chairman.

Due to the considerable number of witnesses who are to appear before your committee and, in order to lessen duplication it is intended in this statement, to concentrate largely upon the viewpoint of the disabled in this legislation. Of course, we are not unmindful of the needs of all former service men, but feel that in view of the fact that the Disabled American Veterans is the only national organization of any wars' disabled ever recognized by congressional enactment, our interest is manifestly greater for those who constitute our membership as a result of their eligibility established through service-connected ailments.

The D. A. V. earnestly urges upon this committee three distinct amendments to the World War adjusted compensation act. As matters stand to-day, a veteran who has applied, or will apply, for his certificate may have any loan value. Our recommendation is that this committee approve the general principles of the Barkley bill from the Senate allowing loans without delay. Secondly, we feel there should be a decided decrease in interest charges which are now cutting so heavily into the certificates of those who have already borrowed. Much of the money which the government borrowed a year ago to pay 50 per cent of the face value was obtained at a rate of less than two per cent still, for this same money, the veteran is compelled to now pay at least 4½ per cent, with the probability, as explained by the Administrator of Veterans' Affairs the other day, that those who made their loans direct from banks may even exceed this figure. While it may be that two per cent might be too low, nevertheless, it is felt that a substantial plan may be worked out whereby these charges may be reduced to two and a fraction or not more than 3 per cent, thereby removing a distinct hardship upon those who have been forced to borrow in their hour of need. The third proposal of the D. A. V. is for the immediate cashing of these certificates.

There are, under the law, three World War organizations recognized on exact parity before Congress—Veterans of Foreign Wars, American Legion, and the Disabled American Veterans. You have heard from the representatives of the V. F. W. and this statement is intended to put squarely on record the D. A. V. in favor of the principles of the Patman bill.

Last fall, at Detroit, the American Legion voted against the immediate redemption of the adjusted service certificates for the able-bodied. However, the very resolution that opposed the so-called bonus payment for the able-bodied contained the following declaration: "The unqualified, generous, and unstinted relief of our disabled comrades has always been, and ever will be, the task to which the American Legion is chiefly dedicated, and is the surest path for service to God and country." While it is not intended to attempt to interpret the desires of any organization that has a spokesman present, it is believed this language is so unequivocal that there is justice for stating that while there may be some question as to how all organizations stand on the payment of these certificates to all classes of veterans the testimony here to-day plus the Detroit declaration shows plainly that the three organizations should stand unanimously for the immediate redemption of these papers for all who are disabled as a result of their world war service.

Those who declared a vote for the "unqualified, generous and unstinted relief of our disabled comrades" surely can not contend that the most direct form of relief to this class is the most direct form of relief that could be granted, particularly in this hour of general suffering.

At its inception the D. A. V. strongly advocated the cash adjustment of pay of the soldier on the theory that this money should be made immediately available to assist the former service man in speeding the day when he could rehabilitate himself in civilian pursuit. As compromise after compromise was entered into the organized disabled divorced themselves from the move, so we had little or no part in the final stages of the campaign leading up to the act now under consideration. However, once this law became a part of the law of the land, we have actively participated in supporting what we have felt to be equitable amendments and reasonable interpretations. It is in that spirit that we appear before this committee to-day urging immediate cashing of the remainder of these certificates.

With the three organizations committed in favor of the legislation for the disabled, attention is invited to the fact that from the original introduction of the so-called bonus idea more than a decade ago there have been two stock arguments against the whole principle of adjusted compensation by those forces that have always been represented in past hearings and who will probably attend these hearings in an effort to prevent action.

The first of these has been that if this great cross section of Americans whose interest in the country was amply demonstrated in time of stress, who have now reached an average age of approximately 40 years, and with the solemn obligations in the way of dependents, should be granted this money, there would be a wholesale dissipation. Of course, the former service men resented any such blanket indictment but it was repeated and repeated until a few months ago when its absurdity was demonstrated, not by any group of irresponsible agencies, but by the United States Government. The Administrator of Veterans' Affairs, speaking for the Government, sent to every station a questionnaire to be answered by the ranking officials as to what dispositions the veterans made of their money when they borrowed 50 per cent of the value of the certificates. The actual official returns from these questionnaires represented the most profound compliment ever paid to any group of Americans so far as the use of funds suddenly placed in their hands. The returns, based on the statements of the United States officials, showed that 65 per cent of the money was spent for the comforts and necessities of life; 20 per cent for investment purposes, including payments on homes; 8 per cent for automobiles; and 7 per cent only, in any way that resulted in no practical benefits to the veteran.

It is sincerely hoped that this demonstration of common sense of these men who once wore the uniform will end the dissipation prattle. The second stock argument that has been constantly used not only during the time of financial crisis but at all times, has been that the country could not stand the financial strain, some going to the direful predictions that the payment of this obligation would mean the collapse of the Federal financial structure. These predictions have no more come true than did the predictions about dissipation, still, it is assumed that most of the time of the present hearings will be devoted to this angle of the matter.

Experts for and experts against the cashing of these certificates have appeared, or will appear, before this committee and, rather than entering upon elaborate duplication of the testimopy, it is desired to state that the Disabled American Veterans feels that the Patman plan will not only afford the funds to meet these payments but will result in a reasonable inflation that in turn will mean greater circulation and by that method result in speeding the conclusion of the depression that is being felt in common by veterans with all other classes of citizens.

Regardless of any preconceived ideas on this whole plan, no one could have listened to former Senator Owen in his masterful presentation the other day without being impressed with the sincerity of his purpose and the thoroughness of his knowledge when he appeared voluntarily to state that based upon his long experience he felt that the redemption of these certificates at this time would not only be justice to the veteran but would be a godsend to America.

In these days of acute suffering there have been all sorts of radical guesses as to the extent of unemployment. Realizing the disabled were severe sufferers through the shortage of jobs this organization did not calculate, estimate, or guess but attacked the whole situation in a definite and systematic manner. First, to get a real picture of the condition and, secondly, to apply the remedy, nine months ago the Disabled American Veterans presented a substantial plan to the

Government. In collaboration with the United States Veterans' Administration and the United States Department of Labor, the Disabled American Veterans took an employment census of every man on the compensation rolls. There was nothing unofficial nor any guesswork involved. From the Veterans' Administration there went forth individually to the home address of each compensable man a brief questionnaire on his employment status. As soon as the returns were received they were classified, a tabulation was made and, for the first time, we had an accurate survey.

At that time, last July, there were approximately 300,000 men on the compensation rolls and the replies showed that 77,000, by name and address, were employable but unemployed. In brief this meant that more than one out of every four of the disabled men, who were capable of working in spite of their handicap, whose average compensation was about $30 per month and of whom about 89 per cent were married and had families, were utterly jobless and, consequently, destitute, in spite of their desire to enter gainful occupation. In order to clarify this matter it should be understood that this canvass did not include all the disabled men who were not working, for we excluded all hospitalized men, as well as those whose ratings by the Veterans' Administration, indicated that they were not physically or mentally able to perform regular duties. Having gotten a definite picture of the problem months before the winter season made the situation even worse, we had arrangements whereby the United States Employment Director in every State in the Union was to coordinate all existing Federal, State, county, municipal, and civic agencies dealing with employment in practically every city, town, and village in America, to give highest priority to the disabled men in their respective localities, who were identified through the D. A. V. United States census.

Having in mind the desire of this committee for reasonable brevity the foregoing is submitted as the general viewpoint of the disabled veterans of the country. As stated at the outset, there is no desire on the part of the disabled to be forgetful of the able-bodied whose plea is being presented by others but we do feel that in the midst of the economic crisis with more than one out of each four disabled men capable of holding some sort of a job, absolutely out of employment, Congress should be sufficiently impressed by the plight of these men to make available at once the cash on the remainder of these certificates which is more needed and infinitely more valuable now than it might be in some years to come.

Mr. ALDRICH. I just want to ask you one question, Mr. Kirby. How many members are there in your organization?

Mr. KIRBY. Sixty-three thousand, four hundred.

Mr. ALDRICH. Do you know how many veterans there are of the World War who have service-connected disabilities?

Mr. KIRBY. Approximately 322,000.

Mr. ALDRICH. I notice that you gave the figure 322,000 and then you said that that did not include the men who were in hospitals; did I understand you correctly?

Mr. KIRBY. No. What I said was that in the compilation of answers from the questionnaire, we threw out of all consideration the hospitalized men or the mentally disabled men who were not employable.

Mr. ALDRICH. But they were included in the figure of 322,000?

Mr. KIRBY. Yes; which makes the ratio of employable to unemployed much worse.

Mr. VINSON. Mr. Kirby, you say there are more than 322,000 veterans who have service-connected disabilities?

Mr. KIRBY. Yes, sir. My last figures were 322,000. I think it is a little more than that. I would say that it is over the 322,000 mark. I am speaking of men whose disabilities are of war origin.

Mr. VINSON. Service connected?

Mr. KIRBY. Yes.

Mr. VINSON. What is the number on the rolls receiving disability allowances?

Mr. KIRBY. In the first week in January of this year, the disability allowance number passed the compensable men. My last figure is 354,000 on disability allowance rolls.

Mr. ESLICK. It has been stated here that approximately 1,000,000 World War veterans are out of employment. How is that figure obtained? How is the data accumulated so as to give a figure of substantial accuracy?

Mr. KIRBY. I could not say how they arrived at it. There have been all sorts of guesses about unemployment. You have heard mentioned here that the figure was from six to twelve million. I do not know of any other group of Americans who have undertaken a systematic count down to the individual man. There was a canvass inspired by us. These letters did not go to a group of men but went literally to the homes of every disabled man.

Mr. ESLICK. Has the Government gathered any statistics on the unemployment of World War Veterans?

Mr. KIRBY. There is a dispute going on now among Government officials to-day, as I understand, about it. There is a friendly discussion between the Veterans Administration and the Department of Labor, but I think at best they must necessarily be guesses.

The ACTING CHAIRMAN. If there are no further questions, we thank you for your presentation, Mr. Kirby.

Mr. KIRBY. Thank you, Mr. Crisp.

Mr. PATMAN. Mr. Chairman, Congressman W. W. Hastings, of Oklahoma, introduced H. R. 6584, providing for the full immediate cash payment of the adjusted service compensation certificates and desires to be heard at this time.

The ACTING CHAIRMAN. We shall be glad to hear Mr. Hastings.

STATEMENT OF HON. WILLIAM W. HASTINGS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. HASTINGS. Mr. Chairman and gentlemen of the committee, I favor any one of the bills pending before the committee which will result in the payment of the balance due on the adjusted-service certificates. Some of these bills provide for payment by Treasury certificates, some in cash and others by the exchange of bonds. They all serve the same purpose.

Congressman Patman stated to the committee that I have introduced a bill, which is H. R. 6584. I introduced it as an alternative measure. First let me say that I favor the Patman bill but fearing that the committee might have differences of opinion on the subject, with reference to the method of making the payment of the balance due, I introduced this bill which I will talk about in a minute.

Let me say that I favor the payment of the balance due for two reasons. First, I think it is only fair and just to the ex-service men of this Nation. Second, it is my firm and honest and candid belief that the payment of the balance due on the adjusted-service certificates will do more to relieve the depression than all of the legislation that Congress is considering or will enact at the present session of Congress.

There are four arguments advanced against the payment of the balance due on these adjusted-service certificates, and I want to discuss them for a moment.

The first is that Congress has already made generous appropriations for the benefit of the ex-service men. In support of that argument I am sure that the Veterans' Administrator will be called to give a long array of figures as to the amount Congress has appropriated for the various benefits of the soldiers since the close of the World War. That will include hospitalization, disability compensation, pensions and other benefits.

Let me remind the committee that about 5,000,000 of the finest boys that ever followed the flag to victory enlisted after we passed our declaration of war. Now, there are thousands, if not millions of these ex-service men who are receiving no benefits from these appropriations and that will be pressed upon your attention during these hearings.

Let me speak for the ex-service man who is receiving none of these benefits. What did he receive? The private soldier received $33 a month for his services, at Chateau-Thierry where the enemy was stopped, between July 15 and 18; for following under the command of General Pershing at the St. Mihiel offensive September 12, 1918; for being transferred and fighting over in the Argonne, crashing through barbed-wire entanglements and capturing machine guns, sleeping in trenches and going over the top. For all of that they received $33 per month.

Out of this they were compelled to make an allotment for dependents at home, of $15 a month. That left $18. That is 60 cents a day. Out of that further they were induced—and they should have and did—to take out insurance policies. That cost them approximately $7 per month each. Deducting that from your $18, leaves you $11. Then, they received, after you make these deductions, approximately 40 cents a day.

When we enacted this legislation in 1924 to adjust the compensation of these veterans, we provided that they should be given $1.25 a day for overseas service and $1 a day for domestic service, payable in 1945. If you add $1.25 a day to 40 cents a day, which is the balance of their pay that they had left, as I have calculated it, for bringing back the flag to victory, the veteran got $1.65. Gentlemen, we pay the charwomen who clean up this House Office Building more money than that.

The civilians who stayed at home received from $4 to $8 and $10 and $12 a day, didn't they? What are we doing for these ex-service men? We are not giving them anything except this: We are advancing them the interest on the balance due on their adjusted service certificates between now and 1945; that is all. It is due them. It is an obligation against the Government. The Government will pay it. But we are making that concession to these boys who joined the colors. Do you think that is much of a concession?

The second argument that is made is that it will be too great a strain on the Treasury.

Mr. McCormack. Will the gentleman yield?

The Acting Chairman. I will inform the gentleman from Oklahoma that he does not have to yield.

Mr. Hastings. I am happy to yield to the gentleman as long as I do not trespass too much upon the time of the committee.

Mr. McCormack. In connection with that, there are some groups who got bonuses which were paid them sometime ago.

Mr. Hastings. That is true. I did not have the time to go into that and I had hoped that other witnesses who testify before the committee would press that upon the attention of the committee.

The second argument, as I have said, is that it would be too great a strain upon the Treasury. This is the richest and the greatest Government on earth. General Hines estimates that the balance due on adjusted service certificates as of October 1, 1931, is $2,185,705,921.17.

I do not care to enter into a financial discussion. But I do not believe there is a member of this committee, or a man whose judgment is worthy of the earnest consideration of the committee, who believes that the issuance of $2,000,000,000 would be too great a strain upon the Treasury. However, if the committee entertains the opinion that the Government would have difficulty in financing this proposal, I have had prepared and introduced a bill to which I invite your attention, H. R. 6584, which would provide for the issuance of tax-exempt bonds due in 1945, to be exchanged for these certificates. It provides that they should be issued in denominations of $50, $100, and $500, all payable June 30, 1945, the year in which all of these adjusted service certificates are due and payable. They would bear such an interest rate as would insure their being sold and absorbed at par. The fractional parts would be paid in cash. Together with this cash, the Government would issue similar bonds due and payable June 30, 1945, sell them with which to get the money both to pay the fractional part and to pay the interest on the bonds. So that none of these bonds would be due until 1945 when practically all of these adjusted service certificates are due and payable.

Mr. Ragon. Is it your idea to take over the certificates and just deliver the bonds to the veterans?

Mr. Hastings. This bill is very carefully prepared and the Treasury Department and the Veterans' Administration cooperate, so that the Treasury Department issues these bonds and turns them over to the Veterans' Administration for exchange at par for the balance due on these certificates, paying them in denominations of $50, $100, and $500, and the fractional amount, whatever it may be, in cash.

Mr. Ragon. Exchange with whom, the veteran?

Mr. Hastings. With the veteran.

Mr. Ragon. In other words, the veteran would take these bonds in place of the certificate?

Mr. Hastings. In place of the balance due on his certificate.

Mr. Ragon. And the fractional parts——

Mr. Hastings. Would be paid in cash.

Mr. RAGON. Would be paid in cash?

Mr. HASTINGS. Exactly. That is a question of detail, but in the bill I propose that the bonds bear an interest rate of 4½ per cent. That bill was prepared some time ago and if the committee thinks that bonds of 4¼ per cent would be absorbed at par, that is a matter of detail and the bill is subject to amendment. But I do not know of a bank throughout the country that would not readily absorb these bonds. I think it would bring all of the money out of hiding, so that there would not be any hoarding and to that extent it would increase the money that is in actual circulation.

In my judgment there is no act that Congress could pass that would do more to relieve the depression, relieve the unemployment situation, help the small business man, give the man something with which to purchase necessities, pay taxes, house rent, than the enactment of this legislation.

Mr. RAGON. Will the gentleman yield?

Mr. HASTINGS. Gladly.

Mr. RAGON. How would you prevent the veteran from having to take a substantial discount on those bonds?

Mr. HASTINGS. Of course, every day those bonds will be quoted, just as bonds are now in the bond market. Take the market to-day. You can see what a four and a quarter per cent bond is worth.

Mr. RAGON. But you know that a great many of these boys are country boys. They do not know anything about the market.

Mr. HASTINGS. I think these boys have had a sufficient experience in the service of their country and in the borrowing of money to make inquiry of the local banker, and I think the local banker would be fair enough with them to tell them what the market value is. I would have the rate high enough to insure that these bonds be absorbed at par.

Mr. RAINEY. You understand that the Government now can not sell bonds carrying four and a quarter per cent at par.

Mr. HASTINGS. If you will notice, your four and a quarter per cent bonds are worth more than par at this moment.

Mr. RAINEY. The Government keeps them at par by buying bonds itself. The officials of the Treasury Department advise me and I think have advised others that they could not float a long term issue at four and a quarter per cent at par.

Mr. HASTINGS. I do not think there is a county in the United States that would not absorb or whose banks would not absorb the bonds that would be issued to the ex-service man; certainly if you made it 4½ per cent payable in 1945.

Mr. RAINEY. Your theory is that the veterans would dispose of the bonds to the banks at once.

Mr. HASTINGS. The local banks largely. I think it would be the best investment that the local banks could make.

Mr. RAINEY. Then according to your theory there would be a new issue of $2,400,000,000 of bonds thrown on the market?

Mr. HASTINGS. $2,185,705,921.17; yes.

Mr. RAINEY. What effect would that have upon our other bonds and upon all our bonds?

Mr. HASTINGS. The reason why I inserted a provision in my bill for the rate to be 4½ per cent was to insure their not being sold below par, so that they would be able to float them at par.

Mr. VINSON. I want to inquire of Mr. Hastings or Mr. Rainey what was the interest rate on the last Treasury issue of bonds?

Mr. RAINEY. Three and three-eighths, I think.

Mr. VINSON. At what price were they taken?

Mr. RAINEY. That was not a bond, Mr. Vinson.

Mr. VINSON. What was it, a certificate?

Mr. RAINEY. That was a certificate.

Mr. VINSON. What is the difference?

Mr. RAINEY. The difference is this. Certificates are due in less than a year. Notes are due in less than two years. Bonds are made payable after two years.

Mr. VINSON. Which are the more valuable, which will bring the higher price on the market, the long-term or the short-term security?

Mr. RAINEY. The short-term security brings the highest price on the market because investors know that they will get their money quickly and the short-term securities are available for disposing of their money in an absolutely safe security, which they know will be paid in seven months or in a year by the Government. It provides them with a place to put their money, to tide over a period after which they hope to make a better investment.

Mr. VINSON. What was the amount of that issue?

Mr. RAINEY. I think it was $700,000,000.

Mr. VINSON. What price did it bring?

Mr. RAINEY. Par.

Mr. HASTINGS. Mr. Chairman and gentlemen. The third argument that is made is that the money received by the payment of the balance due on these certificates will not be used to a good purpose.

I have seen an authoritative statement made by General Hines to the effect that of the amount of money borrowed on these certificates not more than 6 per cent was improvidently expended. I am glad to have that statement confirmed by a statement that was made here this morning.

The fourth argument that is made is that the veterans do not want this legislation. I want to say that I do not believe that the expression at the Detroit convention correctly reflects the views of the ex-service men throughout the Nation. I want to speak for Oklahoma. The Legion convention at Enid passed resolutions requesting the payment of the balance due. I think every Legion post, so far as I am advised in the State of Oklahoma, has by an overwhelming vote passed resolutions urging the payment of the balance due.

I thank the committee for its courtesy.

The ACTING CHAIRMAN. We thank you for your presence, Mr. Hastings.

Mr. PATMAN. Mr. Chairman, I promised several members time this morning and I just have to do the very best I can under the circumstances. I will have to go out of order again. Mr. Jed Johnson is on the Military Affairs Committee and they are going to consider a very important matter this morning. They are in session at this time. He has introduced H. R. 10096 asking for the full payment of the adjusted-service certificates. He only wants a few minutes of your time.

The ACTING CHAIRMAN. We shall be glad to hear him.

STATEMENT OF HON. JED JOHNSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. JOHNSON. Mr. Chairman and gentlemen of the committee, because of my desire to speed up the hearings, and also because several of my colleagues desire to appear before your distinguished committee, I shall not take as much time as I had contemplated using.

I have attended practically all of the hearings, and have also listened on the floor of the House to arguments made against this bill since these hearings began. I have also read a great many editorials in newspapers arguing against the passage of this bonus legislation, and I find that the great burden of the argument against the payment of the veterans adjusted certificates in full seems to be, first, that this is not a debt due the veterans, but a gift an outright dole or donation that Congress is called upon to make. Some say that if it is a debt, that the debt is not now due. We are constantly reminded that the adjusted-service certificates will not become due under the law until 1945.

I do not share the views of the opposition who say that this is not a debt; neither do I admit for a moment that, it is not due.

I listened with surprise to one of the witnesses for the bonus the other day who said, "We admit that it is not due." I make no such admission. I do not hesitate to say to this committee that it is all past due, and it is a rank insult to every man who wore the uniform to refer to this legislation as a proposed donation to the World War veterans.

All of you will doubtless remember that hardly had the bark of the cannon died away and the smoke cleared up from the battlefields in the Argonne Forest when the railroads, the shipbuilders, and some of the ammunition factories, as well as several thousand civilian employees, came to Congress demanding a bonus for their "patriotic war-time services." They did not ask for promissory notes. The railroads did not ask for notes due in 1945. The shipbuilders did not ask for promises, but they wanted the cash on the barrel head. I am ashamed to say that Congress very soon after the war gave the shipbuilders their bonus, and gave it to them in cold cash. They gave the civilian employees, the shipbuilders, the railroads, and the ammunition makers, some of whom had profiteered to the tune of 500 per cent, their bonus in cash. Then, after the railroads had gotten their bonus, someone thought that probably the boys who had faced the machine guns at a dollar and a quarter a day should have their pay adjusted—not a bonus mind you; Congress never gave the veterans a bonus, but merely proposed to adjust their pay.

Some have said that the veterans are now breaking faith with Congress, that they had agreed to take these promissory notes, this sort of long-time insurance, and therefore that the veterans had broken faith with Congress. I want to remind the members of this committee that no outstanding veteran or veterans organization, like the American Legion, Veterans of Foreign Wars, or disabled veteran organizations, ever asked for this thing they got. But they had to accept the 20-year adjusted-service certificates or nothing.

In the fall of 1919 the first American Legion convention was held in Minneapolis. At that convention a resolution was adopted calling attention of the Congress in a general way to the fact that "our

Government has an obligation to all service men and women to relieve the financial disadvantages incident to their military service, an obligation second only to that of caring for the disabled and the widows and orphans of those who sacrificed their lives, and one already acknowledged by our allies."

In February, 1920, Congress having failed to give any relief in the matter of adjusting the pay of our former service men, the American Legion executive committee met in Indianapolis and passed a resolution again calling the attention of the Congress that in the opinion of the Legion all service men and women were entitled to adjusted compensation "in the form and for the amount of a $50 bond for each month's service rendered during the period of this War."

Congress failed and refused to pass the legislation requested by any service men's organization or any outstanding veteran, but Members of Congress contented themselves, up until 1924, by delivering many speeches in both Houses, eulogizing the boys for their heroism rather than giving them substantial relief. Toward the latter part of 1920 the American Legion presented what was termed its fourfold plan and the same was introduced by the chairman of the Ways and Means Committee where this committee added a fifth plan—a sort of 20-year paid-up insurance to the veteran. I call your attention to the fact that the fifth plan of insurance instead of cash was not the brainchild of the American Legion, the Veterans of Foreign Wars, the disabled veterans, or any other former service men's organization, but it had its inception in this powerful committee as a sort of sop to the soldiers and yet permitted the Government to escape and evade the payment of the adjusted pay in cash, as the veterans and veterans' organizations were at that time demanding.

The plan to adjust the pay of the veterans, in cash, was bitterly opposed and defeated by the international bankers, bond brokers, and Wall Street in general. In fact, many of the same gentlemen who will appear before this committee in the next few days in opposition to legislation to pay the bonus in full now, stated the same, or similar, reasons for opposing any kind of a bonus bill ten or a dozen years ago. It is not worth while for me to go further into the history of this legislation. Some of the distinguished members of this committee recall how a multimillionaire secretary of the Treasury appeared before this committee time and again between the years 1920 and 1924 in opposition to any kind of a soldier-bonus bill and especially in opposition to the bill veterans were sponsoring to adjust their pay in cash. When the bill was finally passed to hand the veterans a promissory note instead of adjusting their pay Wall Street and the other international bankers and bond brokers with foreign securities, openly boasted that they had won a great victory.

I said a while ago that the railroads, munition makers, shipbuilders, civilian employees, and others received their adjusted pay in the year 1919 immediately after the ending of the war. They not only received their pay but they also received the interest rate they demanded from the beginning of the war. I submit in all fairness that if those with less hazardous jobs were entitled to pay from the beginning of the war, with interest, the war veterans who faced machine guns and the shrapnel that American profiteers sold to this Government at 500 per cent profit, are entitled to interest from the date of their enlistment. If that be true and the war veteran had been paid his interest at the same rate the railroads received at the hands of this Government, the adjusted service certificates would have fallen due in the year 1931. So, I have no apologies to look members of this committee in the face and say it is a just debt; it is an acknowledged obligation by the Government; it is long past due and this Congress can not longer sidestep nor evade the issue.

So, I repeat, if the veterans had received their interest at the same rate that the railroads, the shipbuilders, and the civilian employees and others who profited off of war, received theirs, every penny of it would be due now.

Mr. RAINEY. May I interrupt?

Mr. JOHNSON. Yes. You may ask me a question.

Mr. RAINEY. What do you mean by bonus to the railroads?

Mr. JOHNSON. I mean that they asked and received their bonus in cold cash with added interests from the very moment they were taken over.

Mr. RAINEY. Was that not a payment for the Government operation of the railroads during the war?

Mr. JOHNSON. Oh, yes, Congress called it a payment. I say that in fact it was a gift—in cold cash. Congress has proved itself to be a big Santa Claus to the railroads.

Mr. RAINEY. That was a reimbursement to the stockholders of the railroads.

Mr. JOHNSON. Reimbursement is the term Congress applied, but may I remind the distinguished gentlemen that considering the watered stock, it proved to be a donation or a dole rather than a bona fide reimbursement.

Mr. VINSON. Will the gentleman yield?

Mr. JOHNSON. I will yield, although I must not consume too much time.

Mr. VINSON. I just want to make the observation that in turning the railroads back to private ownership they certainly got section 15 (a) of the Transportation act, which carried the recapture clause.

Mr. JOHNSON. Absolutely. The railroads ought to believe in Santa Claus.

Mr. VINSON. And if I read the signs of the times, there is going to be several hundred million dollars turned back to them by virtue of legislation which will probably be enacted at this Congress.

Mr. JOHNSON. Yes; by legislation already enacted. Congress was induced to pass the $2,000,000,000 Reconstruction Finance Corporation act in order, we were told, to end the depression, and Congress dished out another dole to the railroads. Now, all of us realize that it was a farce and a fake. We now have the sorry spectacle of seeing defunct railroads "borrowing" millions of dollars from the Government with their bonds worth 12 cents on the dollar.

Mr. VINSON. As I understand it, the amount involved under this recapture clause is something like $500,000,000.

Mr. JOHNSON. I think that is about right. I am sure the distinguished gentleman knows.

Mr. HILL. That is money that the railroads have earned.

Mr. VINSON. Yes; but earned under the mandate of section 15 (a), which provided that the Interstate Commerce Commission should fix the rates at such a figure that they would earn the 5½ per cent plus the 1 per cent for rehabilitation, and one-half of the 1 per cent for rehabilitation was under the recapture clause to go in the Treasury of the United States. Very few dollars have yet found their way into the Treasury of the United States, and the $500,000,000 or more will be forgiven the railroads.

Mr. JOHNSON. The gentleman's statement is unquestionably true, and in that connection, since the question of the railroads earning their bonus has been raised, I want to say, not as a general who pulled down a big salary during the war, but as a very humble private in the rear ranks, but with front line service, that I know war veterans more than earned every dollar Congress has admitted it owed them.

The opposition to this legislation has greatly stressed the fact that the American Legion organization in its last national convention failed to pass a resolution indorsing the bonus. Also, that Commander Stevens, of that great organization, has recently gone on record as violently opposed to it.

I do not care to go into that discussion further than to say that neither the action of the National Convention nor that of the wealthy young commander who doesn't need his bonus certificate, represents the sentiment of the rank and file of the legionnaires of Oklahoma. For the national commander to say that only 23 posts of the country had indorsed the bonus at the time of his statement was absurd on the face of it. Practically every American Legion post in the State of Oklahoma indorsed full payment months ago. What applies to Oklahoma applies in a general way to a majority of the States of the Union. I am told that national committeemen of that great organization will soon meet at Indianapolis and at that time will give Commander Stevens some inside information and probably a just reprimand for his unwarranted action in opposing this just legislation.

When the array of big business men, great financiers, near-financiers, economists and would-be economists appear before this committee next week in opposition to this legislation, I assume that the burden of their arguments will be that this bill, if and when passed, will destroy the financial structure of the Government. No doubt the committee will be warned against the passage of this legislation and will be repeatedly told that the 50 per cent loans made to the veterans by the last Congress did not revive business. Let me say in reply to the charge that the 50 per cent loans did not stimulate business, I personally know that in many sections the veterans' loan not only revived but was a tremendous stimulation to business in general in spite of the fact that not one dollar of actual money was issued. What the veterans received was credit. Not one new dollar was placed in circulation and that, gentlemen, was not a gift. What Congress actually did was to lend the veteran 50 per cent of his own money. It must also be remembered that a great majority of the veterans who have borrowed at all on their certificates had previously borrowed 20 to 25 per cent before the passage of the 50 per cent act. So, the loans, in fact, only amounted to 25 to 30 per cent instead of 50 per cent, as one unfamiliar with this legislation might think. The inference has also gone out that the veterans' loans have caused the deficit in the Treasury; that the money came from the pockets of the taxpayers of the country.

Even Members of Congress have made such erroneous statements. The fact is that aside from a small amount appropriated by Congress to administer the fund this money, or practically all of it, came from the veterans themselves; from premiums paid by the veterans on their insurance during their wartime service. That fund made up of premiums on this insurance amounted to $881,000,000, and yet Congressmen, and others, boast that they gave the veterans the money. What Congress did was to lend 50 per cent on these certificates and then had the nerve to charge the veteran 4½ per cent compound interest on his own money. At the same time this Government can go out in the market and get money for less than 2 per cent. The veterans know they did not get a square deal on that loan, and it is a sad fact unless the 4½ per cent compound interest is canceled many veterans will actually owe the Government on the last half of the bonus in 1945.

Answering the charge that payment of the bonus in full will hurt business I will say to this committee that I do not pose as an economist or a financier. If the great Champ Clark, after studying the money question for a lifetime would admit that he knew nothing about the money question and doubted seriously if anybody else did, I would not have the temerity to tell this committee that I pose as an authority on the subject. If I thought that the payment of the last half of the bonus would impair the financial structure of the Government or hurt business to any extent whatsoever I would not, under any circumstances, support this legislation. On the other hand, after talking to many economists and financiers in high authority, I am fully convinced that the currency must be expanded or re-expanded as Senator Owen and other authorities on the subject, have said, and it occurs to me that either the Patman bill or the Thomas-Johnson bill (H. R. 10096), introduced by me and now pending before this committee, would be a practical way of expanding the currency. In my judgment it is imperative that some action be taken by Congress and that immediately, to give the country cheaper money.

I think it is generally admitted that money has become entirely too high and commodities too unreasonably low, and something must be done and done quickly to bring up the price of commodities and cheapen the dollar. The fact significant that after these hearings began officials of the Federal Reserve Board all over the United States were called to Washington to discuss ways and means to expand the currency is evidence that there is merit in this legislation. Of course, all of us understand that this hurried action on the part of the Federal Reserve Board at this time is primarily for the purpose of defeating this legislation, but even if that be true the veterans have won a moral victory, and yet the average American citizen will ask himself if the Federal Reserve Board can, without any authority of law, go into the open markets and buy a billion dollars' worth of securities why did it not do so six months ago—why did it not do so a year ago—or two years ago—and save the country from the most terrible money panic America has had in the past quarter of a century? The announcement of the Federal Reserve Board that it will increase the currency within the next few weeks is a terrible condemnation of its policies in its failure and refusal to do so in the past.

Mr. McCormack. In other words, you do not think that the recent action of the Federal Reserve Board completely supports the theory of the opponents of this legislation?

Mr. Johnson. That is quite true. On the other hand it demonstrates that the Federal Reserve Board admits the soundness of the plans here being considered. It is not a question of what Congress would like to do, but I am fully convinced that the expansion or re-expansion of the currency must be done, and that it must be done quickly.

Mr. RAGON. If I understood Senator Thomas when he was here the other day, he felt that the terms of the Patman bill might greatly injure the Federal reserve system.

Mr. JOHNSON. Yes, I heard the statement of our distinguished Senator from Oklahoma. I do not share his view altogether. There is no question but what some of the money under the Patman bill would come in competition with the Federal reserve, but it would not be any appreciable amount, and not enough to kill the Federal reserve or seriously cripple it. But frankly, I measure my words when I say the Federal Reserve Board ought to function as originally intended in the interest of the people, or else Congress ought to abolish it.

I desire to make it plain, Mr. Chairman and members of the committee, that I am not wedded to any plan. I have no pride of authorship of the bill I have introduced in Congress in keeping with the ideas suggested by Senator Thomas and quite similar to the views expressed by Senator Owen. The Thomas-Johnson bill would go through the Federal reserve and make that a functioning organization operating in the interest of the people instead of by and for Wall Street and the international bankers.

It is needless for me to picture to you the conditions and the need for relief for our war veterans and their families. You have heard that over and over again, but let me say in closing that if $2,000,000,000 of additional currency were sent out into every nook and corner of America in my judgment it would revive business immediately. It is a practical way of increasing or expanding the currency. It would have the effect of raising commodity prices. It would save the homes of thousands of war veterans where foreclosures have already been started. It would melt the long bread lines, stop suicides, and relieve suffering in every town and hamlet. It would not only fill thousands of empty box cars but fill millions of empty stomachs, and replace misery and suffering with a ray of sunshine and hope, and at the same time pay a just and acknowledged debt due the war veterans by the Government of the United States.

Mr. CRISP. We thank you very much for your presence.

Mr. PATMAN. Mr. Chairman, I desire to introduce Mr. Maurice P. McGrath, who is representing the Twenty-ninth Division Association.

STATEMENT OF MAURICE P. McGRATH, HYATTSVILLE, MD., REPRESENTING THE TWENTY-NINTH DIVISION ASSOCIATION

Mr. McGRATH. Mr. Chairman and gentlemen, I appear here as legislative representative of the Twenty-ninth Division Association, the Twenty-ninth Division being known during the war as The Blue and the Grey. They come from the great geographical section of the country composed of Virginia, Maryland, New Jersey, and the District of Columbia.

In convention last August at Asbury Park, N. J., they passed a resolution favoring the full payment of the adjusted-compensation certificates—not part payment, but full payment. They feel that, as the the gentleman who just preceded me said, the railroads and the shipbuilders were paid, and as this certificate represents a form of adjustment for the difference between what they received as soldiers during the World War and what was received by the civilians on the outside, the laborer is worthy of his hire, and that he should not be made to wait 20 years to get what is coming to him.

I just want to say a word relative to the action of the American Legion in convention at Detroit last fall. I, as a legionnaire, do not believe that the national officers who will appear before you gentlemen represent the true sentiment of the American Legion. I really believe and feel that the rank and file of the American Legion are 95 per cent for the full payment of this bonus. They were addressed by a gentleman who appealed to their patriotism. I considered that, gentlemen, an insult. They had proved their patriotism, and I hope and pray that the day will come, when an outsider addresses a convention of the American Legion, that any question of controversy that has come before the body will not be allowed to be spoken on by the person addressing that convention.

A great many of our men of the Twenty-ninth Division, who were in the front-line trenches during that terrible strife in Europe, are now in the bread line—many, many of them. They feel that they should get this adjusted compensation at this time. I think that that is the opinion of the great majority of ex-service men. The men who are opposed to it are the men who can afford to do without it.

You gentlemen probably will get telegrams, as I read in the paper not long ago, from the Willard Straight Post in New York City. They are opposed to the payment of the bonus. I would ask you gentlemen to scan closely the list of men who compose the Willard Straight Post of New York City. They are men who do not need the bonus, and I would suggest that those gentlemen who are opposing the payment of this bonus, those that do not want it, return it to the Government as a conscience fund.

The Twenty-ninth Division Association has not approved any one particular bill, but the executive committee will meet in Newark, N. J., tomorrow night, which meeting I hope to have the pleasure of attending, and I am going to try strongly to get them to indorse some bill before this House.

Mr. Chairman, I thank you.

Mr. CRISP. We thank you for your presence.

Mr. PATMAN. Mr. Chairman, I desire to introduce at this time Mr. Paul C. Wolman, of Baltimore, Md., who is well informed on this subject, not only from the standpoint of Maryland but from the standpoint of the Nation, and not only among the veterans but among the civilians as well.

STATEMENT OF PAUL C. WOLMAN, BALTIMORE, MD., PAST COMMANDER IN CHIEF, VETERANS OF FOREIGN WARS

Mr. WOLMAN. Mr. Chairman and gentlemen of the committee, I appear before you as the immediate past commander in chief of the Veterans of Foreign wars of the United States and chairman of a committee appointed by Darold D. De Coe, the present commander in chief, to ascertain the views of the people of this country upon the question of immediately paying the balance of the adjusted-service certificates.

During the past 18 months I have had the opportunity to visit every State in the Union with the exception of about four in my capacity as national commander of the Veterans of Foreign Wars and chairman of the adjusted-compensation or so-called bonus committee. My visits have afforded me the oportunity to associate with and observe thousands of people throughout the country in the same manner as you have in your respective districts. As a result, I think I am in a fair position to give you a rather true picture of the thoughts in the minds of our World War service men and the members of their families, who may be regarded as a cross section of the American people.

I believe I am in an even better position to make some observations of these men and their families than most of you gentlemen; for when you are in their midst or appear before them, they are upon their dignity, so to speak, and fearful of being characterized as impolite or rude if they express their true views. They are prone to be silent and listen for words of widsom from their legislators and the holders of their destinies in many cases.

And so I have addressed their mass meetings, their post, county council and department gatherings, and I have visited their homes and more than 50 hospitals housing veterans. These men have found it easy to pour out their troubles to me because they have regarded me as one who speaks and understands their language. Gentlemen of the committee, if you have not been taken into the confidence of these men, if you have not visited their homes, if you have not gone to their rescue when they have been evicted, with their wives and families, for nonpayment of rent, or seen them after their homes, their farms, and their household furniture were being sold under foreclosure proceedings or by the sheriff for taxes, you have no conception of what goes through their minds when they are in need. The statement of John Arthur Shaw, director of veterans' employment service, Department of Labor, that there are 750,000 able-bodied World War veterans unemployed, 75,000 veterans with disabilities unemployed, and 800,000 who are working part time from one to four days a week, in most cases at greatly reduced wages, certainly can leave no doubt in the mind of one that a great number of World War veterans are in need.

Due to the comment expressed by some veterans that the rank and file of the World War veterans do not believe that the balance of the face value of the adjusted-service certificates should be paid in cash at this time, the Veterans of Foreign Wars desired to get an honest expression of opinion from them. As a result thereof, a poll was sponsored and financed by our organization and a ballot was printed in 162 metropolitan newspapers for one day, these ballots to be filled out by World War service men only, each of whom was to give his full name, address and service unit and state whether he was in favor or opposed to immediate payment. This poll brought in 281,758 ballots, upon which 281,162 voted in favor of immediate payment and 596 opposed. In addition to securing the sentiment of the service men on this question, our organization circulated petitions throughout the country and on April 8 there was presented to the gentleman from Illinois, Mr. Henry T. Rainey, petitions signed by 1,958,272 citizens from every State in the Union as well as the 281,758 ballots referred to. All of these, I might say, are in addition to some two and one-half million signers upon petitions, resolutions and memorials sent directly to the various members of the two Houses of Congress.

Appreciating how busy the members of this committee are in following the hearings upon this important question, I have endeavored to summarize some of the statistics contained in the Congressional Record during this session of Congress as of April 5, 1932, in so far as the same pertains to the question of immediate payment of the adjusted-service certificates. I think that some of this information may serve to enlighten the committee as to the scope of interest exemplified upon this question and if it is not considered an imposition, I would like to state some of the facts revealed in the Record.

The Congressional Record shows that resolutions, petitions, and memorials, calling upon Congress to pay the balance of the face value of the adjusted-service certificates in cash, have been adopted by the State assemblies or legislatures of the States of Arizona, Illinois, Rhode Island, South Carolina, and Wisconsin, as well as by the city councils or boards of aldermen of Joliet, Ill.; Baltimore, Md.; Boston, Chelsea, Revere, and Lynn, Mass.; Detroit and Hamtramck, Mich.; Minneapolis, Minn.; Oswego and Yonkers, N. Y.; Providence, R. I.; Llano and Winters, Tex.; and Seattle and Tacoma, Wash.; and likewise by the chambers of commerce of several cities. Miscellaneous nonveteran organizations such as individual branches of the Rotary, Kiwanis, and Lions Clubs, parent-teacher associations, Operative Plasterer's Local, Brotherhood of Locomotive Firemen and Engineermen, Woman's Christian Temperance Union, Merchants' Association, Sheet Metal Workers' International Association, literary and service clubs, and good government clubs have also voiced their approval. There have likewise been 476 petitions, memorials and resolutions appearing in the Congressional Record of citizens, voters, taxpayers, residents, etc., from practically every State in the Union.

In so far as the veteran organizations, other than the Veterans of Foreign Wars of the United States, are concerned, it is worthy of note that 609 resolutions, petitions, and memorials appear in the Congressional Record from individual posts of the American Legion, 29 from chapters of the Disabled American Veterans of the World War, many from the United Spanish War Veterans as well as from numerous small veteran organizations, divisional, regimental and miscellaneous veteran societies, and each day's Record discloses many additional resolutions, petitions, and memorials favorable to immediate payment.

Although the information contained in the Congressional Record gives some indication of the thought on the parts of the people through out the country; nevertheless, one can only realize the magnitude of this question from the thousands upon thousands of letters and telegrams that have been written to the members of Congress by the men who served in the World War, their families and friends, calling upon their respective Senators and Congressmen to do whatever they can to alleviate their suffering and distress, and to help them help themselves.

Since I have undertaken to act as chairman of this committee for the Veterans of Foreign Wars of the United States, literally thousands of letters have poured into my office; some well written, others poorly constructed, but all voicing the same opinion; namely, that the writers are in distress, that they have pieces of paper in the form of receipts for their adjusted-service certificates issued by the United States Government, upon which they have borrowed to the full extent of the present law.

They can not understand why they must seek charitable aid and pauperize themselves when the Government has confessed a debt which it promises to pay them for services rendered in the World War. They can not understand why their pleas for a cash adjustment of their service pay went unheeded in 1920, as in 1922; and in 1924, when the clamor became too great, they were given a nonnegotiable paper which always appeared strange and complicated to them, and which to-day, when they need money so badly, proves to be a queerly frozen asset thawing only in the direction of the United States Treasury in the form of compound interest now being deducted upon their loans at the rate of 4½ per cent and 6 per cent, and formerly up to 8 per cent. They can not help recall having read in the papers, while many of them were still in France, of the passage of a bill in January of 1919, providing for adjusted pay to the war contractors; of another in February of 1920, providing for the return of the railroads with a guaranty for the six months from March 1, 1920, to September 1, 1920, which cost the Government $536,000,000, to be followed by the liberal revaluation under the provision of the Esch-Cummins law; of the bill in 1923 which cost the Government some $300,000,000 to adjust the pay of Government employees who drew $2,500 per year or less. They read of the Reconstruction Finance Corporation calling for a total of $2,000,000,000 and the moratorium bill, and now the suggestion of Mr. Shepard Morgan, vice president of the Chase National Bank made at the semiannual gathering before the Academy of Political Science at the Hotel Astor in New York on Wednesday, April 13, that we should cancel war debts entirely.

All of these things seem to be rushing through the minds of these men, confusing and haunting them, and their countenances are becoming more solemn and drawn each day. This depression is getting the best of them. They seem almost licked—their spirit broken, self-respect vanishing, even faith in their own Government and friends shaken, about ready to give up. Their peace of mind and future rest in your hands, gentlemen. I am sure you will fulfill your duties by devising ways and means of paying the adjusted-service certificates in cash.

Mr. Crisp. Are there any questions?

If not, we thank you for your presence.

Mr. Patman. I desire to introduce at this time a Member of Congress, the Hon. Gardner R. Withrow, a Representative from Wisconsin.

STATEMENT OF HON. GARDNER R. WITHROW, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. Withrow. Mr. Chairman and members of the committee, I do not want to duplicate anything that has been said, and I wonder if I may have the privilege of filing a statement with the committee.

Mr. Crisp. You may have that permission, yes, sir.

Mr. WITHROW. You have heard testimony concerning the "bonus" which was paid to the railroads by virtue of their war-time service to the Government. I would like to point out just a few of the wasteful practices which were deliberately encouraged by railroad officials and the cost of which was charged to the Government.

During the period of the World War I was employed on the railroad and my employment was not on a branch line; I was in freight service on a main line; it was in this service in which the conditions I am about to refer to existed. Oil barrels were willfully loaded into refrigerator cars, upon the order of executives who were fully aware that those refrigerators would never be good for the shipping of perishable freight after the time that the oil had been bottled up in the air-tight car. At the time this loading took place there was an adequate number of rough boxcars at the point of loading which could have been used just as well. In addition to that, coal was loaded into first class grain box cars—wilfully, gentlemen, and under orders although the executives knew that those cars could never be used for the shipping of grain thereafter and although at the very same time there were rough box cars and empty coal cars stored on the tracks at Savanna, Ill., during the process of this loading.

The distance from Galena Junction, Ill., to Savanna, Ill., is 26 miles. It is double, high-speed track. Freight trains can make the run from Galena Junction to Savanna in 45 minutes. Stock trains can make the same run in 35 minutes. Notwithstanding that fact, in the dead of winter we constantly received messages to stop and take water at Galena Junction and that we were not due into Savanna until several hours later. So, under orders we stopped. There our trains would freeze up so that all of the traffic in the yards would have to be stopped in order that we might have sufficient engines to start our trains and when we finally drifted down to Savanna, Ill., we would find that the tracks had been cleared and waiting for the past 8 or 10 hours.

Later at the proving grounds near Wheaton, Ill., and I understand that that operation was carried on a cost-plus basis. That is, the contractors were given a percentage of profit based on the cost of the work done. On that job, notwithstanding the fact that there was only about seven or eight hours of work per day for work trains in the proving grounds, the men were actually kept on the job for 15 hours and 55 minutes a day. You understand that had we been required to work a full 16 hours a day under the law we would have been entitled to 10 hours rest, so that we actually put in 15 hours and 55 minutes notwithstanding the fact that there was no work to do. There was not a thing that railroad men could do there for most of that time.

The cash bonus which was paid to the railroads gave to the railroads a reasonable return on their operating expenses and a reasonable return on their own valuation of their property. The Government has paid the railroads for the deliberate criminal destruction of property which was carried on under the direction of railroad executives. If we can pay the railroads for rendering that kind of service, then we should not quibble about compensating the veteran for the great service he has rendered by granting the payment of this adjusted compensation in cash.

Mr. CRISP. May I ask you a question?

Mr. WITHROW. You may.

Mr. CRISP. Of course, your testimony has naturally aroused my interest. At that time were not the railroads under Government operation?

Mr. WITHROW. Yes; they were under Government operation, but the same railroad officials continued to give us orders.

Mr. CRISP. I wanted to follow that up, and I wanted to get that correctly. Of course, I know that the Government did take over the railroads during the war, but you stated that it was willfully done——

Mr. WITHROW. Yes, sir.

Mr. CRISP. And that you had orders. Who was the one that gave those orders, and what was the object of that willful misconduct?

Mr. WITHROW. Railroad employees received their orders from the same sources no matter if the railroads were under private or Government control.

Mr. CRISP. You made the statement that while the Government was operating the railroads during the war this misconduct was willfully done, and I thought you should specify and go more into detail as to who was guilty of that treason, for I call it treason.

Mr. WITHROW. This is exactly what happened: I was a representative of the railroad brotherhoods. I was called into the office just as soon as the railroads went back under private control and the assistant superintendent of the Chicago, Burlington & Quincy Railroad, Mr. S. O. Wilkinson, said to me, "Withrow, we are back to normal. The things that were done while we were under Government control do not go now. I want you to inform your men."

That is exactly what he said, and in this connection I would like to say that I said to Mr. Wilkinson, "I think that the proper thing to do is place a notice on the bulletin boards. Have the men sign for the bulletin which signifies they had read it." However, Mr. Wilkinson did not do that.

Mr. RAINEY. I remember all of those things myself, and you are making an absolutely correct statement. The only thing that the Government did when it took over the railroads was to attempt to relieve the congestion in freights, to get freights to move.

Mr. WITHROW. Congestion can not be relieved by allowing trains to freeze up and stop yard operations when they could just as well get in on a clear track.

Mr. RAINEY. I agree with you. It was done because of orders given by the railroad officials themselves.

Mr. WITHROW. Yes, absolutely.

Mr. RAINEY. And we had occasion, those of us who were here in responsible positions during the war, to call attention to the sabotage practiced by the officers of railroads, and practiced for the purpose of discrediting Government ownership because they were afraid that some day the Government might take over the railroads. The Government was not responsible for it, but your own officers, and I so stated on the floor of the House.

Mr. WITHROW. Yes, and I could go on and give you innumerable examples of the same practices.

Mr. RAINEY. I can give you still more, because the record shows them.

Mr. VINSON. What was the position of Mr. Wilkinson, to whom you referred?

Mr. WITHROW. Assistant superintendent of the Chicago, Burlington & Quincy for the La Crosse division, which operates from St. Paul, Minn., all the way through Wisconsin and down into Savanna, Ill.

Mr. VINSON. Did he hold that same position during the war?

Mr. WITHROW. Yes, sir—no, I will take that back. For a portion of the war I understand he was in Russia, but his health would not permit of his remaining there, and he came back and was our assistant superintendent.

I do not mean to give you the impression that I am bitter toward these gentlemen; personally I am not. I had nothing but the kindliest relations with my employers, and they have not criticized me in any way. I have never been "on the carpet."

I would like to briefly summarize my position on this bill which provides for the immediate cash payment of the adjusted compensation to veterans of the World War. Our present economic situation is not caused because we have failed to balance the Budget. It has not been caused because of lack of optimism on the part of our people. Our basic trouble, gentlemen, is that over a period of years the purchasing power of our people has been reduced to such an extent that thousands upon thousands of them are no longer able to purchase even the barest necessities of life. We must take measures to restore this purchasing power and there is no better way than to pay to the veterans of this country the just debt which the Government owes them.

The passage of this bill will not in any way impair the credit of the United States; on the other hand, it will do an enormous amount of good, not only to the veteran, but also to the farmer and workingman in the fact that there will be a resultant rise in commodity prices. The Government has decreased the amount of money in circulation per capita from $55 in 1920 to $44 at the present date. Treasury reports show that the United States Treasury actually holds gold coins and bullion enough to warrant the issuance of $10,000,000,000 in currency, but that there is only five and a half billion dollars worth of money actually printed and in circulation to-day. The Federal reserve banks alone, on the basis of their excess reserves as reported in March of this year, could issue three and a half billion dollars in currency which will have the entire gold backing required by law.

It is ridiculous to speak of impairing our Nation's credit. Our national indebtedness amounts to only 4 per cent of our national wealth, while during the Civil War our national indebtedness was 10½ per cent, and at the present date the indebtedness of England is 40 per cent and the debt of France is 20 per cent. Any business which has debts of only 4 per cent is considered to be in wonderful condition.

The cash payment of the adjusted compensation will put money directly into the hands of the veterans, these men need the money badly to pay debts and to purchase the necessities of life. The money will go into direct circulation, it will be used to pay the grocer, butcher, and landlord. It will be distributed equitably all over the country.

Deflation is the cause of most of the present trouble, inflation is just as bad, but a controlled "reflation" such as is provided for by this measure will effect a cure. The best means to start on the road to recovery will be to pay the $2,000,000 to this group of citizens who have the consuming power but who do not have the purchasing power.

This bill will not increase taxes one cent. This debt will have to be paid anyway in 1945 and sums of money have been set aside each year for that purpose; this will continue in the future just as it has in the past and the debt will be wiped out automatically in 1945, the only change will be that the money will be put in circulation right now when it is needed so badly.

Debts have been contracted during the period when the dollar bought less and now that the value of the dollar has increased people are unable to pay their debts. If this bill is passed, it will help to enable people to pay off their debts in the same terms in which they were contracted.

The people of this country are looking to us as Members of the Congress of the United States and to you members of the committee for relief. In this plan for the payment of the adjusted compensation we have a sound and practical and just means by which direct and badly needed relief can be given to the people of this country. I wish to stress with every means at my command the imperative need for favorable action on this bill.

I thank you.

Mr. Crisp. We thank you very much for your presence before the committee.

Mr. Patman. We are doing our very best to finish by 12.30. It is possible that we will have one or two short witnesses Monday, if the committee will indulge us.

Mr. Crisp. The committee will indulge you. We do not expect to have any meeting to-morrow.

Mr. Patman. I understood that there would be no meeting to-morrow, and two Members of Congress have already yielded their time, the Hon. Ross A. Collins, who is the author of H. R. 4539, who said that in view of the fact that so many wanted to be heard he will just file a statement, and the Hon. M. C. Garber, a Representative from Oklahoma, who is the author of H. R. 9593 and H. R. 10367, who has stated that on account of the fact that we are rushed for time, he will file a statement in lieu of making a personal appearance.

Mr. Crisp. They will both have the privilege of filing statements.

STATEMENT OF HON. ROSS A. COLLINS, REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSISSIPPI

Mr. Collins. With the avowed purpose of this bill to give expression of the Nation's gratitude to those who served in the World War, I am in accord. I believe that we should go the limit of generosity in our treatment of those who took part in that struggle and I will cooperate earnestly in the passage of this legislation.

Briefly stated are some of the reasons that have convinced me that this so-called bonus bill should be passed:

First of all, I object to this bill being called a bonus bill. It is in no sense a bonus, but an adjusted-service certificate. It represents an honest debt that Congress has admitted, and acknowledged, as due for services rendered. It is therefore in this light that we must discuss the present bill. It is decidedly not an attempt to extract something for nothing, but a request that we pay that which is due. It is an obligation the same as any other. It is then our plain duty to pay this compensation.

It would not be necessary to dwell on this phase of the bill if it were compensation due a few powerful individuals. But the fact that it is owing to a large number of ordinary citizens, makes it difficult to secure payment. If the amount had been due to those who did not need it, the payment might possibly be slightly different. But those who are opposing the payment of this compensation have not had any difficulty within the past few years in securing the refund of taxes by the Government. Since 1917, the period during which the compensation due the ex-service men could not be paid, the Treasury has returned in refunds and abatements the sum of $3,876,164,016.18. Almost $4,000,000,000 has been granted to the wealthy few who already have plenty, and during the period that we found it necessary to refund this four billion largely to these privileged individuals, we could not pay the honest debt we owe to the people who actually need the money.

We should also view this compensation as a financial problem. It must be paid sometime. Since the day the armistice was signed, the ex-service people have been promised some suitable compensation. It cost billions to reimburse war contractors; the war mineral relief bill carried forty millions; a bill for the relief of Shipping Board contractors carried fifty millions, and it cost billions to reimburse special groups of people for alleged losses sustained during the war. If all this could be done, not in promises but in actual cash, why not cease our promising the ex-service men and pay them off. It would be not only the more honorable but the cheaper method of handling the situation. The longer we owe it the larger it will be. Therefore, in the interest of economy, let us pay it immediately.

It is indeed adjusted compensation. These men with our consent went into this struggle. In fact, "consent" is not sufficiently strong. They went into a struggle created by us. The scene was set by ourselves. We urged them to become part of the institution of war. We cheered them as they marched away, some of them to their death, some to return to hospitals, and some to return to civil life with inadequate preparation for the tasks of peace. Nor has he had the opportunities for larger gains which those who remained at home actually received. I feel that as long as men are invited to become pawns of war for their country, as long as the national policy of the country makes it imperative that men shall find it necessary to pass through the experiences undergone by these ex-service men, as long as we permit the hideous monster of war to engulf our youths, I am not only in favor, but I will fight by every means in my power, to pay these men, who have suffered so much because of our stupid policies, the fullest compensation possible.

STATEMENT OF HON. M. C. GARBER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. Garber. Mr. Chairman, gentlemen of the committee, "Lest we forget", what do the adjusted compensation certificates represent? In the first instance, they represent a confession that the Government, as then administered, unjustly discriminated in favor of civilian employees at home and against the veterans in its military service. This discrimination was in the glaring inequality of compensation. The Government drafted the young men of our country, jammed them into military service, into crowded training camps, across submarine infested seas, into training camps overseas, into trenches, into warfare indescribable.

The Government had the power likewise to draft its civilian population for service in the manufacture of munitions, construction of camps, of ships and in fact in all the various lines essential to support its military objectives. And yet, with this power, the administration paid its civilian employees from $6 to $15 for eight hours per day and its soldiers in the military service but $1 per day at home and $1.10 per day overseas. With the power to regulate and prevent, it permitted civilian employees to exact exorbitant wages. It paid racketeers huge profits for supplies, munitions and on Government contracts and penalized our boys in the military service of our country.

It took over the railroads during the war at a fixed rental price which produced one of the largest incomes the roads had ever made up to that time and after the war was over, when the roads plead that their profits had been diminished by governmental operation, it paid them in readjustments of such claims sums aggregating about $2,000,000,000. Princely sums were also paid to contractors as readjustment on account of uncompleted contracts suddenly made unnecessary by the cessation of the war, and to its civilian employees. And these adjustments were all made in cash.

But what did it do with our boys to whom it entrusted the fate of the world? It took them over at $30 a month for home service and $33 for overseas service. It carried insurance on its ships, its munitions, its supplies—but none on the precious flesh and blood which we sent into foreign battle fields. No, it practically compelled them to take out their own insurance, which, with allotments from their pay for dependents at home, reduced the paltry monthly sum by about $20.

As this great, grievous wrong and discrimination gradually developed and dawned on the people, the demand for adjustment of such glaring discrimination became nation-wide and finally resulted in the proposal of adjustment legislation. Selfishness, greed, ingratitude, immediately reared their ugly heads in vociferous protest. What class was it that utilized every possible means to defeat it? Was it the farmers who profited less than any one from the war and whose contribution in foodstuffs for the Nation and its defenders was second in value only to that of the boys themselves? Was it labor which always pays its part of the expenses of government? No. The vicious opposition came from the financial interests of the country. They resorted to misrepresentation and poisonous propaganda of every description. Nothing was too low and sordid and selfish for them to use to poison the clear streams of public opinion. They poisoned the wells of public opinion and finally wrested a compromise of the noble purposes of the people which resulted in the issuance of the adjusted compensation certificates.

"Lest we forget," just what do they represent in the way of adjustment? Briefly, they represent the amount due the veteran for each day of active service, in excess of 60 days, on a basis of $1 per day for home service and $1.25 a day for that overseas, plus 25 per cent on account of deferred payment and interest at 4 per cent from January 1, 1925, the total amount payable at death or on January 1, 1945. If the amount is not more than $50, then it is payable in cash and the amount of the credit of a veteran who performed no oversea service is limited to $500 and for the veteran who had some oversea service, to $625.

What do these figures show in the way of adjustment with the actual pay? The actual compensation while in the service plus the compensation provided by the certificate is $2 per day for home service and $2.35 for oversea service, plus 25 per cent of the adjusted compensation credit and interest at 4 per cent as explained, as compared to the average wage of the civilian or the Government employee upon war contracts in the amount of from $6 to $15 per day. And if they have held their certificates for two years, then they are now entitled to borrow up to 50 per cent of the face value, but they must pay interest on such loans in excess of the 4 per cent interest computed in the value of the certificates.

The Government settled with the railroads, with the war contractors, with its civilian employees—and settled with them in cash. Only with the veteran did it sidestep the issue and hedge it about with conditions. Only with this class did it acknowledge an obligation and postpone its payment for 20 years.

The railroads did not win the war; neither did the contractors, the war profiteers nor the civilian employees. In their complacent security at home they contributed for exorbitant cash considerations. The main contributing cause winning the war was the service of the veterans. Let us not forget that. Why are they not entitled to the same consideration shown the civilian employees, the contractors, the war racketeers?

They are in need now as never before of a little ready cash to pay their debts, to bring a few additional comforts to a home, to tide them over in this emergency. Payment of the certificates now, will provide relief for our veterans and their dependents, and indirectly, through increasing the money in circulation, for the farmers, the stockmen, the laborers, the producers generally and the banks located in the producing sections of the country as well. It will save millions in administrative expense.

We have extended aid to big business, to commerce. We have subscribed through legislation to a policy of assisting the banks in thawing out their frozen assets. Payment of the adjusted compensation certificates will thaw out frozen assets in the amount of more than $2,000,000,000, will directly benefit approximately 3,512,896 ex-service men and will increase the actual cash in circulation to an amount almost double that in circulation to-day.

And it is money in actual circulation that this country must have to-day. There is no substitute. The reconstruction act authorizing loans to railroads and various financial agencies checked the closing of the banks and the roads from going into receiverships. It halted our descent into what might have been a complete collapse and ruinous panic but it has not started restoration. The loans must be repaid. The liberalization of credit to be extended by the Federal reserve banks has not been utilized. The big financial institutions still hoard and refuse to lend.

The $125,000,000 additional capital to the Federal land banks has benefited but has not halted the relentless foreclosure of farm mortgages with the prices of farm products below the cost of production.

Farmers in every section are unable to pay their taxes, interest, and coming-due obligations. They are being dispossessed of their homes and their children deprived of their educational opportunities. Unless we restore the purchasing power of farm products to its normal economic level, there can be no recovery from this depression. Agriculture is the basic industry. Our efforts should be centered upon its rehabilitation.

The dollar has become too dear. It takes three bushels of wheat to buy a dollar to-day where formerly it took but one, with cotton and other farm products in like proportion and the farmer must have the dollar with which to pay his interest and taxes. Increase the dollars in circulation and you increase the price of farm products. The remedy for restoration therefore lies in the increase of dollars in circulation.

Even the Washington Post, representing the conservative financial interests of the country, in its issue of April 11, finally concedes that all chance of recovery hinges upon a turn in commodity prices, that so long as existing prices prevail, business will continue to be paralyzed. Heroic emergency measures that will arrest the fall of prices seem to be in order. "Some powerful agency must be thrown into the breach to restore the value of goods and services against the exaggerated value of money." We incorporate the editorial in full as a graphic description of existing conditions and suggestive of emergency measures to restore the purchasing power of goods and services.

(The editorial referred to is as follows:)

[Washington Post, Monday, April 11, 1932.]

The Underlying Problem

A fresh wave of deflation swept over the country last week, leaving the people in a confused and uneasy state of mind. For a time the forces of depression were checked by the new blood poured into the veins of commerce by the Reconstruction Finance Corporation and other constructive measure. But these factors were not sufficient to turn the forces of deflation into a positive movement toward recovery. It is well for the public to face the fact that heroic measures are necessary to turn the tide of depression.

A few weeks ago attention was concentrated on the extension of credit. The banks were the center of the crisis. Banks were failing at a rate of about 400 per month. Emergency measures initiated at the White House mobilized the resources of the Nation behind bank credit. The epidemic of failures was quickly cured, and the banks are in a much stronger position than before. Now they have ample money and credit reserve, but the benefits of that improved position are not flowing out to the people.

There are two chief reasons for this condition. First, the banks are reluctant to lend money because of fear that their own safety may be jeopardized. Second, even if the people can borrow, they hesitate to do so because of the uncertainty of business and because falling prices and security values make the repayment of loans an extreme hardship.

The banks are not taking full advantage of the liberal credit allowances given them in the Glass-Steagall Act. Additional credit can be used only when other resources have been exhausted, and no bank wishes to admit that it is forced to resort to extraordinary measures. To this extent the working of the new regulations, which were expected to be a potent force in the restoration of normal conditions, are a disappointment. Congress did not reckon with the selfishness of some bankers who are concerned only with stabilizing their own establishments.

No elasticity of credit, however, could overcome the tendency of business to lie dormant while there is no hope of operation without fresh losses. All chance of recovery seems to hinge upon a turn in commodity prices. On April 1 a group of 110 representative commodities were selling for 17½ per cent less than they brought a year ago. This is superimposed upon a decline of 20 per cent in the previous year. So long as this condition remains unchanged business will be paralyzed. All the credit in the world can not induce business to go deeper into the red.

Value in the United States is being slowly concentrated into money. The dollar increases in value every day, while everything else loses some of its relative worth. In spite of the antihoarding campaign and the liberalizing of credit, this situation encourages the liquidation of all other forms of wealth. The value of the dollar has reached such a high point that the people are tempted to convert all their holdings into dollars to avert further shrinkage.

Unless this vicious movement is checked it will result in panic. The extension of credit will not be sufficient. Heroic emergency measures that will arrest the fall of prices seem to be in order. How that can be done without unwarranted inflation of the currency is not clear, but every fresh wave of deflation makes more urgent the necessity of restoring some measure of balance between money and commodity prices.

The best brains of the country ought to be concentrated on this problem. This economic malady has reached a point where it can not be expected to cure itself without leaving horrible scars. Palliatives will not yield the desired effect. Business can not turn toward stability unless the whole tendency toward lower price levels is reversed. Some powerful agency must be thrown into the breach to restore the value of goods and services against the exaggerated value of money.

The people would not countenance the manufacture of fiat money to make prices rise. But some method of currency expansion on a sound gold basis might be necessary. Emergencies of this kind call for drastic action which goes to the heart of the problem. All the benefits which have accrued through bank stabilization will be lost unless the forces of deflation are arrested. It is time for the leaders in Government and financial circles to focus their minds upon a realignment of values.

Mr. Garber. "Currency expansion on a sound gold basis," which the Post says is essential to recovery, will be effected by the payment of the compensation certificates. The cancellation of the indebtedness will afford an adequate consideration and the veterans an agency through which the currency can be expanded more than $2,000,000,000 directly into the channels of trade, reaching every section of the country. The money thus paid will not only cancel a just obligation but will be put in immediate circulation. It will not be hoarded but expended for the family necessaries of life, benefiting all classes in every community.

The following table shows the distribution in each State:

(1) Residence of veterans	(2) Number holders certificates	(3) Remainder due on certificates	(4) Per capita payment to each State
Alabama	49,391	$29,876,840	$12.00
Arizona	10,555	7,411,302	17.00
Arkansas	42,576	25,373,058	13.68
California	194,607	136,500,005	17.50
Colorado	33,265	21,514,464	20.77
Connecticut	42,765	29,902,203	18.61
Delaware	4,743	3,918,525	16.44
District of Columbia	27,460	18,198,685	37.38

(1) Residence of veterans	(2) Number holders certificates	(3) Remainder due on certificates	(4) Per capita payment to each State
Florida	38,260	$24,469,835	$16.59
Georgia	56,882	35,151,645	12.10
Idaho	13,138	8,248,500	18.53
Illinois	245,990	157,543,750	20.60
Indiana	92,813	59,254,650	18.29
Iowa	77,498	46,574,480	18.85
Kansas	55,456	34,934,250	18.57
Kentucky	61,848	38,064,000	14.56
Louisiana	52,321	31,168,150	14.83
Maine	20,791	13,446,550	16.89
Maryland	46,918	31,140,525	19.09
Massachusetts	133,133	92,376,144	19.38
Michigan	130,120	85,407,400	17.64
Minnesota	83,049	53,105,260	20.67
Mississippi	35,736	21,456,974	10.68
Missouri	108,464	67,608,904	18.62
Montana	17,580	11,424,128	21.25
Nebraska	39,016	24,227,271	17.58
Nevada	2,978	1,988,889	21.84
New Hampshire	12,011	8,084,753	17.38
New Jersey	113,024	77,317,513	19.13
New Mexico	9,809	6,257,550	14.78
New York	366,236	245,948,177	19.10
North Carolina	62,106	38,794,117	12.24
North Dakota	15,705	9,738,745	14.30
Ohio	177,390	117,878,406	17.73
Oklahoma	65,231	39,815,376	16.62
Oregon	34,349	22,978,122	24.09
Pennsylvania	252,388	172,888,542	17.95
Rhode Island	20,186	13,731,012	19.97
South Carolina	34,710	21,349,617	12.28
South Dakota	22,054	13,074,391	18.87
Tennessee	57,231	36,318,844	13.80
Texas	144,453	95,655,800	16.42
Utah	13,969	8,930,767	17.58
Vermont	8,004	5,604,408	15.58
Virginia	61,300	41,006,200	16.93
Washington	54,666	37,874,647	24.22
West Virginia	42,004	25,976,846	15.02
Wisconsin	85,481	52,438,873	17.50
Wyoming	10,794	7,144,348	31.23

Column 1. Residence by States of all veterans holding adjusted-service certificates.
Column 2. Number of veterans in each State holding certificates.
Column 3. After deducting all prior loans, the amount remaining due veterans of each State if full-payment bill is passed by Congress.
Column 4. Full payment will average per person, or for every man, woman, and child, in the State according to the 1930 census. The approximate amount of money that will be put into circulation in any city, county, or locality may be arrived at by multiplying the population by the per capita payment for that State.

The information for columns 1, 2, and 3 of this table was compiled from information furnished by the Veterans' Administration. The other information was obtained from the statistical division of the Bureau of Internal Revenue and other governmental sources.

Federal reserve notes issued in direct payment upon Government bonds bearing 4 per cent interest will finance the payments upon a gold basis. This will afford immediate relief to the country. It will double the amount of money in actual circulation. It will raise the price levels of all products. It will increase the purchasing power and consuming capacity, give employment ot our unemployed, and start the mills and factories again.

It will initiate the resumption of business, gradually restore confidence, and lure the hidden money into investments, gathering within its current accretions essential to a restoration of normal business conditions.

Mr. Patman. At this time I would like to introduce Hon. J. V. McClintic, who is the author of H. R. 9929.

STATEMENT OF HON. JAMES V. McCLINTIC, A REPRESENTATIVE FROM THE STATE OF OKLAHOMA

Mr. McClintic. Mr. Chairman and members of the committee, I take it from the number of members of the Oklahoma delegation that have appeared in behalf of this bill that you no doubt are aware of the fact that there are a great many Legionnaires and other citizens in Oklahoma that are favorable to this legislation.

Mr. Rainey. Is there any Member from Oklahoma who has not introduced a bill on this subject?

Mr. McClintic. I am rather inclined to think they have all been represented.

I want to say in the beginning that I appreciate very much the opportunity of appearing before this very distinguished committee. I have introduced a bill which seeks to pay off what is commonly known as the adjusted compensation or soldiers' bonus. My bill was introduced at a time when we did not know exactly what the monetary situation would be when this legislation could be considered. Therefore, I prepared a section which proposed that this money should be provided by a bond issue.

Since that time my attention has been called to the bill introduced by Mr. Patman. Every friend of the ex-service men is working for the same result. His bill provides for the issuance of separate currency and, according to those who are posted, the statement is made that it will work out in a way that will accomplish the result, pay off the soldiers without destroying the efficiency of our monetary system; and, that being true, I am willing in the interest of efficiency and promptness to lay aside the bill I have introduced and support the Patman measure.

Now, what is the situation in this country? You have had economists to testify on both sides of the question. You have had experts who claim to know all about such things, that relate to the monetary system. You have had very little testimony that comes from what I would term the cornfield economists, the individuals who live down home and know the exact conditions.

In appearing before this committee I want to say that not only are the ex-service men and the American Legion posts interested in this legislation, but the Rotary clubs, the Kiwanis clubs, the commercial clubs, the churches, the farmers' unions, the cooperators, and practically everybody in the section of Oklahoma where I live is favorable to this legislation. I say without fear of contradiction that 95 per cent of all the people in my section of Oklahoma are favoring this legislation, and when I say 95 per cent I want to further add that I have only received one letter that opposed this bill.

Now, as I view it, the distribution of $2,400,000,000 will do more to rehabilitate industry than any other measure that could be enacted into law at the present time. I feel that the ex-service man is certainly entitled to this consideration; and I further add that in paying him this consideration we stimulate and revive not only industry but we encourage every person who resides in the Nation because this money will go into every nook and corner of the Nation.

Mr. Hill. In that connection, what do you say as to the proposal to reduce the salaries of Federal employees?

Mr. McCLINTIC. I am in favor of reducing salaries above a certain amount; and I also have a bill pending to bring about certain consolidations in order to do away with duplication and waste.

Mr. HILL. When you espouse cutting these Federal employees' salaries do you not argue counter to your proposal here that the currency of this bonus money will stimulate commerce?

Mr. McCLINTIC I do not think so, because in our Government we have, as you know, much duplication and waste, and by bringing about certain kinds of consolidations and reducing certain salaries in the higher brackets we can accomplish the savings necessary.

Mr. HILL. I am not talking about the consolidations, but I mean where the service is necessary, upon what theory would you argue for the cutting of the employees' salaries and still advocate paying out this bonus money in order to stimulate the channels of commerce?

Mr. McCLINTIC. On the grounds that we are confronted with a situation in which everyone that is patriotic ought to be willing to do his part and I think that is a fair statement.

Mr. HILL. There is no argument on the question of patriotism. It is a question of whether paying out this money will stimulate commerce.

Mr. McCLINTIC. All right. Let us look at it from this viewpoint. I voted for the Reconstruction Finance Corporation. We were told by the economists that the increase of currency would bring about a stimulation of industry and probably start this country on an upward trend. What happened? It is true that bank failures have stopped; and many of our farmers have obtained loans that was beneficial. It is true that certain big industries were bolstered up; but as far as currency going into circulation there was nothing much that took place except what we sometimes call check-kiting, a transfer of balances back and forth; and the banks that were able to collect their money have been "panic stricken" to the extent that they will not make any new loans.

Mr. McCORMACK. The Finance Corporation was created for the purpose of expanding credit, as I understood it, and not of currency. There is a clear distinction between those two things.

Mr. McCLINTIC. They are allied.

Mr. McCORMACK. I know; but there is a difference between the expansion of currency and the expansion of credit.

Mr. McCLINTIC. That is true; but the fact remains that when there was a corporation that owed an obligation and it was helped to pay such obligation, the institution receiving such pay was able to build up its balance; then that institution was in a position to make loans but did not do so.

Mr. McCORMACK. My thought was that the issue here is whether or not we have a sufficient gold reserve to justify the expansion of currency and we do not want to confuse that question with the other issue which is expansion of credit. There is a very clear distinction between this bill and the reconstruction finance bill.

Mr. McCLINTIC. The reason I mentioned the Reconstruction Finance Corporation was because there is an idea in the minds of most people that we did something for big business and nothing for the small business interests.

Mr. RAINEY. In order to clear up the Finance Corporation proposition which has been frequently referred to in this committee, it is argued that because we have appropriated $2,000,000,000 for the banks and the railroads that therefore we ought to appropriate $2,400,000,000 for the soldiers. That is the argument, and they frequently use it. I do not remember that when the Reconstruction Finance Corporation legislation was presented on the floor by members of this committee that any of them said it would bring about an expansion of the currency. I do not recall that. I understood you to say a while ago it would do that.

Mr. McClintic. That was the information generally understood by many Members of Congress when they voted for the legislation. I want to disabuse the gentleman's mind of me making any statement that reflects on any member of this committee, but that was the understanding of many Members of the House who voted for this legislation, that it would be generally beneficial, and that it would bring about a restoration of confidence which would have a tendency to start business on an upward trend.

Mr. Rainey. The idea was that it would save solvent banks from failing and solvent railroads from going into the hands of receivers. We have not given any money to banks and railroads, have we? We have just loaned it upon what is believed to be ample security. The Government bought $500,000,000 worth of stock of the Finance Corporation; that is a fact, is it not? And the Government holds that stock. The Reconstruction Finance Corporation is not giving any money in any possible direction. That is a money-making proposition, and is being conducted now at a profit to the Government of $25,000,000 a year. That statement was made to me yesterday by Mr. Dawes, its president.

Mr. McClintic. But the fact remains that conditions throughout the Nation instead of improving have been gradually growing worse.

Mr. Rainey. Yes; but they would have been still worse if we had not saved some of the banks and some railroads through that corporation.

Mr. McClintic. I believe that the Reconstruction Finance Corporation act has performed a great service to certain institutions.

Mr. Rainey. And is yielding a good profit to the Government.

Mr. McClintic. Yes. But what I am interested in at this time is a general distribution of currency that will reach into every section of the country with the thought in mind it will help build up confidence, restore that which has been lost and directly and indirectly be beneficial to everyone.

The fair plan that has been offered here by Mr. Patman was at first severely criticized over the radio and by other methods, and yet we see the statement published in the papers that the Federal Reserve Board realized that we could inflate the currency by purchasing bonds, and if I am correct in what I heard this morning one issue of bonds rose 10 points yesterday which means that those who are fortunate enough to own bonds, by this kind of policy will be the beneficiaries.

I will venture to say, and I would be willing to wager my congressional seat against a ham sandwich that there are not ten farmers in the district I represent that have a single Government bond. Consequently, that kind of policy enables those most fortunate in life to be benefited, and it does not reach throughout the nation and help those sections that are really in need.

Mr. Eslick. Whether you call it money or credit, the Reconstruction Finance Corporation does not put a single new dollar in circulation does it?

Mr. McClintic. No, sir.

Mr. Eslick. The bill under consideration seeks to put $2,400,000,000 new money into actual circulation?

Mr. McClintic. It does.

Mr. Eslick. That is the distinction?

Mr. McClintic. That is the distinction.

Mr. Rainey. The bond which went up yesterday and which you mentioned was the 3⅛ per cent Government bond, and when it went up it did not go up that much. It went up from about 92 to 95. It was on the market at $5 lower than our nationals paid for it when they bought it at par.

Mr. McClintic. Well, the gentleman knows that those who own bonds will profit by the rise in price.

Mr. Rainey. Not if they paid par for it.

Mr. McClintic. I do not want to take too much of the committee's time. I want to say this: That the most pitiful situation that I have ever witnessed during the 30 years I have lived in Oklahoma, now exists among our people.

There exists in the minds of many a panicky fear, and something ought to be done to expand the currency to the extent that better conditions can be restored at the earliest date possible.

As I view this legislation, the most beneficial part it will play is the rehabilitation of the Nation, because every person really directly or indirectly will benefit.

Mr. Vinson. In regard to inflation does not the Glass-Steagall bill liberalize the rediscounting of negotiable paper?

Mr. McClintic. Yes, sir.

Mr. Vinson. Was it not said by the sponsors of that measure that that would bring about reasonable inflation?

Mr. McClintic. Yes, sir; but we witnessed the result and nothing up to the present time has been accomplished. A great deal of testimoney has been given before this committee relative to the effect the passage of such a bill will have on our financial system. I take the position that in view of the fact that our gold reserve at present amounts to over $4,000,000,000 that it is sufficiently large to take care of either a new issue of currency or to support a bond issue to make this payment. Anyhow, in view of the fact that 40 cents in gold is the amount of reserve that is behind $1 in our money, on this basis it would be possible to increase our currency to the sum of $10,000,000,000, without going off the gold standard. In my opinion, nothing could be more helpful at the present time than to put more currency in circulation. Anyhow, a sufficient amount to restore normal conditions. The distribution of $2,400,000,000 to the ex-service men means that every section of the United States would receive a proportionate share of this sum; also, it would cause actual money to go into the channels of commerce.

Mr. Rainey. Your theory is that if we inflate the currency the prices of things that the people buy will increase?

Mr. McClintic. Whenever you furnish people money which enables them to go into the market for any commodity that is what always stimulates the industries.

Mr. Rainey. Now, if you stimulate the circulation of the dollar, increase its numbers, at the same time you increase the price of commodities, does it not wash itself out?

Mr. McClintic. I do not think so.

The veterans of the World War performed a service for this country that can not be measured in dollars and cents. During the time that they were in uniform the currency of this Nation was inflated to a very high degree, which resulted in the price of commodities reaching a sufficiently high figure as to cause everyone to be paid a profit. The business interests of this Nation flourished as never before, and the accumulation of profits were higher than in any other period of our history. Our ex-service men were paid $1.25 a day for foreign service. Some of them did not return. Others were crippled and maimed for life. This is a generous Government and splendid provisions have been made to take care of those who were incapacitated to the extent they can not make a livelihood. In view of the promise made by this Government to pay the bonus, coupled with the fact that the Nation is now suffering as never before, this payment, in my opinion, would do more to restore normalcy and at the same time check the spirit of fear that is uppermost in the minds of all the people.

I have listened to speeches broadcast over the radio, impugning the motives of those who are sponsoring this legislation. I have heard some say that nothing could be more detrimental to the interest of the Nation than the passage of such a bill. I realize that this opposition largely comes from those who do not till the soil for a livelihood, and from those whose status in life from a financial standpoint is far better than the rank and file of our citizenship. Many who will oppose this legislation are the ones that profited because of the World War. They occupy the position of the "dog in the manger," being afraid that if this amount of money is distributed it will have the effect of cheapening their holdings of certain kinds of securities. I have no patience with the class of citizens that are not willing to sympathize with those who are commonly referred to as the "under dog," and I honestly believe that they are standing in their own light when offering opposition to this legislation, as in my opinion the distribution of this money will check the depression, stabilize commodities, and restore the kind of confidence that is necessary for everyone's good.

I want to call this committee's attention to the fact that our entire educational system is severely threatened at the present time because the people are unable to pay local taxes sufficient to maintain schools. In some States where school warrants are eligible to be used for the purpose of paying taxes, it has been necessary to discontinue the practice. In other States school warrants are now being issued to pay teachers with the understanding that there is no way for the same to be paid. In some sections schools have already been abandoned, and unless conditions can be improved in the near future, many innocent children will be deprived of receiving a proper education. When any situation is allowed to exist which seriously menaces the welfare of our coming generation, it is liable to breed the kind of discontent that can result in such a serious situation as to have a bearing upon our Government activities, and as I view it, unless this Congress brings about a new departure from existing practices, the whole country has rough sledding ahead.

In every mail I am advised that our citizens have become desperate, as they have nothing ahead of them in the way of encouragement. Surplus farm products have become a nightmare as the larger the yield the greater the loss on the total amount produced. The small business man has either gone on the rocks or is fast approaching a state of insolvency, and surely no one will argue that if by the payment of the soldiers' bonus we can head off the payment of a dole that such a policy will not be beneficial.

At present we have high-salaried so-called supermen at the head of our various financial institutions. As I view their policies, it seems that they favor beginning at the top and working down, instead of beginning at the bottom and working up. When the Federal reserve banking system was created, the legislation was intended to allow expansion and contraction of the currency whenever necessary, and for the reason this has not been done, there is much criticism of those who are administering its affairs. I feel that somewhere there exists a misconception of what is actually taking place in the rural sections of the Nation, and that unless the policies of the various Federal activities are changed our people can not much longer endure.

There are several methods offered as a means of providing this money. Personally I favored the issuing of bonds, having in mind that during the World War we successfully floated over $25,000,000,000 in bonds and that the same was taken care of without complaint coming from any source. It is true that a large portion of this sum is still outstanding; however, if we could collect that which is owed to us by the foreign nations, no difficulty would be encountered in balancing the Budget. My chief interest lies in getting the payment authorized. Therefore, I am willing to support the Patman measure which provides for a new issue of currency. This measure will produce the desired results and provisions can be made for its retirement whenever advisable. As I view it this payment will be a blood transfusion to the arteries of commerce. It will restore confidence in our home institutions, thereby bringing money out of hiding. It will be a tonic to agriculture, and will do more to inspire confidence in the Government than anything else that could be done at this time. It will bring about a restoration of trade sufficient to cause many who are now despondent to gain a new lease on commercial life, thereby making it possible for individuals to balance their budgets.

Mr. PATMAN. I desire to introduce at this time Mr. Paul Kvale, a Representative from Minnesota, who appears in support of this legislation.

STATEMENT OF HON. PAUL KVALE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. KVALE. Mr. Chairman, I hesitate to give any extended expression of my thoughts for the reason that I have been unable because of other committee work to attend the complete sessions and very likely my particular views have been repeated and repeated again before this committee. I am going to pass over the tabulation of the figures cited to show that the claim the veterans advance at this time is justified. I am going to pass that by because it has been gone over time and time again. I will say that I feel it is a just claim, whether it is computed on the basis of an obligation as acknowledged at the close of the war or whether it is computed upon the 1925 basis, at the time the original legislation was enacted.

Naturally, we have all given a great deal of thought to this. The main thought I want to bring to the committee is: I have talked this over, and I have been privileged to sit as a representative of those interested in the legislation, in consultation with men in high official and financial circles whose opinions must be respected. We have been surprised at the sympathy and willingness with which they have entered into these discussions. They have been fair and they have been frank. The hostility that might have been expected has not evinced itself; and we have marched through the various stages of arguments regarding the practicability of this thing, regarding the desirability of expansion of currency at this time, regarding the mechanics of the Federal reserve system and the demands upon the Treasury, and we have come together in complete unison up to one point. That one point was a difference of opinion but not a difference of fact. That difference of opinion is as to the ultimate result of this expansion coming about through the redemption of these service certificates.

These financial experts express the abiding fear that this expansion in this way will not restore confidence; will not build up credit and will not start business and industry moving again. In the light of their original statements, I fail to find a consistent reason for their fears.

On the contrary, I feel that we have only to expect good to come of this. We do not say permanent good. I for one am willing to admit that perhaps it may be only a "shot in the arm," to use the common expression. It may be only a stimulus—temporary in nature; but I do believe it is or will prove to be an impetus to better conditions, and better times. I do believe it is going to start us out of this despond—this depression. I believe it is going to have a wholesome effect. I believe the stimulus will be planted in every grass root and in every crossroads of the country, and in every industry it is going to have a wholesome effect. Then it is up to us to adopt other measures in other respects to keep the wheels of industry rolling.

I have respect for the benefit of the experience and higher knowledge of these men, but I am so convinced in my own mind that I have the true picture and that their fears are unwarranted, that I am going to stake my little political future or whatever it is, upon my decision.

Again, these people do not question the practicability of it; they do not say that the expansion of currency is not needed. They only differ with us when it comes to the point of view as to whether it will have a beneficial effect, as to whether it will restore confidence, or whether there will be a fear regarding quick money—all these superstitions that becloud our judgment at all times.

I would like the privilege of adding to my statement the names of some of the veterans' organizations and others that have indorsed this legislation. I have been in committee and have not had time to organize a formal statement.

Mr. Rainey. Certainly. These are tontine insurance certificates we issued to the soldiers, and I will say in this connection I opposed it and favored at that time the payment of these claims in full.

Mr. KVALE. I recall that.

Mr. RAINEY. I introduced a bill which would have had that result, and Congressman Royal Johnson introduced a similar bill, and it was called the Rainey-Johnson bill. At that time we tried to make the profiteers pay it, but the administration was against us and we could not do it. Now, we make an appropriation every year for this fund and we invest that money. That is, the Government acts in its relation to these certificates as a life insurance company; and the money we appropriate each year is invested in securities which yield a revenue, and that revenue is applied to the amortization of these certificates, and the theory is that without costing the soldier one penny the Government pays his premiums, which the individual would pay if he buys a tontine insurance policy and pays the premiums himself. But the Government pays these premiums from the appropriations we make, and the Government immediately invests that money thus appropriated, and the theory is that these investments are yielding a profit, being invested in high-grade securities. Of course, we can not sell them now, but in 1945 we should be able to pay off these tontine certificates without any excessive taxes or strain on the Treasury. Now, if we should pay them now, $2,400,000,000 that makes a charge which the taxpayer must ultimately pay.

Mr. KVALE. I beg the gentleman's pardon. I differ with him entirely on that.

Mr. RAINEY. What will happen?

Mr. KVALE. The gentleman does not want to infer that these payments are made sincerely out of the Treasury from moneys raised through taxation.

Mr. RAINEY. I am talking about the payments ultimately to be made after these tontine certificates mature. Then they will be met with a minimum charge on the taxpayers. If we could float bonds now and pay these off, ultimately the taxpayer would have to pay every dollar of this $2,400,000,000, and we are trying to relieve the taxpayer of the country from payment of taxes, by all sorts of economies and still in spite of it all that would still impose this burdensome tax.

Mr. KVALE. I do not understand the gentleman's reference to tax in this instance. On the contrary, this calls for expanding currency, expanding the buying power of the people.

Mr. RAINEY. We would simply print more money and turn it out. That does not make a burden on the taxpayer which he has to pay in taxes; but it does depreciate every dollar of property in the United States to a lower degree than its present deflated price, as well as it increases the currency circulation.

Mr. KVALE. It strikes me that this movement has gained tremendous force by reason of the fact that it is visualized that it will bring back the purchasing power, not a wild inflation, but bring back the dollar to its purchasing power in 1926.

Mr. RAINEY. Your theory then is that if we issue $2,400,000,000 in new money it will increase the buying power of these soldiers and the buying power of other people?

Mr. KVALE. Inevitably.

Mr. RAINEY. And therefore will stimulate business. Do you know what our turnover of manufactured products is in the United States? In 1929 (that is the last year we have figures available for), the total amount of our own manufactured products which we turned out and sold to the people of the United States was $68,453,486,000. Now, our total imports which the people over the country absorbed and bought, was $4,400,126,000, making a total of $72,853,618,000. Now, that is the amount of manufactured goods which were purchased by the people of the United States in 1929. Of course that has fallen off now and nobody knows what it is.

Mr. KVALE. It has fallen off by a third.

Mr. RAINEY. Yes; it has fallen off at least a fourth and probably a third; and if it has fallen off a fourth our trade turnover this year is $50,000,000,000, according to your estimate, and I think you are absolutely correct about it.

Now, if we print new money for the purpose of stimulating trade and turn it out into the United States, these soldiers are going to pay a lot of it in debts they owe. They all say they are in debt and they are.

Mr. KVALE. And I have no doubt about it; I have good reason to know.

Mr. RAINEY. Probably at least a billion of it will go to pay debts. The rest of it they can use for purposes of buying manufactured products?

Mr. KVALE. But the creditors that receive the money are not just going to hold it; they will do things with it, pay debts, make purchases, and start a long series of transactions with this money, resulting in increased manufactures.

Mr. RAINEY. Well, we will assume that the other will be used for the purpose of buying manufactured products, and if so, that would be less than 4 per cent of the entire manufactured products turnover the country would absorb this year.

Mr. KVALE. I stated to the gentleman that it might just be a stimulus, that it alone might not go far.

Mr. RAINEY. It would just be 4 per cent, not more than that. That is an extravagant estimate of the entire turnover of manufactured products for this year, including the imported products. Do you think that would have the effect of raising the level of price of manufactured products to any appreciable degree?

Mr. KVALE. I can not think you are disregarding the effect of the expansion of the currency upon the expansion of credit, variously estimated at from three to one to ten to one.

Mr. VINSON. The premise upon which Mr. Rainey draws his conclusion is that this $2,400,000,000 is only used one time.

Mr. KVALE. Yes.

Mr. MCCORMICK. This $68,000,000,000 or $72,000,000,000 which you referred to in 1929——

Mr. RAINEY. It is not that much now.

Mr. MCCORMICK. That was transacted by and through the currency we then had outstanding. In July, 1930, we had four billion four hundred and twenty six million and odd dollars in currency, and that $72,000,000,000 business had to be conducted upon that currency alone.

Mr. RAINEY. Yes.

Mr. MCCORMICK. So that when you say this $2,400,000,000 is only 4 per cent of the $72,000,000,000 the only currency we had outstanding was $4,426,000,000, and that is only about 8 per cent of currency to carry on $72,000,000,000 of business. The rest was done on a credit basis.

Mr. RAINEY. The ultimate result would be just negligible.

Mr. KVALE. Instead of being negligible, I will say that the financiers say it may be too much, and they are putting some safeguarding provisions there which I think are very important.

Mr. ESLICK. Do you know the capital investment in railroads and the assets of railroads and insurance companies in comparison to the $2,000,000,000 authorization by Congress?

Mr. KVALE. I have a rough idea in my mind.

Mr. ESLICK. What is that?

Mr. KVALE. My idea is approximately $60,000,000,000.

Mr. ESLICK. If you can possibly get it, put in the figures, will you?

Mr. KVALE. I have so much urgent work now that I admit I would like to dodge the task.

Mr. KVALE. Mr. Chairman, under leave kindly granted me, I want to add a partial list of organizations which have submitted written indorsements of this legislation to me. I believe that all of them have been previously referred to your committee by the Speaker. The list follows:

American Legion Post, No. 420, Raymond, Minn.
American Legion Post, No. 227, Danube, Minn.
Adwell-Ashley Post, No. 180, Renville, Minn.
Minneota Post, No. 199, Minneota, Minn.
Russell Johnson Post, No. 72, American Legion, Appleton, Minn.
West Douglas County Post, No. 188, Evansville, Minn.
Ogmas Post, No. 268, Farwell, Minn.
United Veterans, Swift County Unit, Benson, Minn.
Frank Patzwald Post, No. 178, Morton, Minn.
Veterans of Foreign Wars Post, No. 871, Tracy, Minn.
American Legion Post, No. 87, Alexandria, Minn.
Austin F. Hanscom Post, No. 167, Willmar, Minn.
Lac qui Parle Post, No. 158, Madison, Minn.
American Legion Post, No. 364, Dassel, Minn.
Minnewaska Post, No. 724, Veterans of Foreign Wars, Glenwood, Minn.
American Legion Post, No. 375, Atwater, Minn.
Chaplin Post, No. 934, Veterans of Foreign Wars, Grove City, Minn.
Johnson Post, No. 460, Russell, Minn.
American Legion Post, No. 441, Bellingham, Minn.
A-B Post, No. 127, American Legion, Hanley Falls, Minn.
American Legion Post, No. 113, Marshall, Minn.
American Legion Post, Franklin, Minn.
United Veterans, Swift County Unit, Benson, Minn.
The Northwest Pay Bonus Now Organization of Hibbing, Hibbing, Minn.
American Legion Post, Morris, Minn.
Oscar I. Mongeau Post, No. 742, Marshall, Minn.
Operative Plasterer's Local 65, 601 Fourth Avenue South, Minneapolis, Minn.
Hennepin County Council, Minneapolis, Minn.
Northwest Pay Bonus Now Organization, Taconite, Minn.
Minnesota Amputation Post, Veterans of Foreign Wars, Hopkins, Minn.
Wm. T. McCoy Post, No. 92, American Legion, Rochester, Minn.
Hibbing Chapter, No. 3, Disabled American Veterans, World War, Hibbing, Minn.
Benson Chamber of Commerce, Benson, Minn.
Jackson Liberty Post, No. 130, Jackson, Minn.
Samuelson-Healey Post, No. 1845, Veterans of Foreign Wars, Minneapolis, Minn.
Commission of the City of Glenwood, Glenwood, Minn.
Village Council, Hibbing, Minn.
Kiwanis Club of Glenwood, Glenwood, Minn.
Venier Post, No. 452, American Legion, Keewatin, Minn.
Four posts in Mille Lacs County, Milaca, Minn.
The Appleton Association, Appleton, Minn.

North Side Post No. 230, Minneapolis, Minn.
B. F. L. & E., Release Lodge No. 579. Montevideo, Minn.

Mr. PATMAN. Mr. Chairman, we have 11 other witnesses here. I think they would all be satisfied with permission to file a statement in the record, in view of the circumstances. Those who are not, I would suggest that they see me right after we adjourn. I will get their names.

Mr. CRISP. The committee will be glad to hear all of the 11 of them Monday or Tuesday if they want to take the time. We can not remain here longer to-day, as we should be on the floor of the House now; and the committee will not be able to meet to-morrow.

Mr. PATMAN. We appreciate the situation, Mr. Chairman, and we shall be glad to wait until Monday.

(Thereupon, at 12.25 o'clock p. m., the committee adjourned until Monday, April 18, 1932, at 10 o'clock a. m.)

PAYMENT OF ADJUSTED COMPENSATION CERTIFICATES

MONDAY, APRIL 18, 1932

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D. C.

The committee met at 10 o'clock a. m., Hon. Charles R. Crisp (the acting chairman) presiding.

The ACTING CHAIRMAN. The committee will be in order. Mr. Eslick.

Mr. ESLICK. Mr. Chairman, may I present for the record two telegrams that I have selected from a large number received by me. One of them is from my home town, Pulaski, Tenn. This post has had the largest increase in membership in the last year of any post in middle Tennessee. The other is from the L. O. Crane Post of Lawrenceburg, which has a membership of between 500 and 600, the largest membership of any town of its size in America.

The ACTING CHAIRMAN. Without objection, they may be made a part of the record.

(Mr. Eslick read the telegrams above referred to, which are as follows:)

PULASKI, TENN., *April 12, 1932.*

Congressman E. E. ESLICK:

Pulaski Post No. 60 American Legion at its regular meeting April 11 passed resolutions urging Congress to support bill to make full payment of adjusted service certificate and passage of bill in behalf of widows and orphans of ex-soldiers. We ask your support this measure.

PULASKI, POST NO. 60, AMERICAN LEGION.

LAWRENCEBURG, TENN., *April 13, 1932.*

Congressman E. E. ESLICK,
Washington:

The L. O. Crane Post No. 63 American Legion at Lawrenceburg, Tenn., at its regular meeting April 12, 1932, urge immediate payment of the remainder of the adjusted compensation and the passage of the widows and orphans bill with the pauper's oath excluded.

HUGH MCCRORY,
EARL WILES,
FRANK MABRY,
Committee.

Mr. PATMAN. Mr. Chairman, at this time I would like to introduce Mr. David V. Addy, of Detroit, Mich. He is the representative of the Wayne County Council, American Legion, Detroit, Mich., representing 52 posts.

The ACTING CHAIRMAN. We shall be glad to hear him.

STATEMENT OF DAVID V. ADDY, DETROIT, MICH., REPRESENTING THE WAYNE COUNTY COUNCIL, AMERICAN LEGION

Mr. Addy. Mr. Chairman and gentlemen of the Ways and Means Committee, I am appearing before your committee at the behest of the Wayne County Council of the American Legion, in Detroit, Mich., of which I have the honor to be commander. Accompanying me on this mission is Jack R. C. Cann, executive secretary of the council. The organization we are appearing for is composed of 52 posts of the American Legion located in Detroit and adjacent towns within Wayne County, Mich. There are 9,607 paid-up members in the American Legion posts comprising the council, and there are 3,200 other members who are in arrears because their poverty, due to unemployment, makes it impossible for them to pay their annual dues of $4, but they do attend and have part in our deliberations, and we appear for them also.

Gentlemen, it is not our purpose, in appearing before your honorable body, to engage in any demagogic oratory or argument whatsoever, but rather to present to you some facts that we trust may have some influence in your consideration of proposed measures for the relief of the World War veterans.

Detroit, which is the center of the area represented by the membership in the Wayne County Council of the American Legion, has probably suffered greater injury from the bad business and industrial conditions that have stricken our country than any other district. We propose, however, to treat particularly of the condition in which World War veterans and their families find themselves to-day.

During the prosperous years following the war, there came to Detroit from every point of the compass, and from every corner of this Nation, men who were the constituents of the Congressmen from almost every district in the land. Many of these men are still in Detroit, unable to return to their home communities because of inability to pay their fare, or to move their household goods, or because their financial condition would not be bettered by such a move.

During the past three years Detroit has spent $25,000,000 from public funds in welfare relief; this not including the tremendous amounts spent by charitable organizations or from private sources. A year ago there were 46,000 families on the public welfare rolls. This tremendous welfare expense has almost bankrupt the city, with the result that many municipal activities have had to cease and all have been curtailed, and 10,000 men have been released from their positions with the city. These men had been employed in the various municipal departments, and had some right to believe that, so long as they performed satisfactory service, they would be retained; but instead have been let out. The factories which have had to shut their doors or close departments, have added to the roster of unemployed until the idle roll of workers in the city reaches 150,000. With their families and dependents close to 600,000, people are suffering from this unemployment. It is apparent that they have no hope of early reemployment, and are now looking desperately to every source for just enough food, lodging, and clothing so that they may survive until better times.

Of the 10,000 municipal employes who have been laid off, or will be out of work before the fiscal year of the city ends on June 30, fully 25 per cent are World War veterans.

At the present time, with the city's welfare roll reduced because of the municipality's inability to take care of these needy people, there are 1,900 families of World War veterans receiving city relief. These are all men with families and children.

Since last November the American Legion in Detroit, with the aid of other veterans' posts associated with them, have provided 27,100 meals to needy veterans who would have been unable to survive had it not been for this service. A like service was rendered by the same organizations in the winter of 1930–31. Since only one meal per day is served, you can readily figure the number of men who have been taken care of. Instead of improving, the load is increasing until the supporting organizations are being hard pressed to maintain this service. More than 200 meals are being served daily to that many men right now.

The Fisher Lodge in Detroit, which is a factory building in which cots have been placed for the accommodation of homeless men, most of whom had come to Detroit from other States to seek work, has housed 1,500 men nightly. Many of these men are veterans of the World War.

The American Legion in Detroit has spent a large sum of money in trying to find even the most temporary jobs for these idle men. On February 27 the department appropriated $1,800 for this work, and on April 4 the American Legion Council appropriated an additional $600 for the same purpose. While the reports show that 10,352 such jobs have been secured, many of these jobs are for an hour or so only, and leave the worker little for his effort after he has paid his street-car fare to and from the place of employment. The finest spirit, however, has been shown by these men. Many who formerly held fine positions have not been above taking an afternoon's work cleaning out a basement in order to earn a few dimes to provide food for their families. Much of the money expended in Detroit in this campaign has been the employment of idle veterans at $1.25 a day to solicit householders for work for themselves or for their comrades. Out of this $1.25 a day they must pay their transportation expense and buy their lunch while on the job. In addition, several of the individual posts have spent additional sums in this same sort of effort.

Many of the posts have been purchasing bread and milk for the families of members with children, so that they might not starve during the winter. The number of families that have been given more substantial aid over a continued period of time by the posts exceeds 520, and clothing has been provided for a much greater number of veterans, their wives, and children.

Records in the Wayne County Council office of the American Legion at Detroit show that hundreds of men have been out of work for two years, and many have been unemployed for a greater period of time. Their homes, which they had purchased on time, have been lost through foreclosures. Their furniture has gone to the loan broker and the secondhand dealers. Their cars have been taken by the finance companies. Their borrowing sources are closed, and many of them now owe more money than they can repay in a long period of time, even if they should be given steady work immediately.

Under the circumstances, these men look desperately for relief to what they regard as their last resource—the adjusted compensation certificate, which has become a frozen asset, already borrowed upon to the limit allowed by law, and in fact gone from them forever under the present regulations, for but a very small percentage will ever be able to redeem their certificates from the Government. This is true because they will be unable to support their families, pay their debts, and return the principal and interest on their certificates to the Government from a workman's wage.

The sentiment for payment of the adjusted compensation certificates immediately has increased greatly in Michigan since last September, when the national American Legion convention was held in Detroit. At that convention the Michigan delegates vote was 22 in favor of immediate payment and 15 votes opposed to asking immediate payment. Many of the 15 opposing immediate payment so voted, despite the fact that the State convention of the American Legion of Michigan favored payment without a dissenting vote, because they thought that the spring of 1932 would surely see a rejuvenation of industry. On February 27, 1932, at a meeting of the 17 members of the department executive committee, one from each congressional district, a vote was taken on a question tantamount to a test on whether the American Legion in Michigan favored payment, and a vote of 16 to 1 indicated that they do so favor immediate payment.

The State senate of Michigan, as recently as April 12, passed a resolution by a vote of 29 to 1, asking that Congress find some way to meet this obligation now, instead of waiting until 1945. Tabulated "Yes" and "No" votes taken by various American Legion posts in Michigan, which have been reported to the American Legion Council office, show that the veterans also feel that this relief is a present necessity. Instances of such votes are shown by two Detroit posts. Hawkes post voted 305 in favor of immediate pyament and 9 for delayed payment. Faust post was conducting a secret ballot by mail when we left Detroit, and the count on Thursday noon, April 14, was 481 in favor of immediate payment and 7 for delay in payment. Other posts voting are recorded in like ratio.

These men are not radicals. They are good citizens, but they are desperately groping for some way to carry on, to buy food for their families, and shoes for their children that they may continue to attend school. These men fought for the Nation once, and they would do so again if necessary. They are not found among the reds who make demonstrations and who defy the police. They are not found among the agitators who can see no good in this Nation or its institutions. They are not rioters. They are family men, who see their children wanting for the very necessities of life. They are home owners who see their homes taken from them and the savings of years defaulted thereby. They want a chance to be the good citizens they have always been. They want work first and above all, so that they may stand upon their own feet, but pending the time when work may be obtained, the possibility of getting the money represented by their one remaining, but frozen asset, the adjusted compensation certificate, is the only ray of light they see. They are fighting for that which is dearer than life to them—and who can blame them.

We ask of you to see if some way can not be found to pay the certificates now, without doing irreparable damage to the Nation that all of them love. We do not suggest the way or the method, for your body is wiser than are we in this matter. We only know that thoussands of the veterans are hungry, are ragged, are in many cases homeless, and this through no fault of their own, for they would work if they could find jobs.

There are two lesser matters that we would also recommend. One is that the privilege of borrowing upon the certificate be made available to those who have obtained them within the past two years. Many of these men—and there are 240,000 veterans in this predicament—failed to apply for their certificates through pure love of country, though they might not call it by so sentimental a phrase. They were working. They felt that as long as they were able to take care of themselves, they would not ask the Nation even for that which Congress had said was their due. Then came disaster and in desperation to care for their families, they made application for the certificates, hoping to be able to borrow on them as had their fellows who had not been so fortunate previously, or, perhaps, had been less unselfish, if you want to put it that way. Now they find their gesture was an idle one. They have the certificates, but can not borrow upon them for two years, and what may become of their families in that time is something they hate to think about. If possible, make these loans available to all, alike.

Another matter is that of the interest being charged upon the loans already made. This interest charge, compounding periodically, will eat up the certificate so that, instead of getting what it represents, the veterans who borrowed will net what they received to date, and nothing more. Many of them have already given up any thought of ever redeeming the certificates, because they know they must first take care of the other obligations they are being pressed to meet, by the grocer, the butcher, the milkman, the clothing merchant and the tax collector.

We hope you gentlemen will consider this appeal in the same spirit in which it is made—that of a desire to do whatever can be done, without permanent hurt to the Nation, toward paying the certificates, making loans available to all alike, and to cure the interest evil connected with loans already made.

Thank you.

The ACTING CHAIRMAN. I would like to ask you one question, Mr. Addy. I may preface it by saying that I have the sincerest sympathy for the ex-service men out of employment and also for other citizens of the United States out of employment. What percentage of the unemployed in Detroit are ex-service men, in your judgment?

Mr. ADDY. As far as we are able to estimate, the percentage runs around 15 to 20.

Mr. CANFIELD. What did you say the vote was in your area among the ex-service men for the bonus?

Mr. ADDY. The department itself voted at a meeting just a month ago, 16 to 1. Those were the district committeemen made up from the various congressional districts.

Mr. CANFIELD. From the whole State of Michigan?

Mr. ADDY. Yes, sir.

Mr. CANFIELD. Sixteen to one?

Mr. ADDY. Yes, sir. Thank you, Mr. Chairman and gentlemen.

The ACTING CHAIRMAN. We thank you for your presence.

Mr. PATMAN. Mr. Chairman, Mr. W. D. Jackson, representing the Brotherhood of Railway Trainmen desires just a few minutes' time.

STATEMENT OF W. D. JACKSON, WASHINGTON, D. C., REPRESENTING THE BROTHERHOOD OF RAILWAY TRAINMEN

Mr. JACKSON. Mr. Chairman and members of the Ways and Means Committee:

I am deputy president of the Brotherhood of Railroad Trainmen representing some 180,000 members. More than 15,000 saw service in the World War, and our organization paid from our general fund over $199,900 for death, disabilities, dues, and assessments for our ex-service men while in the service of our country. Now, gentlemen, the fact that we paid out over $199,900 in cash shows very plainly that we were for the service man in war times and the legislative representatives of the Brotherhood of Railroad Trainmen, from the several States of the United States at their meeting held in Washington, December 1 to 6, 1930, shows by a resolution that we have not forgotten their heroic work in defense of our Nation, and that we are still for them in peace times; and Mr. Chairman, with your permission I want to read that resolution.

Whereas the records indicate that war contractors were paid the sum of $2,000,000,000 immediately after the war as a result of loss of profits from curtailment of contracts; that the railroads were paid by the Government about $1,650,000,000 for losses sustained in operations, and that in the last few years our Government has given about $10,000,000,000 to foreign governments; and

Whereas Congress provided the adjusted-compensation certificates for ex-service men to be paid in the year 1945, thereby making a difference in its treatment of our ex-service men and the corporate interests of the country; and

Whereas the Government of the United States is seeking a means of relieving the present financial depression and need throughout the country: Therefore be it

Resolved, That the ex-service men who risked their lives and gave their all for our country should receive as much consideration as was shown to the war contractors, railroads, and to foreign governments; and be it further

Resolved, That the legislative representatives of the several States of the United States, in convention assembled, petition Congress to pass the necessary legislation providing for the Government to immediately pay the adjusted-compensation certificates, aggregating approximately $3,000,000,000 in order to relieve the present economic situation.

We are of the same opinion now as we were in 1930, that the bonus should be paid immediately.

The railroads, banks, and other industries of the country, appealed to our Government for financial relief and it was promptly granted to them, and I think that Congress had in mind when this relief was extended to the railroads, banks, and other industries, that it would relieve, to some extent, the serious financial condition of our country, but gentlemen, the money and credit extended to them for relief, by the Government has not, in my opinion, done very much if anything, toward reviving business and relieving the unemployment conditions of the country. Records show that the unemployment situation is growing more serious daily, therefore, the relief thus far extended, has not benefited many people of our Nation.

Now getting right down to the ex-service man and the man this bill will really help, the records show that there are 750,000 able-bodied men out of work. Seventy-five thousand are partially disabled veterans but are unable to obtain any kind of employment, and 800,000 only working from one to three days each week, making a total of 1,625,000 out of work entirely or working for a mere existence. And, Mr. Chairman, we feel that if the bonus is paid as is outlined in the Patman bill, it will go directly to those 1,625,000 and will benefit, help, and assist hundreds of thousands of farmers who are losing their homes and farms because they can not pay their taxes, mortgages, and other obligations, thereby adding thousands more to the unemployment situation.

It will relieve those who are in destitute circumstances now, and give them a new and brighter outlook on life, thereby creating a more kindly feeling toward our Government. I tell you, gentlemen, when a man's family is hungry, his children cold, and he is unable to find any employment, it makes him feel pretty blue, when he reads in the daily press, the billions of credit and relief that has been extended to the big interests of our country, and you have been told and it has not been denied, that there is to-day some $31,000,000,000, of public and private funds now owing to us by foreign countries, and so little has been done to relieve the deplorable condition of our own people.

I understand there are some of the ex-service men who are opposed to the passage of this bill and there are (of course) many ex-servicemen who are wealthy or who have large incomes from good positions that can easily do without their bonus money until 1945, but gentlemen, I know you will give consideration in your final deliberations to the petitions now on file of over 5,000,000, names not only signed by veterans but by representatives of almost every vocation and from over the entire United States asking, pleading, and urging you to pay the bonus now.

It's my prediction that many of those who are apparently so bitterly opposing having to take their money now will be like some of the railroad men down in the State of Arkansas when we had a bill pending passage in the legislature requiring two pay days a month instead of one. Just a few of the men opposed its passage but the bill passed and when the law went into effect the fellows who were opposed to getting their money twice a month were the first to the pay car every two weeks, and put up the loudest yell when it was a day late, so, gentlemen, you pass this bill and just watch them take their money as quickly as they can get it, and file a complaint if it doesn't arrive when they think it should.

Gentlemen, if you will pay this bonus, and just do only in part as much as you have done for the railroads, banks, and other industries, and foreign countries, you will be making a long stride in the right direction, and you will not only be assisting the ex-service man, but you will be helping the farmer, the merchant, the doctor, and, in fact, most everyone in every community in this country, because a new purchasing power will be created, and when you have done this you have done the greatest act of any Congress in the past or any one in years to come toward relieving many hundreds of thousands of our most worthy citizens from their present deplorable condition and situation.

The ACTING CHAIRMAN. We thank you for your presence, Mr. Jackson.

Mr. PATMAN. I would like to introduce at this time Congressman Sweeney of Ohio.

The ACTING CHAIRMAN. We shall be glad to hear him.

STATEMENT OF HON. MARTIN L. SWEENEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. SWEENEY. Mr. Chairman and gentlemen of the Ways and Means Committee, I am here because of the tremendous number of appeals I am receiving from my constituents who are in favor of the Patman bill. Ohio has 88 counties, and my State will benefit, if this bill passes, to the extent of $117,845,937.81. This sum will go a long way toward relieving a distressful situation.

Being close to the seat of the Government I am in a position to return to my district at certain intervals. On each occasion when I returned home I have been deluged with scores of personal appeals from ex-soldiers of the World War, who are actually suffering, in many cases, for want of the necessities of life, and who look forward to the passage of this bill as a means of bringing substantial relief.

You have had presented to you, undoubtedly, in the testimony you have received, the picture of the distressful conditions existing throughout the Nation. In common with my colleagues of the House of Representatives I am receiving a tremendous volume of correspondence on this very important question representing both sides of the controversy. I am receiving appeals written on embossed stationery, and coming from certain legion members who are absolutely opposed to the passage of this bill. For every appeal of this kind, Mr. Chairman, I am receiving scores and scores of appeals written on scratch paper, on wrapping paper, and on paper from school children's tablets, that gives me a picture of conditions as they actually exist better than I can visualize from the correspondence of the gentlemen who write to me on embossed stationery, and who are opposing relief for their former buddies.

It is my opinion that this committee should favorably consider this bill for passage. I am satisfied it will ease the unemployment situation considerably. We all know the country is in a mighty bad shape at the present time, and I am satisfied that we recognize that there is a universal demand for this legislation.

I am a new Member in this Congress, but I think you older Members will agree with me when I say that there never has been so much evidence of a spirit of revolt in any Congress of the United States as has been experienced in this present assembly. Why? Because of the widespread distress, because of conditions as they exist throughout the land to-day; people starving, sickness and distress of all kinds, the added burden of local communities in dispensing charity in caring for the unemployed. This measure will to a degree relieve some of these conditions.

I am not concerned with the cry that the passage of this bill may unbalance the Budget. I say to you frankly, better an unbalanced Budget than revolution. I have heard members of this Congress on the floor of the House discuss the subject of revolution. Men do not speak of this subject on their own initiative. They are reflecting, in my opinion, the spirit of revolution and the sentiments of their constituents in their respective communities.

This measure before you gentlemen is not a dole in any sense. It is an attempt to complete a contract to which the Government is a party. It is simply predating the due date of payment of these claims. There are some who object to the passage of this bill fearful lest it would be necessary to inflate the currency. A great many economists of the nation, and students of the question, believe that an inflation of currency is necessary to secure readjustment and increase commodity prices. The gentleman from Mississippi, Mr. Rankin, and the author of this bill, Mr. Patman, believe that an inflation of currency can be had without disturbing to any degree the gold standard or impairing our national credit. I am in accord with the belief of these distinguished gentlemen.

A few years back the Nation was engaged in a World War. These soldiers bared their breasts to the onslaught of that war and saved the Republic. These same men are again at war. They are at war with unemployment, sickness, starvation, and they are asking the Nation now to come to their rescue and save them and their families.

Gentlemen, I am here to-day reflecting the sentiments of my constituents. I know that this very patient committee is desirous of securing a cross section of the opinion of the Nation on this important subject, and I am pleased in this brief time allotted to register my approval and urge the support of the bill now under consideration by your distinguished body.

In conclusion I wish to record my appreciation of the courtesy and attention given to my brief statement to-day.

The Acting Chairman. We thank you for your presence.

Mr. Patman. Mr. Chairman, Congressman Patterson of Alabama desires a few moments to make known his wishes. Mr. Patterson is the author of a bill, H. R. 9648, which has for its purpose the payment of the adjusted-service certificates.

The Acting Chairman. We shall be glad to hear Mr. Patterson.

STATEMENT OF HON. LA FAYETTE L. PATTERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ALABAMA

Mr. Patterson. Mr. Chairman and gentlemen of the committee: I shall not take the time of the committee to make an argument, because I do not feel I would have anything new to present after what has already been presented to you.

I am appearing in the interest of my constituents to say that I believe that my constituents, those who are veterans and those who are not veterans, by a very large majority are in favor of the payment of the adjusted-compensation certificates at this time for the reasons that have been set forth to the committee.

Mr. Chariman, I ask unanimous consent of the committee to file a brief setting forth my views on this question.

The Acting Chairman. You have that permission.

Mr. Patterson. Thank you, Mr. Chairman.

(The brief submitted by Mr. Patterson is as follows:)

Brief of Hon. LaFayette L. Patterson

I wish to give the following reasons for the full payment of the soldiers' adjusted service certificates:

As I see the obligation we have to the soldiers in the adjusted service certificates and the basis for the issuance for this was the fact that after a careful survey and extended study it was found that the soldier's wages and income, to say nothing of the danger and risk which he underwent during the period of the World War, was to make up in a small degree this difference in income. It is known that wages were considerably higher among our civilian people during the World War than among the soldiers and this, when we come to look at another side of it, even then the wages of our people were very small compared with the income of the tens of thousands of our citizens who got Government contracts and did business with the Government. In fact, one of our bases for contention in this matter is that the many thousands of people who made billions of dollars in all, and many of them made millions to their own individual interest is that these parties who made millions our of the Government while our soldiers were undergoing the risk and doing the fighting should be called upon to make some readjustment with the soldiers. That, as I see it, is the purpose of the adjusted service certificates. Our request for it at this time is based on the fact that it is due at any time when the payment will not be a disadvantage to the Government and the people, to pay this money for it is known many stood for paying in cash at the time, when those certificates were first issued. Once and for all and I maintain that although the original certificate as issued is not due until 1945, that it is an obligation due at any time on the basis of the merits of the soldier's claim.

Again we are asking at this time on account of the great need of the soldiers. Literally thousands of these soldiers have bought homes and they are facing default and the probability of losing these homes. Thousands of them do not own homes and are out of work and need this money to live on. Thousands need the money to make crops so that they can sustain their families. In fact the economic situation and the condition of the soldiers who lost his best opportunity during the World War during that time of inflation, is greater than at any period in his history, and too he has not had an opportunity to get on his feet since returning from the war.

Too, another argument which arises is the conditions of the Treasury stands to pay these certificates at this time. I believe I can speak for the soldiers of our country, those heroic patriots who gave their all and who, since returning have stood for the best interest of our country, would be the last to demand anything that would disrupt or undermine their beloved Government, but we maintain that the basis on which we ask this payment is such that it will not be an undue strain on the Treasury at this time for we all recognize that in this country we have got to have inflation and a rise in commodity prices in order to save the farmers, the home owners, and the other debt-owing classes of people. The distribution of this amount of money to the soldier will do more to bring this about than any single move we have before the Congress at this time. We maintain that the Treasury on the gold basis through our Federal reserve can arrange to pay these certificates without issuing the so-called fiat money. We would soon see an increase in business all along the line in my judgment, for this $2,400,000,000 would go immediately into the channel of trade and increase the purchasing power of our people and help in relieving labor, business, and our farmers. So, then, it occurs to us that it is justifiable from the standpoint of the Treasury.

I think most of the people of this country realize that we have not broken the backbone of depression, and it can not be broken until the great masses of our people are able to renew their purchasing power. This, to me, is fundamental and is one of our strongest arguments in favor of the soldiers' adjusted-service certificates at this time. I belong to that school who believes we can never solve this condition by appropriating billions of dollars out of the taxpayers' pockets to boost up big business and any fair-minded person it seems to me will have to admit that very little of this has gone to help the great mass of people, so we feel this bill is a step in the direction of making a better distribution of the wealth and income of our Nation. Surely if there has ever been a class of people who deserved this consideration, it is our soldiers in view of what took place during the World War and following that period of gigantic concentration of wealth and power in the hands of a few. I sincerely hope that this committee will take all bills that have been introduced by several of us and their own ideas and give the House a bill which will be in the interest of the soldiers and in the interest of the country and pay him at this time the remainder due him on the adjusted-service certificates.

Mr. Patman. At this time, Mr. Chairman, I desire to introduce Hon. Miles C. Allgood, a Representative from the State of Alabama.

STATEMENT OF HON. MILES C. ALLGOOD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ALABAMA

Mr. Allgood. Mr. Chairman and gentlemen of the Ways and Means Committee, I am glad of this opportunity of appearing before you to congratulate this great committee for its decision to hold hearings on proposed legislation for the full cash payment of the bonus of the ex-service men.

We realize that the economic condition of the masses of this country is almost total depletion. Since the convening of Congress last December strong efforts have been put forth in a nonpartisan manner—I am happy to state—to bring better conditions among our people. We voted $2,000,000,000 for the Reconstruction Finance Corporation to help in restoring confidence, to stop bank failures, to aid in reducing unemployment, to extend seed and crop loans to needy farmers and to stop further deflation of farm and commodity prices. I voted for this measure. The results show that the passage of this bill has been beneficial. More than 500 farmers in Etowah County, Ala., have borrowed from the Reconstruction Finance Corporation this year to make their crops. These men could not borrow a dollar from the local banks of their county, and they and their families would have been on sufferance and not able to grow the necessities of life this year had not this Congress enacted this law.

I am informed that we can pass legislation for the full cash payment of the bonus without increasing taxation at this time and without appropriating a single dollar from the Treasury. By the enactment of the Patman bill this can be done. Its enactment will place more than $2,000,000,000 of new money in circulation which will double the amount of money in actual circulation. This amount of new money will inflate values, pay debts, pay taxes, promote business, revive industry, restore buying power thereby increasing consumption, and give employment to the unemployed thereby relieving distress throughout the entire nation. One new dollar put into circulation now would within a short period of time pass through the hands of at least 10 people, therefore, this $2,000,000,000 of new money would transact $20,000,000,000 worth of business in one year's time. It has been indicated by some of the opponents of this bill that $2,000,000,000 is an insufficient amount to restore business, however the $2,000,000,000 deficit in the Treasury has been a nightmare to this committee and the entire Congress.

The approximate cost of the World War was $200,000,000,000. The war was fought on a credit. The various government used every agency at their command in securing this credit, which resulted in excessive inflation of prices of all commodities. Now 14 years after the close of this war with these enormous debts upon us and drastically deflated commodity prices, the people of the world can not now pay these debts and it is unjust for this generation to have to suffer all these evil consequencies. Inasmuch as our Government used its agencies to secure credit to win the war, I think it should at this time through this Congress use its agencies to defer a part of this war debt until a later date. The war debt of the United States has already been reduced by $10,000,000,000 which is three and one-half billion dollars more than was anticipated by the Treasury officials to be paid to this date, and there would not be a deficit in the Federal Treasury if the millionaires of the nation, many of whom made their huge fortunes out of war contracts had not been refunded in taxes more than $2,000,000,000 since the war closed.

President Hoover has already indicated that he will veto the bill for the payment of the bonus. In passing on public questions I have adopted the policy of as near as I can placing myself in the other fellow's shoes. If Mr. Hoover were one of the ex-service men of the average station in life instead of being President of the United States I feel confident that he would favor the cash payment of the adjusted-service certificate. As to the needs of the ex-service men and their families I will state that I have personally talked to many of them in my district and there are but few exceptions indeed, where it is not sorely needed.

Mr. Chairman and gentlemen of the committee, we can not get away from the fact that this is a debt of honor this Nation owes its soldiers who so valiantly served in the World War.

I favor this Congress fighting this out and paying it if we have to stay in session the entire summer.

(Mr. Patman called the names of several witnesses who were scheduled to appear and who did not respond.)

Mr. Patman. These gentlemen requested time, Mr. Chairman, and I put their names on the calendar.

The Acting Chairman. They will have permission to extend their remarks, if they wish.

Mr. Patman. I shall notify them of that.

I will now call Capt. Samuel M. Lunine, Reading, Pa., representing the Disabled American Veterans.

STATEMENT OF CAPT. SAMUEL M. LUNINE, READING, PA., REPRESENTING DISABLED AMERICAN VETERANS

Mr. Lunine. Mr. Chairman and gentlemen of the committee, I am here as the State commander of the Department of Pennsylvania Disabled American Veterans of the World War. I have come to plead before you in behalf of my comrades from my State who are in great need. I see daily their suffering and know that many children of our unemployed comrades are underfed.

I have listened very attentively to the arguments presented here by certain members of this committee touching the question, "What effect will $2,400,000,000 of new currency have on the securities held by the people of our Nation?"

I am here to plead with you gentlemen to look at this question from a different angle, "What relief will it give to these unemployed veterans and what good will it do for the 10,000,000 or so of our American children who, proud of their father who served, are now half starved?"

The veteran asks very plainly, "Who is holding the securities that we are so fearful will be affected by inflation?" The veterans have no securities. The 6,000,000 unemployed and their dependents numbering from 10,000,000 to 12,000,000 have no securities. The millions of our farmers who had no crops in 1930 and who are now selling their corn and wheat at 50 cents a bushel and potatoes at 25 cents have no money. The 8,000,000 or so partially employed in our Nation, with some 15,000,000 dependents, are destitute. Our American merchants, the so-called middle man, is on the verge of bankruptcy. The professional man lost all his savings in the stock crash of 1929. These two represent millions of America's dependents. Why, then, are we so fearful? There should be only one question—"How much good it will do to the majority; not how much harm, if any, it will do to the few.

No question was asked of the mother who gave her son to the service, as to whether her heart was too weak to stand the strain if her son were killed. Because we stand squarely on the proposition that in a national emergency, Congress has the right to declare war and that it is the duty of every able bodied American to step forward in defense of his Nation, and because he has given this outstanding service to his Nation, the veteran must be considered a preferred creditor and laws must be passed to give him proper assistance. We contend that the veteran is facing a serious emergency. We contend that a million unemployed, former service men, without means of self support and without food for their children, constitutes a National emergency, and some means must be found to give them immediate relief.

Some days ago the question was raised, "What good will $2,400-000,000 currency do and what effect will it have on the $58,000,000,000 of dollars worth of business that our Nation does?" It was claimed that it would have no beneficial effect. This we contend is a misleading comparison. If, with $4,000,000,000 of actual money now in circulation we can do $58,000,000,000 worth of business in one year, which represents and includes all speculations which is nothing more than an exchange of credit with no money, therefore, $2,400,000,000 additional cash put into circulation should normally increase our nation's business 50 per cent and bring it up to over $80,000,000,000, a greater turnover than at any time in the history of our Nation.

Although I am not in the service, I was prompted to come here in my uniform because the newspapers are reporting that the administration has certain high ranking aces to present to you in opposition to the payment of the so-called bonus, in full, as proposed in the Patman bill, now before your honorable committee. I question these "aces" as to whom they represent. Certainly not the veteran and his family who have no food. They do not represent the partially disabled veteran who is receiving from $8 to $40 a month, and can not get employment when thousands of able-bodied men are in the ranks of the unemployed. Of course, they have a right to speak for themselves and for themselves only, for they do not, and can not, represent the sentiments of the veteran.

In the State of Pennsylvania there are 44 chapters in my organization and they all voted unanimously for the full payment. In the city of Reading, the American Legion Post, on a poll taken recently among its members, out of 590, 568 were in favor of the full payment; 16 signified that they can get along without it but would like to see the other get it; and only 6 or 7 were opposed to the bonus. The Reading City Council passed a resolution favoring the full payment now. They all feel that the money placed in the hands of the veterans at this time, will not only alleviate their own condition, but help our Nation's commerce and industry.

Gentlemen, we must consider these men and consider them seriously. We must take their need into consideration and not how much harm it might do these securities. Securities are not secure when people are grumbling and discontented. The millions of veterans showed their patriotism. They are the backbone of our Nation. Do not weaken it, for a hungry man can not be patriotic.

I am not an economist; I am a service man. I came here at my own expense, and I feel I have the right to question the sincerity of these so-called patriot—these well-paid economists, who are to be here in opposition to this measure, coming here in behalf of and paid by these very few who have and hold nearly all of these securities and nearly all of the money of our country. The men who are pleading for the bonus are the real patriots of our Nation, and it is the spirit that prompted me to join at the outbreak of the war as a private, and my service with these men, that comradeship that grew amidst suffering and hardships, privation and danger, brings me here to plead for them.

I can probably get along without the bonus for some time to come but I have visited the homes of many of my comrades in the different parts of my State and know their suffering. I have seen them without beds, lying on mattresses on the floor, with just an old Army blanket to cover them. I have seen their children pale and haggard for lack of nourishment. I have seen them on the charity benches waiting to get their dollar per head allowance for groceries to live on for a week. It is these men and children for whom I am pleading. You, gentlemen, have got to find some means of helping them. It is a duty that you owe them. It is not a gift but even if it were a gift you should find some means of alleviating their suffering. They were the flower of our youth, the heroes of yesterday, who are standing before you and pleading for help, and I ask you, not only to support this bill, but to bring it out of your committee with the unanimous approval to encourage and strengthen these men. Give them hope that they may continue with the spirit of patriotism and love for their country, so they may remain loyal; as loyal in the future as they were in the past.

I thank you for this privilege.

The Acting Chairman. We thank you, Captain, for your presence here.

Mr. Patman. Mr. Chairman, Mr. McConnell has been here several days and desires only a few minutes to be heard. I understand he was General Pershing's chauffeur during the war. I told him if he were here to-day I would do the very best I could to allow him some time.

The Acting Chairman. We shall be glad to hear him at this time.

STATEMENT OF EDWARD C. McCONNELL, NEW YORK CITY

Mr. McConnell. Mr. Chairman and gentlemen of the committee, as a former General Staff chauffeur of the United States Army, and afterwards assigned as chauffeur to Herbert Hoover at 19 Rue Lubeck, Paris, I thought perhaps my individual case would be of interest to you, a little more so than statements through letters and newspapers.

While in Washington, I attempted to secure a position through my old associations, and found that it was futile. I got a suggestion from Lawrence Richey, who is private secretary to the President, to take a civil-service examination. I did and passed it 97 per cent as chauffeur-mechanic.

My family and I have been in dire destitution, have been hungry, and have been taken care of by charity institutions.

Mr. Patman. Do you want the committee to see these pictures that you have here?

Mr. McConnell. Yes. There is a letter there from General Pershing to me. There is a picture autographed by him to my young son. There is a letter from Lawrence Richey.

I have here an article from a newspaper and I will read just a part of it to give you an idea of the circumstances I have been in after having been a private chauffeur in New York for 28 years. [Reading]:

A woman with a 15 months' old baby in her arms who told Y. M. C. A. officials that she and her family had not eaten in two days led to the discovery of the fact that the man who drove General "Black Jack" Pershing (and there were six; I was one of the men) over the war-torn highways of France is now a member of Washington's army of unemployed. The husband and father is Edward C. McConnell who replaced the famous Eddie Rickenbacker as the general's chauffeur when Rickenbacker was transferred to the aviation service. Later Mr. McConnell was placed in charge of general headquarters garage at Chaumont, France; subsequently assigned to Herbert Hoover as chauffeur. Mr. Hoover was directing Belgian food relief. Mr. McConnell was Hoover's chauffeur for a period of approximately a year in France. After the war he drove for a number of prominent civilians in New York, including William Fox, the motion picture magnate from whom he bears a letter of recommendation.

I believe that that covers what I wanted to point out, gentlemen.

Now, at the present time it is generally known that after a man's services are no longer required, he is through. That was the statement made to me by an official in Washington. When I interviewed General Pershing, his secretary emphasized the fact that I should not ask the general for work and annoy him with my troubles and I lived up to my promise.

Now, I believe that the bonus should be paid to the American soldier. Conditions in New York prove that the man who has been a soldier has no means of relief unless he belongs to an organization such as the Veterans of Foreign Wars or the Legion. I do not belong to either. I believe that the only way of helping the country in its present condition is to pay the bonus and let it flow through the average layman's business. In other words, it will keep on revolving until everybody has a chance to receive some benefit from it.

I have here two tickets which a Connecticut Senator bought me to go back to New York, but I dare say when I go back there I will have no more of a home than I have in Washington. I will be back on the department of charities in New York

At one time I was supervisor of ambulances when Doctor Copeland was commissioner of the department of health in New York.

Here are these tickets and there is my family. I go back to New York and I have to apply to the department of charities for help. It is an endless chain. I believe that the money that is coming to the soldier to-day would pull him out of the mud, even if it is only a few hundred dollars. And it would stop these political campaigns by organizations. They would not then annoy the President, they would not annoy Congressmen and Senators and the general public with their demands. When you pay them off, you are through. I believe you will find that is the truth.

I believe that one very discouraging factor to-day is that when one of these soldiers becomes the leader of an organization, he begins climbing for the pot of gold. I believe that politics should be set aside.

I thank you, gentlemen.

The Acting Chairman. Thank you, Mr. McConnell.

Mr. Patman. Mr. Chairman, I desire at this time to introduce Congressman Glover, of Arkansas.

STATEMENT OF HON. D. D. GLOVER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARKANSAS

Mr. GLOVER. Mr. Chairman and gentlemen of the committee, I did not come to the committee this morning with the expectation of testifying as a witness. I came here because I wanted to hear from other sections. I am hearing daily from my own. I represent a constituency of 300,000 people. Some of the largest posts in my State are in my district. Instead of having a divided body with reference to this question, I have never had a single man, either a soldier or a business man, write me in protest of the payment of the soldier bonus.

I know that we have some men who are opposing it. They are men who do not have to have help. Some of them draw salaries in positions like our own. We have had some protests from them.

But the soldier of this country is not thus fixed. When our great Government was called into this world conflict, we issued a call for the physically fit young men of this Nation to come in, in defense of their country. They came voluntarily and made the supreme sacrifice, many of them, or offered their lives in defense of this country.

I know of cases that have come under my personal observation where two boys from the same parentage were examined for the service. One was taken, because he was physically fit, was able to withstand the hardships of that life. He went into the service as a buck private at $30 a month.

The other man who was physically unfit was not permitted to go into the service was given employment at from $4 to $10 a day.

When the war was ended and when this service had been performed by these men, the Government thought that they had not been sufficiently paid—and they had not—and they agreed to make this adjustment. They agreed to give them an additional $1 a day for service in this country and $1.25 a day for service overseas.

Well, that is a pittance. That is small.

Here is one thing to look at, gentlemen. Many of these soldiers to-day are out of employment, are hungry and in want. I am looking forward to the future defense of this Nation. Suppose we have another conflict such as the one we had.

By our actions in Congress we have taken care of the corporations, the business interests of the country. They did not make the showing that these men have made. We have gone to their rescue, but we turn down these men who have fought the battles of this country. Now, I am wondering what the effect will be on the future citizenship of this country if the security of our country is again at stake.

I do not believe there is a man on this committee that does not have the same feeling about the payment for the soldiers' services that I have. I presume you are thinking through this question just as I have thought it through. You are thinking, how can we do it?

I think Mr. Patman made a frank statement when he said on the floor of the Congress that if he could not show that this payment could be made without increasing the burden of taxation then he was not entitled to win in this contest.

I have made a careful study of that question to see if he was right in his contention. I do not believe there is an economist in the land who can take the present conditions and the amount of gold reserve in the Treasury under our single gold standard and show that this money can not be issued and put into circulation in the payment of this just debt of the Government without preserving the credit and the honor of our great Nation. You can issue three and a half billion dollars now and leave a 40 per cent gold reserve in the Treasury.

It was my contention all the time that that ought to have been done instead of passing a tax bill to raise a billion dollars.

We owe this money. Nobody doubts that. Nobody questions that it ought to be paid. But the manner in which it is proposed to pay is unjust to the soldier. By 1945, these soldiers who have borrowed one-half on their certificates will find the interest has eaten up the balance of the principal. If the soldier does not get it now, he will get nothing at all in 1945.

Are we to say to these men that they have borrowed all that is coming to them and can not get any more? I say, let us not treat him that way.

I believe that you ought to pass this bill, possibly with some amendment. I believe this committee ought to report this bill out favorably and let us thresh it out on the floor of the House. We ought not to be afraid of putting it in the light where everybody can see it. Let the hearings be had there. Let every man have his expression of what he thinks is right. Let the country know what is going on.

You do not want to turn the soldiers down, I am sure. And you will not do it, if you can find any way of avoiding it, if you can do it and at the same time protect the Government.

I think that is the only question in the minds of the committee, whether or not you can do it and at the same time preserve the standing and credit of our Nation. We ought to preserve that. We all agree on that.

We know what we ought to do. At least I think we do. I know what I think we ought to do. We ought to get off the gold standard and get on a bimetallic standard and fix things so that we can not inflate currency but enlarge currency.

Here we are with 60 per cent of the money hid, and 40 per cent of it in circulation, under a gold standard, with not sufficient money to meet credit requirements.

You can not borrow money now from any source. Gold is centralized, is held in the great centers. We have got to break that up and we ought to do it by legislation in this Congress.

I notice that our Federal reserve system has sort of loosened its tension a little. And by reason of what? The Patman bill. And you know it. Every one knows it.

They should have relieved this condition before the Patman bill was introduced, before this panic started. The fault lies there. It does not lie in existing law. They have got the power, the authority, to expand our currency, if they would do it.

I say to you that it is time the great interests in New York get their finger off the business of Congress. Let us say that we are going, not to inflate currency—that is a bad word—but that we are going to expand it, we are going to enlarge it, we are going to have a currency that is large enough to carry on the business of this Nation.

The Constitution of the United States says that Congress has the right to coin money and to regulate the value thereof. Congress has authorized the coining of money, but you have never gone to the extent of your constitutional right, to regulate the value thereof.

Here we are with $500,000,000 of silver down in the Treasury and here is this Nation with $5,000,000,000 worth of gold, with only $11,000,000,000 of gold in the world, and France has four and a half billions of the balance of it, with only a billion and a half outside of these two countries with which to try to do the business of the world. Gentlemen, what we ought to do is face the issue squarely. Let us enlarge the currency of this country.

If we do not do it under a gold standard, let us go to a bimetallic standard of money and put out money that can not be hid. That is what is being done now. Gold is a coward and always has been. You have not seen—any one of you—a gold coin in 30 days. How many of you here have seen one in that time?

I see that three men have raised their hands. I guess you went down to the Treasury and saw it there. It is not in circulation.

Mr. HAWLEY. Let me say that General Coxey appeared before the committee with a ten dollar gold piece.

Mr. GLOVER. Well, he went down here and got it to show to you. That was the reason for his having it. It is not in circulation, gentlemen.

You can not take us out of the dilemma we are in until you do just that. We might just as well go to the fountainhead of the trouble. You can not pour in your wealth at the top. It is not going to leak out at the bottom.

Thank you, Mr. Chairman and gentlemen.

Mr. HILL. Will the gentleman yield for a question?

Mr. GLOVER. Yes, sir.

Mr. HILL. You have studied these plans. There are two plans that have been advanced for the payment of this bonus, both of which involve the increase of the currency rather than simply the increase of credit. I would like to ask you which plan in your opinion is acceptable from the standpoint of the welfare of the whole country?

Mr. GLOVER. If the gentlemen will just report out that bill to the House and let me offer an amendment, I will show you exactly how to do it.

Mr. HILL. That is what we are trying to get at, what amendment you would like to offer to it.

Mr. GLOVER. I will tell you frankly what I think you ought to do. I think this Government ought to issue bonds to the amount of say $3,500,000,000, take them over here to the Federal reserve—they will draw 2 or 3 per cent interest—leave those bonds there; they are Government property. The Government will not collect interest on them unless it sells them. Leave them there as security and let the Federal reserve issue that money. They can do it. That is what we ought to do.

Mr. HILL. That is largely the plan offered in the Thomas-Johnson bill.

Mr. GLOVER. I do not know whose bill it is. I do not wear any man's collar, except my own. I just do my own thinking.

I think it would be safe to do it that way. If you are afraid of the Patman bill—I am not afraid of the Patman plan——

Mr. HILL. We are not afraid of anything, but we would like to know what your reaction is to these plans.

Mr. GLOVER. No; you have a Government here that is too big to be able to say that a little enlargement of the currency will impair its credit. That is silly.

Mr. HILL. The Patman plan is to issue $2,400,000,000 of currency, Treasury notes, on the basis of the gold reserve now in the Treasury.

Mr. GLOVER. Yes, sir. And it will not reduce the reserve below that which the law requires.

Mr. HILL. Are you favorable to that plan or to the other plan?

Mr. GLOVER. Either one of them. I want some money in circulation. Why, we have not got enough to buy bread out in the country; we have not enough to pay taxes. Nobody has got any money. It is all hoarded.

We have got to get it back in circulation. Two billion four hundred million dollars, gentlemen, given to the soldiers will come nearer scattering it out all over the country and getting it to where it will go into business than any plan I know of and at the same time pay this debt that the Government ought to pay.

The Acting CHAIRMAN. We thank you, Mr. Glover.

Mr. PATMAN. Mr. Chairman, I desire to introduce Mr. Christgau, of Minnesota.

STATEMENT OF HON. VICTOR CHRISTGAU, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. CHRISTGAU. Mr. Chairman and members of the committee: I merely wish to reaffirm what I stated a year ago when I appeared before this committee and urged full payment of the adjusted-compensation certificates.

I am in favor of the Patman bill with an amendment providing for the Owen plan of payment.

The measure provides for a substantial increase in the amount of currency in this country. I believe that action along that line is necessary in connection with any effort to improve economic conditions. The measure can also be amended to provide safeguards against any possible uncontrolled inflation.

The farm organizations of the country have been advocating a policy which, if enacted, would require the Federal Reserve Board to use its powers to stabilize the general commodity price level at approximately what it was in 1926. I believe the Patman bill could be amended to include that feature.

It is not necessary for me to point out the economic conditions prevailing in prctically every section of this country. I know of no better way of distributing purchasing power in every nook and corner of the United States than by paying off the adjusted-compensation certificates. If that is then followed by a policy of stabilizing the price level, I am certain in my own mind that economic conditions will be greatly improved.

Most of the ex-service men's organizations in my district have urged the immediate payment of the adjusted-compensation certificates. Veterans' organizations from various communities throughout the State of Minnesota have urged unanimous support of this legislation. I have received resolutions and petitions in favor of the immediate cash payment of the adjusted-compensation certificates from the following organizations in my district in Minnesota:

AMERICAN LEGION

Post No. 384, Dodge Center.	Post No. 352, Preston.
Post No. 190, St. Charles.	Post No. 317, Emmons.
Post No. 9, Winona.	Post No. 369, Wykoff.
Post No. 295, West Concord.	Post No. 197, Chatfield.
Post No. 50, Wabasha.	Post No. 228, Waseca.
Post No. 249, Spring Grove.	Post No. 333, Kasson.
Post No. 423, Houston.	Post No. 281, Janesville.
Post No. 161, Le Roy.	Post No. 94, Rushford.
Post No. 404, Alden.	Mabel.
Post No. 92, Rochester.	Post No. 119, Byron.

VETERANS OF FOREIGN WARS

Post No. 1757, Caledonia.	Post No. 1215, Rochester.
Post No. 447, Albert Lea.	Post No. 1216, Austin.
Post No. 1642, Waseca.	Wabasha County Post, Wabasha.

I hope this committee, which has the power to accomplish a twofold purpose—assist the ex-service men and improve economic conditions in this country—will report favorably upon this legislation.

I thank you.

The ACTING CHAIRMAN. We thank you for your presence, Mr. Christgau.

Mr. PATMAN. Mr. Chairman, I had expected to recognize the gentleman from Alabama at this time, but Mr. J. A. Lazar, representing United American Labor, has been here for several days. I told him that if he would be back this morning we would give him a few minutes of time.

The ACTING CHAIRMAN. Very well.

STATEMENT OF J. A. LAZAR, WASHINGTON, D. C., REPRESENTING UNITED AMERICAN LABOR

Mr. LAZAR. Mr. Chairman and gentlemen of the Ways and Means Committee:

I am sorry my time is limited. My little talk may run to 10 or 15 minutes. Mr. Patman has requested that I cut it short and I shall do my best to cut it short, although I am long-winded, sometimes.

Mr. CRISP. That is a matter between you and Mr. Patman. The committee is not restraining you in any way.

Mr. LAZAR. I hope Mr. Patman will see his way clear to let me get through.

Having visited all of the large cities of the East, and having made a special study of unemployment conditions, I believe I am sufficiently familiar with the plight now confronting the World War veterans in order to make this appeal to you.

When the American Legion posts, the Veterans of Foreign Wars, and other representative groups made that splendid and peaceful demonstration before you at the Capitol Building, a reporter of the Washington Evening Star, with whom I am personally acquainted, approached me and wanted my views on the pending adjusted compensation legislation. I represent a small organization here in town, a new organization about a year old, called United American Labor.

He said to me, "What are your views on this bonus question?" I turned to him, and I do not like to mention his name because the man is working for a living, and said what appeared in the Star, and

I will read it to you. It appeared on Friday, April 8, and this is the statement.

During the parade, officials of the United Veterans of America released for publication a statement warning that 1,200,000 unemployed World War veterans would be instructed to come to Washington and remain here until the bonus payments are forthcoming.

Through an error, the name "United Veterans of America" was used in place of "United American Labor."

This organization was founded, as I said, about a year ago. When we call for the veterans to come to Washington and make this place their home until this debt is paid, we do not consider it a warning nor a threat; rather do we consider that an accomplishment to be attained. Taking the capital cities of other nations, the populations run into millions, such as London, Tokyo, Berlin, Paris, and other big capitals, and there is no reason in the world why we should not have two or three million population here. I believe the people of Washington would like to have a condition like that, and the veterans are the people to boost a city. They are good boosters as well as good fighters.

You gentlemen of the Ways and Means Committee, we believe, hold a high respect for your colleagues, Mr. Patman, Senator Thomas, Senator Brookhart and, I believe, Mr. Rankin, who all believe that the bonus is a legal debt, and if Congress agrees with these gentlemen whom I just named, they can not help but pay this debt. It is legal, and, these gentlemen being lawmakers, my Heavens, you have to abide by their decision. I know you respect them the same as they respect you. It is not a question of getting it out of the committee and putting it on the floor. I hope Congress will see that these boys have it coming to them. They only received one-tenth of what the bomb-proof workers received during the war. Since it is a debt, and I have for authority on that such distinguished men as Mr. Patman, Senator Thomas, Senator Brookhart and Mr. Rankin, it should be paid.

Mr. Patman, can you grant me a few extra minutes?

Mr. Patman. I would have to take it away from somebody else. I will ask you to put your statement in the record.

Mr. Lazar. I have one paragraph that I wanted to use in answering Mr. Rainey.

Mr. Patman. Go ahead with the one paragraph.

Mr. Lazar. The other day, on Friday, I believe, the distinguished Mr. Rainey from Illinois, asked a witness, Mr. Kvale, a question as to whether the payment of the bonus would overburden the taxpayer. The poor, as you all know, have been paying everything; they have lived patriotism. They did not speak it; they did not wave the flag, but they lived patriotism, and after the war they have been paying and paying and paying, until they have come to the point where they are broke. They have not got it, and the rich should, and of course they will be called on to, pay this thing. They should, for once, using sporting language, "take it on the chin." They should pay; it is their duty, for they have got it, and only those, Mr. Rainey, who have it can pay the taxes and they certainly should not object to parting with a little of their earnings, at this time or any other time. A man who objects to paying taxes is indeed unpatriotic and not worthy of being called an American.

Mr. Crisp. We thank you.

(The remainder of Mr. Lazar's statement is as follows:)

In a letter to President Hoover, United American Labor said in part, I quote, "We have heard it said that our lawmakers are well aware of the hardships caused by the depression but that they lack the collective intelligence as to the remedy. Let us devote a little more time to our economic question and sacrifice politics for at least a while." This ends the quotation. Everyone seems to be aware of the economic ailment, but few offer the remedy. All appear to be cognizant of the depression, but only a scattered number offer relief. Two things must happen before prosperity can be restored and made permanent. Immediate payment on the adjusted-compensation certificates and the institution of the universal 30-hour-week in place of the 48 hours as we now work. Congress can, if it makes up its mind, establish both in short order. The true patriot labors ceaselessly in the cause of his country and for the happiness and well-being of its citizenry. Men may differ as to party paths. Nevertheless, all public office-holders, we believe, aim at bettering conditions for their fellow men. We therefore appeal to your patriotism, rather than to your partyism. Long enough have we suffered from the economic, cancerous growth, underconsumption. Capital as well as labor, must realize that when the commodities produced remain unconsumed, a depression as now exists, is bound to result. Obviously, outside markets are becoming scarcer. The day is approaching, due to scientific advancement and industrial development, when every modern nation will become self-sustaining. All lands seem to grow and manufacture their necessary commodities. America, visualizing independence from foreign markets, will be forced to become self-supporting by consuming more of the commodities it produces. Our States and Territories can carry on progressively, prosperously and independently without the heretofore wild scramble for foreign trade.

No one advocates the total suspension of foreign trade, and by the same token no one should be opposed to a wider and greater internal trade. As the industrial machine advances, so must we reduce the hours of work in industry and on the farm. United American Labor advocates the 30-hour week in place of the present universal 48-hour week. It is indeed unjust to keep seven or eight million men and women out of employment entirely, while the remaining 40,000,000 labor 48 hours per week. This injustice affects labor as well as capital. Our business and bank failures came as a consequence. The bread and soup lines, and the organized begging, is the result of keeping part of the populace employed, while a great many workers produce nothing. The life and health of a nation depend upon thorough circulation of wealth. The same as the life and well-being of the human body depend upon thorough blood circulation. Who but a fool would hinder the blood circulation of his body? And who but a numbskull would be opposed to the thorough circulation of wealth within the nation.

Mr. Chairman, gentlemen, we ask in the name of American prosperity, economic stability, and social tranquility, pay the World War veterans now, and regulate the productive time of labor, by adopting the universal 30-hour week. When the hours of labor are shortened labor becomes scarce, wages thus naturally rise, when wages rise everybody prospers. The demand for commodities becomes intensified. Economic health of a nation depends upon steady and constant productivity by labor. American labor and the veteran do not want charity in the form of a dole or unemployment insurance. We demand immediate payment on the adjusted-compensation certificates and employment for all the able-bodied. The depression is more than two years old. The compensation due the veterans was made a law in 1924. We say that the present session of Congress must act favorably on these questions, or meet the wrath of the thinking citizens. Hungry men are thinking, and, that gentlemen, is a sign that America is awakening. Penniless men, starving men, are thinking hard how conditions may be bettered. Yes, gentlemen, American labor and the veteran will use the one and only weapon with which to register it's serious thinking. That weapon is the ballot. Peacefully, determinedly, with respect for all and fear for none; we say, "Unless we now receive a square deal from Congress, we shall do all within our power to remove those men from public life who stand stubbornly opposed to America's progress and well-being." A very able columnist, Carlisle Bargerons a political commentator of the Washington Herald, thought the other day, that the reason the bonus money due the veteran is being held back is because a movement for regular pensions may follow. United American labor wishes to go on record as the first organization to demand pensions for every man and woman who fought and served during the World War. Is there a man in Congress who would say that the World War veteran is not entitled to a pension? Labor and the veteran stand firmly united for a greater America. The battles of bombs and bullets ended November 11, 1918, but the battle of ballots against the billionaire is on. Pay the bonus. Adopt the 30-hour work week for all American labor. Enough of dickering and hairsplitting. You gentlemen of the Ways and Means Committee are in a position to start the ball rolling.

On Friday last, Mr. Rainey, the distinguished gentleman from Illinois, asked a witness, the honorable Mr. Paul J. Kvale, as to whether or not the enactment of the Patman bill would overburden the taxpayer. Permit me at this time to state to Mr. Rainey, that most of the poor people have been paying on everything, almost, until now. The time is here, when the poor are not in a position to pay taxes. The wealthy citizen will have to show his patriotism, his duty and his sportsmanship, by paying taxes. Those who have the funds should certainly not complain about paying taxes. No person earning money should object to part with a small and fair percentage of his earnings in order to maintain our Government and its institutions. Has it ever dawned upon the minds of the members of Congress, that America at the present time, possesses an overabundance of wealth? Not money alone, but real wealth; the commodities necessary to life and happiness. Also, our national lawmakers must know that there is not sufficient currency issued against the produced and unproduced wealth. If we were to issue money sufficient to represent the wealth of to-day and that which is to be produced within the next 10 years the amount to estimate, would be staggering in figures. Congress and President Hoover must demonstrate their farsightedness and courage at this time. Be as confident in America's future as were the pioneers of America.

Pay the bonus with new currency, establish the 30-hour week and the depression is over. We sincerely hope that the Members of Congress, and President Hoover, now opposed to this legislation, will have a change of heart. Gentlemen, our economic structure is tottering, it lies within your power to prevent a most horrible National catastrophe. The American people can not bear the suffering of the last two years any longer. Railroad industries have been aided. Banking institutions have been helped with huge sums of money. Those earning a livelihood and those with funds are comparatively satisfied and contented, but 9,000,000 families are in want. A million and two hundred thousand war veterans—men who lived patriotism—are in need of food, clothing, and shelter. This present session must act. It is duty bound to adopt immediate legislation in order to relieve the unbearable pressure.

Mr. PATMAN. I desire to introduce at this time Mr. Almon of Alabama, who desires to make a statement relating to this proposal.

STATEMENT OF HON. EDWARD B. ALMON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ALABAMA

Mr. ALMON. Mr. Chairman and gentlemen of the committee: I do not believe there is anything new that I can submit on this question. You gentlemen have been considering this question of the payment of the adjusted-compensation certificates for a number of years. I appear before you as the Representative of the eighth Alabama district to make known to you the views of the ex-service men I represent.

You hear talk about the American Legion being opposed to the payment of the soldier's bonus. I do not believe there is a word of truth in it. I know that the national organization, under the spell of the speech of President Hoover at Detroit, recommended against it, but I know that practically all the ex-service men in my district, and all over the country, as far as I can gather from reading, are in favor of the payment of the balance due on the adjusted-service certificates.

We are here as the representatives of the people of the United States. Conditions are terrible. Unemployment is bad, and getting worse every day, it seems to me, and we ought to do something, do everything we can to relieve the unemployment.

I have heard people say that if the soldiers received this money it would be wasted in dissipation. There is no foundation for such a statement. There may be a few, but the great majority of the men will take care of this money to pay their debts, and it will go from hand to hand and relieve conditions in the country as much as any amount of money of that kind can.

I am not going to discuss the financial features and how the money is to be raised, but from my observation I believe that the Patman bill, with such amendments as you may see proper to make, can be successfully put through. I do not know what will be the expression of the Congress of the United States, but the new rules of the House, the liberal rules of the House enacted at this session of Congress, gives us a right to be heard, and let us, as representatives of the great of the country, be given a vote on this question, and if we pass it, and the Senate passes it and it goes to the White House and it is there approved, that ends it. If the President vetoes it, as he may, then let it come back and give an opportunity to pass it over the veto.

I do not believe that the ex-service men will ever need this money worse than now and that will do them as much good as now, so I urge the committee to report the Patman bill.

Mr. PATMAN. Mr. Chairman, Mr. McGeough, of the Fleet Reserve Association, has yielded his time in view of the fact that we are crowded for time, and desires to file a statement.

Mr. CRISP. He will have that privilege.

Mr. PATMAN. And Mr. Bert Davis, of Barberville, Ohio, representing the Summit Veterans' Association, desires to set forth the views of that organization.

STATEMENT OF BERT DAVIS, BARBERVILLE, OHIO, REPRESENTING THE SUMMIT VETERANS' ASSOCIATION

Mr. DAVIS. Mr. Chairman and gentlemen of the committee, recalling a remark made the other day by one of your members, with respect to the members from Oklahoma, I think I may say that no member from Ohio has introduced a bill with reference to the payment of the adjusted-service certificates.

In the brief moments that I have, I know of nothing that I can say that would not be cumulative except perhaps to give you a little different point of view, and the point of view of the soldier is the one that I have taken in this matter. I first started to think about it on the 4th day of November, 1917, when the long arm of the law reached down and converted Bert Davis into Serial No. 1962429. Woodrow Wilson is gone; Newton D. Baker, the next in command, remains, and I received a letter from him this morning. I have discussed this subject with him frequently. I may say, in opposition to the brass hatter, so-called, of the American Legion, that I represent, and undertake to represent, the "buck privates" of the war; and if you gentlemen recall the composition of an infantry company, you will recall that two hundred and forty-five-two hundred and fiftieths, or 98 per cent, of it were buck privates and noncommissioned officers. It is that element that has not received any consideration or any representation through the American Legion, and particularly at its "Battle of Detroit," and you will recall Representative Connery making the remark the other day that he feared perhaps you gentlemen in Congress do not know what is going on in the minds of those soldiers.

Gentlemen, I have lived with them; I soldiered with them; I ate with them, drank with them, and suffered with them seven months in France, and the Davis family gave two sons to that war. They drafted me, and another son gave his life. My mother is a Gold Star mother, and the gold standard has not got me hypnotized for one moment.

As a practicing attorney, I have brought many of their cases, and have represented them and do at the present time in those cases from northeastern Ohio, and I think that I represent here the entire State of Ohio, evidence and confirmation of which is given by the fact that the Hon. Robert J. Bulkley, junior Senator from my State, will publicly debate the soldiers' bonus question with me as the representative of the soldiers at the Akron Armory on the 8th of May.

I think I speak their thoughts. I represent the Hon. C. Nelson Sparks, the manager of the city of Akron, in this matter, the Summit County commissioners, and the Summit County Veterans' Association, an organization of soldiers entirely, wholly, and solely political, and our draft act of 1932 is taking the form of the registration of voters.

Now, gentlemen, the passage of this bill means to Summit County, Ohio, my own county, something like $6,000,000. Unless some relief is given them, they can not pay their taxes. The only man who sold any real estate in Summit County last year was the sheriff of Summit County, and the real estate men back there are gravely in need of this.

I might also say that I represent the grand army of unaffiliated buck privates, their wives, their kiddies, and their creditors, and I say to you that in the minds of those soldiers there is this thought, that there are two rules of law, one rule of law for the soldiers and one rule of law for the banks, that if a soldier disables himself, he can not recover from the Government, but that if a bank disables itself, you pass a reconstruction finance corporation act to relieve it.

Gentlemen, I do not think that that is a fair statement; I do not think it is accurate; I do not think it is truthful, and I have not encouraged it, but it is what those soldiers and their friends are saying. I am just as anxious as anyone is to correct that impression, and am trying to do so in public speeches, in newspaper articles and otherwise; and you can help us greatly in correcting that impression and in making better citizens out of those soldiers, and you can also bring milk and bread to their babies by immediately passing this so-called bonus bill and getting it out of the way, getting it out of politics. It was a mistake to put it in the first place. I opposed it. You have before you a labor claim. Take my own case. I was conscripted; I was drafted. I tried to volunteer, and they would not take me. My brother volunteered, who did not have to go, and gave his life. You drafted me, you conscripted me, on November 4, 1917, and you forced me at the point of a gun to either go or go to Leavenworth and render you service. I could have been making $15 a day back in Akron and Cleveland, working at my trade in the composing room of a printing office, and I say to you that when you did that, when you drafted me, and when I come here representing those men, I have a labor claim which under the Federal laws is entitled to preference and which should come ahead of banks, and you have taken care of the banks. If you refuse to make this payment, or fail to or neglect it, you have discriminated against us, and you have committed or done an act which in fact will be construed in the minds of the soldiers as a preference.

I hesitate to address you in this manner, but it is done merely for the purpose of getting before you, if I may, the point of view of the soldiers, who do not understand things. My trip to Washington and visit here for three months has been an eye-opener to me, and my heart goes out to you gentlemen of the committee and to the Members of Congress because of the great mass of work which you have to contend with and because of the two fires you find yourselves between. You are somewhat like we were in France, by a curious coincidence. Fourteen years ago we had the choice of being shot from in front, or shot from behind. You gentlemen are in somewhat the same position [laughter], and I can sympathize with you, and it is in the endeavor and in the hope that I could be helpful and constructive that I have made these statements.

If there is anything further that any gentleman desires to know with reference to this matter, I would be glad to discuss it privately, for I will be here for a few days.

Mr. CRISP. We appreciate your having come here.

Mr. PATMAN. Mr. J. H. Hoeppal, from California, desires to make a statement at this time.

STATEMENT OF J. H. HOEPPAL, ARCADIA, CALIF.

Mr. HOEPPAL. Mr. Chairman and gentlemen, I am a commander in the American Legion to-day, and a past commander of our veterans organization known as the D. A. V. I publish two veterans' periodicals, and I think I understand the viewpoint of the veteran, and I wish to let this honorable committee know the viewpoint of the veteran in California.

At the last convention of the American Legion in California, I sat throughout the deliberations of the resolutions committee. In this committee, composed of approximately 13 men, there were judges of the superior court, district attorneys, United States assistant district attorneys, and a great number of other highbrows, all of them holding public positions of distinction in the community. The question of the bonus came up at that convention, and only one member of the resolutions committee voted for the payment of the bonus. All of these highbrows voted unanimously against it. Then the question came up on the floor of the convention, and at that time there were 3,000 members present, and a minority report was brought in requesting that the bonus be paid in full, and the question was put on the minority report and the minority report went through unanimously.

I mention this to you to show the real attitude of the American Legion, to show that 99 per cent of them are in favor of the payment of the bonus now.

The question was later brought up on the floor of the meeting of the county council of Los Angeles, comprising 170 odd posts, and it was again unanimously indorsed.

Only last night I read an article in the official periodical of the American Legion, published at San Franscico, whereby the American

Legion is seeking to intimidate its membership from taking any part whatever in the furtherance of the bonus legislation. I am a publisher of a periodical, and had received the permission of the American Legion officials in California to use the American Legion insignia on that periodical, but since I arrived here the national judge advocate of the American Legion has sought to intimidate me, to keep me from using that insignia, because he knows I am in favor of the payment of the bonus.

I am from California, and I stopped over a number of places en route to Washington, and, gentlemen, the distress in our Nation is terrific. You have got to go into the sidelines to meet the different people, as I have, to know it, and I am more convinced than ever that the payment of the bonus now is a thing which will help America more than anything that could possibly be done. I am representing men that served in two wars, three wars, and some of my men are 77 years of age, having served as officers in both the Spanish American and the World War; and they are asking for the payment of the bonus now, because, in 1945, how many of those men will be alive?

The most significant point, as it appeals to me, is this, that if you pay the bonus now you will probably put it in the pockets of probably 3,500,000 veterans, and, gentlemen, you will be putting it in the hands of every member of each veteran's family. I know, in my own case, for instance, with relatives of mine in Indiana, that if you pay the bonus it will go into three or four different families at once. I am sure of that.

That is the situation that is confronting us. It is not the veteran alone who is involved. It is the fact that you are putting money into circulation, into the hands of people who are obligated, who are in debt to the business men of the country, of people who can not pay their taxes, and it will give them a start; it will be filtering upward; it will pervade every avenue of American life.

I am not going to take much time, but I would like to conclude with this, that in 1917, as a previous speaker said, the veterans went to war at your behest, many of them voluntarily, but, nevertheless, they turned their cheek to you in loyalty and devotion in order to follow your mandate. Now they are turning their other cheek to you in their distress. Are you going to give them relief, or are you going to strike them down?

That is all.

Mr. CRISP. We thank you for your testimony.

Mr. PATMAN. I desire to introduce at this time Congressman Boileau, of Wisconsin.

STATEMENT OF HON. GERALD J. BOILEAU, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. BOILEAU. Mr. Chairman and gentlemen of the committee, I want to say only a few words in behalf of the payment of the bonus. I have been active in ex-service men's organizations in Wisconsin, and I believe I know the sentiment of the ex-service men in my State. I do not think there is any question but what the large percentage of the ex-service men are in favor of the bonus. I say that only because we hear now and then persons saying that the Legion has gone on record as opposed to the payment of the bonus. I want to say that it is my firm conviction that it is only some of the leaders of the Legion who are opposed to the payment of the bonus, and that the rank and file are in favor of it. But I do not believe that this fact, the mere fact that the ex-service men want it, should prompt this committee to report the bill favorably if it were a matter of so doing being harmful to the country. When I came here last fall to serve my first term in Congress, I came here with the same desire that I have now, to be of service to my country, and I felt at that time that the payment of the bonus would be an unwise thing, that it would be harmful to our country. I did not conceive—I will be frank to say that I did not know—that the country was in a condition where more currency was desirable. I felt that the payment of the bonus would necessarily come out of the National Treasury, and I felt that that would be a hardship and a burden upon the Treasury that would not be warranted even though the payment of the bonus would be a just thing. So far as ex-service matters are concerned, I think that justice is on the side of the war veteran, but I did not want to vote for a proposition that would take the money out of the Treasury.

However, after having made some study of the matter in my own humble way, and after having heard men in whom I have a great deal of confidence express the opinion that an expansion of the currency is necessary, I feel that there is no better way to do this than through the enactment of this bill, the Patman bill, or some other bill along that line, that would expand the currency to the extent of about $2,000,000,000, which in my opinion would be the most helpful thing that we could do now.

We have passed legislation which I felt it my duty to support with some misgivings. I voted for the Reconstruction Finance Corporation bill, for the Glass-Steagall bill, for those bills that I thought would help stabilize business and the banking institutions of our country, but I do want to say that I believe the passage of this bonus would be far more helpful than anything we have done so far, and I consider it to be the most important thing that we could do at this session of Congress.

In conclusion I want to say that I am whole-heartedly in favor of the passage of this bill or some bill along this line at this session of Congress.

Mr. Crisp. We want to thank you for your attendance.

Mr. Patman. The next speaker is Mr. Fred Beard, representing the Veterans of Foreign Wars.

STATEMENT OF FRED BEARD, DEARBORN, MICH., REPRESENTING VETERANS OF FOREIGN WARS

Mr. Beard.

Mr. Chairman and gentlemen of the committee, I had the privilege of testifying before your committee one year ago, at which time the 50 per cent loan was made available on adjusted-service certificates. It has been said that this loan did little or no good toward relieving conditions. I believe that this is untrue, because in my investigations and in interceding in the public welfare in behalf of veterans I have yet to find one case where the veteran has used his loan for other than justified expenditures and in a great number of cases the loan has been the means of a readjustment whereby the veteran has become self-supporting.

In appearing before your committee last year, I made the statement that the veteran believed that the face value of his adjusted-service certificates was due and payable and that he had made up his mind to collect. This is doubly true to-day. A year ago the veteran knew of the bonus to the railroads, the contractors and civilian employees. In the short year he has learned of the moratorium and the reconstruction loan. He has been promised employment by Government agencies. He has read in the newspapers daily of the thousands of jobs being secured for the unemployed. He has lined up day after day for one of these jobs, and if he has been fortunate enough to secure one, he has spent 12 cents car fare, an hour each way to and from the job, a couple of hours carrying out ashes and cleaning a basement, and received the magnificent sum of 75 cents or an average wage of less than 20 cents an hour in a city where 75 cents will not produce a meal for a family of five.

Mr. Chairman and gentlemen, these unemployed veterans I am telling you about are disabled to a greater degree than our gunshot-wound cases. Their disability is hysteria. True, it is temporary, but unless something is done, and quickly done, one can not predict where this hysteria will lead.

I am a resident of Dearborn, Mich., and saw the results of the recent trouble there. I was a member of the Illinois National Guard at East St. Louis, and was in Houston, Tex., during the mutiny and riot there, and am afraid if some solution is not found immediately, we will be having similar trouble in a great many of our cities.

I sincerely believe that if the balance of the adjusted-service certificate is paid at this time, that the veteran who has only been able to eke out a mere existence for the past two years will use his money to readjust himself, and in a great percentage of cases this readjustment will be permanent and make him self-supporting. Thank you.

Mr. CRISP. We thank you for your testimony.

ADDITIONAL STATEMENT OF HON. WRIGHT PATMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. PATMAN. Mr. Chairman, I desire to insert in the record at this time one paragraph from the Federal Reserve Bulletin. It is of date March, 1932, issued by the Federal Reserve Board at Washington. I shall insert the entire paragraph, but this particular sentence I desire to invite to the attention of the gentleman from New York who raised the question a few days ago. The Federal Reserve Board, in discussing excess reserves, makes this statement:

> On the basis of these excess reserves, the Federal reserve banks could issue $3,500,000,000 of credit, if the demand were for currency, and $4,000,000,000 if it were for deposits at the reserve banks.

Mr. CRISP. Without objection, it will go in the record. (The paragraph from the Federal Reserve Bulletin referred to is as follows:)

> Under the terms of the Federal reserve act the Federal reserve banks must maintain a 35 per cent reserve in gold or lawful money against their deposit liabilities and a reserve of 40 per cent in gold against their notes. On February 24, for instance, the reserves of the Federal reserve banks were $3,140,000,000; Federal reserve notes in actual circulation were $2,643,000,000, and deposits $1,973,000,000. The 35 per cent reserve against deposits would be $691,000,000 which would absorb all of the $202,000,000 of reserves other than gold and in

addition $489,000,000 of gold, and the 40 per cent reserve against Federal reserve notes would be $1,057,000,000, so that the total reserve requirements would be $1,392,000,000. This figure represents the total amount of gold on which the Federal reserve system could base additional credit. On the basis of these excess reserves, the Federal reserve banks could issue $3,500,000,000 of credit, if the demand were for currency, and $4,000,000,000 if it were for deposits at the reserve banks. There is nothing in the new legislation that in any way changes these maximum amounts. It does, however, have an important bearing on the manner in which the extension of credit can be accomplished under the law.

Mr. PATMAN. The newspapers have, I think, pictured up just a little disorder in a way that has been just a little bit unfavorable to our cause, and I do not feel that we had anything to do with it. I noticed that my home papers, and papers from different sections of the United States, referred to the fact that uniformed policemen are in this committee room at all times for the purpose of maintaining order.

I believe that the chairman of this committee would truthfully say that the only disorder we had did not come from the proponents of this proposition. The only disorder we had was from the two men from New York who spoke here and complained because I had not given them time, and I had not given them time because I did not know whether they were for the proponents or against the proponents, and I merely asked them to let me, or some member of the committee whom I selected, see their statement—and they had it written out—not for the purpose of censoring their remarks, but for the purpose of seeing if we considered it favorable to our cause, in order that we might determine whether or not we wanted to put them on, which they refused to do, and we decided that we would just wait until we had more time to look into it further.

That is the only disorder that I know of happening before the committee.

Mr. CRISP. May I make a statement?

I will take this opportunity to make this statement: I have been present at all of the hearings on this bill, except one morning when I had to excuse myself about half past 10 to meet some ladies from Georgia who had to see the Georgia delegation and to appear before the Committee on Rivers and Harbors in support of a waterway project in my own district.

I have been on this committee, I think, 17 years, and I have never known of a more courteous, quite, orderly proceeding of the committee than has happened during this hearing. I know that I have tried to be courteous, and I know the witnesses and the persons in attendance have been courteous, and we are all giving the matter the serious consideration which it deserves.

The two witnesses to whom you refer came to me privately, and I explained the order of procedure and that they would be heard. They stated that you, Mr. Patman, would not put them on. I told them that when you got through I would try to hear them. I will not repeat what happened in the room here. I was advised that morning that they had said that they were going to "raise hell" in here, and I was determined that they should not "raise hell" in here, and when that matter started I then told the clerk, in open hearings, to send out and get some police, and those are the only police that I have known to be in here and they were brought in here especially to quell any attempt to "raise hell" in here by those two witnesses.

Mr. PATMAN. I want to thank the chairman for that fair statement of what actually occurred.

Mr. McCORMACK. May I suggest for the record that these two witnesses were heard upon the permission of the committee itself, and that they were not offered by the proponents of this legislation?

Mr. CRISP. They were heard, and their testimony is in the record.

Mr. McCORMACK. And the evidence clearly indicates that they believe in communism.

Mr. CRISP. And the evidence indicates that the cause would have been better off if we had paid no attention to them, but I do not think we will pay any attention to their testimony.

Mr. PATMAN. At this time I desire to insert a copy of the act of March 14, 1900.

The currency that will be issued to pay the certificates will be on a parity with gold. This is required under the law. Section 314 of Title 31 of the United States Code provides:

> The dollar consisting of twenty-five and eight-tenths grains of gold nine-tenths fine shall be the standard of unit of value, and all forms of money issued or coined by the United States shall be maintained at a parity of value with this standard, and it shall be the duty of the Secretary of the Treasury to maintain such parity. (Act of March 14, 1900.)

I also ask permission to insert, at the request of more than one member of the committee, a statement of the war profits that were made by different concerns during the war, and showing the adjustment of those contracts shortly after the war. I shall prepare the statement myself.

Mr. CRISP. It will not be voluminous, will it?

Mr. PATMAN. No, sir.

Mr. CRISP. Without objection, that may be done.

(The statement referred to is as follows:)

DO THE VETERANS NEED IT AND WILL THEY WASTE IT?

Let the following letter answer the question:

HON. WRIGHT PATMAN,
House of Representatives, Washington, D. C.

MY DEAR MR. PATMAN: I have your letter of October 3, 1931, asking for certain information resulting from the study you understand the Veterans' Administration to have made concerning the direction in which the veterans spent money obtained from loans on their adjusted-service certificates.

You are advised that a general study on this matter has been made, which permits the following broad conclusions in answer to your questions:

(1) The average per cent of veterans obtaining loans for personal and family needs was 65 per cent.

(2) The per cent of veterans who used funds secured for investment purposes was 20 per cent.

(3) The per cent of veterans who used funds secured for the purchase of automobiles, purpose undetermined, was 8 per cent.

(4) The per cent of veterans who utilized funds in such a way as to receive no practical benefits therefrom was 7 per cent.

You will realize, of course, that these average percentages are estimates based upon such data as might be secured and upon such impressions as may have been gained by our managers and by those with whom our field managers came in contact. The final figures were secured by average field returns. Generally speaking, it is felt that of the 2,000,000 loans made, the data fairly represents the direction in which the money was expended.

I might add that endeavor was made to determine the degree of employment among those securing loans, and from the available data secured it appears that 32 per cent of the veterans obtaining loans were unemployed and in need and utilized funds secured by borrowing on their adjusted-service certificates to meet that need.

The foregoing represents the only data which are thus far available as a result of this study.

Very sincerely yours,

FRANK T. HINES, *Administrator.*

The money used for investment purposes included payments on homes: Many of the veterans are paying 10 per cent interest on installment loans on their homes.

According to this report, about 750,000 of the veterans borrowing were unemployed. The number has not decreased since that time. These men are very much in need of the additional money due them to provide necessities of life for themselves and families.

FOREIGNERS GIVEN TEN BILLIONS TO DEPRIVE VETERANS OF TWO BILLIONS

At the last session of Congress the opposition to paying adjusted-service certificates in cash contended that the Government would have to pay as much as 4½ or 5 per cent interest for as much as $1,000,000,000 or more; they also predicted that Liberty bonds would go below par by reason of that amount of bonds being sold.

Neither prediction came true. Since that time the Government has obtained money from less than one-half of 1 per cent annual interest to 2 per cent interest. The Liberty bond market was not unduly disturbed.

Foreign countries are obligated to pay us more than $10,000,000,000; they are required under the agreements to pay us a substantial sum each year. They reserved the right, however, to make payments in our own bonds at par and accrued interest. Liberty bonds went slightly below par before England made her first payment in 1924. She paid us on the first payment $27.44 in cash and the remainder of $69,000,000 in our own bonds at par and accrued interest. It was good policy for England to pursue in paying this debt. United States Government bonds did not go below par any more. If they had, either of the foreign nations owing us would have quickly bought them to use in paying the debt. But Mr. Mellon made a trip to Europe last summer. Since that time European debtors of the United States have not been in the market for any more of our Liberty bonds; they have gone much below par since that time. Are we justified in saying that Mr. Mellon promised our European debtors that the war debts will be canceled? Such a conclusion is certainly logical. The French have lots of gold; they like to save money; if they thought France would have to resume payments in 1 year or 10 years on the war debt, don't you think they would buy our bonds at 90, which they can use for 100 cents on the dollar?

CONGRESS DUTY TO COIN MONEY

It is the mandatory duty of Congress under the Constitution of the United States to coin money and regulate the value thereof. Congress is not performing that duty. Mr. Mellon, as chairman of the Federal Reserve Board, has complete charge of our money system. He coins the money and regulates the value of it. Congress should not longer tolerate this condition.

WHERE WILL WE GET THE MONEY?

When our Nation owed $10,000,000,000 more than it owes to-day, or $26,000,000,000, the railroad owners, war contractors, and Federal employees were paid billions of dollars in adjusted compensation in cash. Foreign nations were also given billions of dollars; and they used our money to pay their veterans adjusted compensation in cash. Those who are opposing the payment of the adjusted-service certificates did not claim we could not pay these debts in cash, or that it would disrupt Government finances to give foreign countries billions of dollars.

These certificates can easily be paid in cash. They do not want them paid and will not try to find a way to pay them. They are so biased in favor of their own financial interests and Wall Street bankers and so prejudiced against the veterans and the plain people their opinions and predictions can not be accepted, but must be ignored.

This debt should be liquidated like all other Government obligations are liquidated. No special favors are asked, only the payment of an honest debt that Congress has heretofore confessed is due to the veterans of the World War for services rendered.

PROPERTY RIGHTS VERSUS HUMAN RIGHTS

The railroads, property rights, were drafted into service December 26, 1917, effective January 1, 1918. Congress immediately passed what was known as the Federal control act; the first section of that act contained this language:

"The President is authorized to agree and guarantee to each carrier that during the period of such Federal control it shall receive as just compensation an annual sum, payable from time to time in reasonable installments, for each year and pro rata for any fractional year of such Federal control, not exceeding a sum equivalent as nearly as may be to its average annual railway operating income for the three years ended June 30, 1917." (Passed February 28, 1918, p. 2835, Congressional Record.)

The three years just before June 30, 1917, were the most prosperous years in the history of railroading in the United States. This act guaranteed to the railroads over a billion dollars a year actual profit.

When the war was over the railroad owners wanted a guarantee from the Government that they would make a big profit after the roads were turned back to the owners. This guarantee was given by Congress for six months, or from March 1, 1920, to September 1, 1920, which cost the Government $536,000,000, in addition to the billion dollars a year profit during Federal control. In all the railroad owners were paid adjusted compensation amounting to $1,500,000,000.

The ex-service men, when mustered out, and without employment, did not receive any such guaranty.

Railroad owners received in cash from the Government as much as one-third the value of the entire railroad as adjusted compensation in their settlements after the war.

SEVEN BILLION BONUS TO RAILROAD OWNERS

In addition to all this, the act known as the Esch-Cummins law, which returned the roads to their owners, provided that the Interstate Commerce Commission was directed to ascertain the value of the railroads according to certain rules therein and to set rates that would give the carriers a fair return upon the valuation. This law increased the valuation of the railroads more than $7,000,000,000. If 3,500,000 war veterans who are now holders of adjusted-service certificates had received an adjusted-service credit equal to what the railroad owners received in cash and other benefits, each veteran who now holds a certificate for $1,000 would instead have a certificate for $5,000, and the veteran who holds a certificate for $1,575 would instead have a certificate for $7,875.

WAR CONTRACTORS GIVEN BILLIONS IN ADJUSTED PAY

After the war 7,000 war contractors came to the door of Congress and demanded that their pay be adjusted because the war had stopped and they were therefore not making the money they should make.

Congress passed a law adjusting the pay of these 7,000 contractors invoking the same principle that was invoked for the soldiers of adjusted pay. The Secretary of War was authorized to adjust the pay of these contractors without even a commission's investigation. In fact, many of them were paid upon reports made by dollar-a-year men who were directly interested in the industries. These industries have been paid more than $2,000,000,000 of adjusted pay by the Government. Were they asked to take a due bill or a post-dated check payable in 20 years? No; they were paid in cash, and no one suggested that the Government was not able to pay the bill, although its burden at that time was in excess by billions of dollars to what the burdens of the Government are at this time.

Secretary Mellon, who represents most of the opposition to the payment of the adjusted-service certificates, probably profited more by reason of these settlements than any other individual in the United States. Read about what an investigating committee of Congress said about some of his companies profiteering during the war.

PAY RECEIVED BY ENLISTED MEN

During the war the Canadian enlisted men were paid $33 a month, the enlisted men of New Zealand $37.50, and in Australia $45 a month.

Alien slackers and alien enemies in America made more money during the war helping to build ships and military camps than they had ever made before, and financially they were treated much better than our soldiers. One negro made $70 per day in the shipyards and also escaped military service.

The railroads were drafted into the service during the World War, but the owners were guaranteed the largest profit they had ever made in the history of railroading in America.

Property being guaranteed a handsome return, and the ship workers having received such enormous wages and escaped military service, the men who bared their breasts to enemy bullets and brought victory to our country should likewise receive a fair return for their services. Out of the $30 or $33 our soldiers received, they were compelled to pay out of this sum $6 to $10 a month for insurance for the risk incident to his services in protecting the flag and conserving the wealth of his country. Soldiers were also compelled to make allotments of their pay to dependent relatives, and, in addition to this, were compelled to pay for altering and mending their own clothing and shoes and for laundry work and other incidentals. The average soldier drew $7.50 per month, after making all these payments, and with that he was required to buy Liberty bonds or be called a slacker.

Every country allied with the United States during the war paid their soldiers a liberal bonus. Canada paid her soldiers from $600 to $4,500. England borrowed money from the United States and paid her own soldiers a bonus of from $280 to $4,758 each. France paid her soldiers a large bonus. The United States paid $60 to each soldier as a bonus, but required them to pay it back in arriving at the amount of adjusted-service certificates.

The whole cost of war to the United States was $36,000,000,000 and eighteen billions went to make millionaires; 23,000 millionaires were made during the war and from settlements with the Government in and immediately after the war. Thousands of men made enough money from the Government on war contracts to permit them and their families for the next five generations to live in peace and comfort and enjoy all the luxuries of this world without so much effort as the turn of the hand, while soldiers who fought in the trenches for $1.10 a day will have to work and help pay the bill.

COUZENS'S COMMITTEE DISCLOSES

The Bureau of Internal Revenue is under the control of the Secretary of the Treasury. In 1924–25 a committee composed of three Republicans—Senator Couzens, of Michigan, chairman; Senator Watson, of Indiana; Senator Ernst, of Kentucky—and two Democrats—Senator Jones, of New Mexico, and Senator King, of Utah—made an investigation of the Bureau of Internal Revenue. The following represents some of the disclosures of that committee:

ADDITIONAL ADJUSTED PAY TO WAR CONTRACTORS

Amortization of war facilities, which were allowed by Mr. Mellon to April 30, 1925, $596,934,813.26. Claims pending, $75,171,169.87, or a total of $672,105,983.13. (Pp. 4 and 132, report Couzens committee.) These companies claimed they did not deduct a sufficient amount for depreciation during the war. This was in addition to hundreds of millions of dollars received by these war contractors in adjusted pay under the bill passed in 1919.

IMPROPER ALLOWANCES

"All amortization allowances exceeding $500,000 have been reviewed by the committee's staff and improper allowances in this class alone appear to amount to $210,665,360.40." (P. 4, report.)

PRE-WAR COMMITMENTS IGNORED

A very substantial portion of the amortization allowances have been upon facilities contracted for in 1916 but not completed and paid for until after April 6, 1917. Such facilities, having been contracted for prior to April 6, 1917, were acquired for the purpose of participating in the profits incident to the sale of materials by the Allies, and were not acquired for the purposes contemplated by this act. (P. 135, report.)

AMORTIZATION ALLOWED WHERE OBJECT WAS TO KILL COMPETITION

(Page 137 of report)

Among refunds granted Mellon companies prior to June 1, 1921, about two million to Standard Steel and four million to Gulf Oil. (Page 195, report.) (He has granted large refunds to himself and his companies since that time.)

MELLON ALUMINUM

This company is practically owned and controlled by A. W. Mellon and his brother.

"The cost of producing aluminum can be roughly calculated with sufficient accuracy for all practical purposes to show why the Aluminum Co. of America in the past 10 years has never made less than $10,000,000 per annum on a capital stock of about $18,000,000, and why the equity value of that stock is in excess of $110,000,000, all of this on an original investment of $20,000. It should be stated parenthetically that there is nothing reprehensible per se in running a $20,000 shoestring to over $110,000,000, but a company capable of this financial success is certainly not in need of protection from competition." (P. 3760, Congressional Record, February 17, 1930, quoting from record of February 23, 1926.)

This company not only enjoys tariff protection but operated in violation of a consent decree issued against it for violating the Sherman antitrust law. (P. 3758, Congressional Record, February 17, 1930.)

The company received a large settlement for adjusted compensation on its war contracts. In addition, Mr. Mellon has granted it the following settlement since he became Secretary of the Treasury:

ALUMINUM CO.'S ADJUSTED PAY

The Aluminum Co. of America submitted its original claim for amortization, 1919, for $6,852,697.36. First supplemental claim filed December, 1921, for $18,124,339.28, and next supplemental or final claim filed April, 1923, for $18,268,435.82. (Pp. 1847 and 1848, Couzens committee hearings.) Granted on claim, $15,589,614.39.

It will be noticed that the company raised its claim after Mr. Mellon became Secretary of the Treasury, March 4, 1921.

COMMITTEE OF CONGRESS MAKES INVESTIGATION OF WAR EXPENDITURES

Graham committee, being a select committee, on expenditures in the War Department, House of Representatives, 1919, was composed of 10 Republicans and 5 Democrats.

A part of the committee's report will be commented upon:

[Excerpt from committee's report]

MELLON AND THE KOPPERS CO.

"A by-product coke-oven program put on by one of Mr. Mellon's companies, the Koppers Co., during the war cost the Government $28,641,932.18, of which $16,737,932.18 was expended and will not be repaid. (Graham committee report, p. 63, No. 1400.) The Government received no products from any of these plants, either for war or salvage purposes."

The Koppers Co. was the owner of the patent on by-product coke ovens. A German owned 20 per cent of the stock in this company. The Alien Property Custodian seized it during the war, and it was sold to Mr. Mellon and his associates September 13, 1918, during the St. Mihiel drive in France, for $300,000, when it was reasonably worth several times that amount. It was a closed corporation and only the purchasers were in a position to know its value at the time of sale.

Mr. Mellon was a director of this company during its war activities. (Directory of Directors, Pittsburgh, Pa., 1917–18 and 1919.)

MELLON'S INTEREST IN SOVIET RUSSIA THROUGH KOPPERS CO.

This company has a contract in Russia at this time to construct steel mills and by-product ovens of the value of $200,000,000. The contract was made the latter part of 1930, and the company commenced immediately to send its American engineers to Russia to carry out the contract. It is known that Mr. Mellon still owns his interest in the Koppers Co.

A part of this company's activities during the war is told by the Graham investigating committee in the Jones & Laughlin Steel Co. case. Notice that the company began early to have a controlling influence in the ordnance department and about its own employees getting positions in this department; they drew two salaries, one from the Government and one from the Koppers Co. Notice, too, that prospective and possible profits were allowed war contractors in their settlements with the Government after the war. A part of the report is as follows:

JONES & LAUGHLIN STEEL CO.

"This company had a contract, made in August, 1918, with the Government to erect 300 by-product coke ovens on the lands of the company at Pittsburgh, which were to take the place of old beehive ovens that the company had been using in its business of making steel. The Government was to take the toluol and ammonium sulphate for two years produced by these ovens and was to pay $1.50 a gallon for the toluol and $90 a ton for the ammonium sulphate. The contract estimated the production of toluol at 810,000 gallons a year and the ammonium sulphate at 24,000 tons a year. Nothing was produced, the ovens being about one-half completed when the armistice was signed.

"The production of toluol was in the hands of a bureau in the Ordnance Department. The making of these contracts was opposed by experts from the Bureau of Standards and elsewhere, in the Ordnance Department, as unnecessary and improvident. However, they were made. The H. Koppers Co., a company making and building a by-product coke oven, began to have a controlling influence in this department. About the time the contract was made the following persons were employed in the department: Capt. Horace C. Porter, in charge of toluene production and distribution. He was, from 1915 to the time he entered the War Department, chemical engineer of the H. Koppers Co., and during at least part of the time he was an officer drawing a salary from the Koppers Co.

"Lieut. Arthur R. Gray was the officer in charge of distribution; he, from 1915 to 1918, was purchasing engineer for the Koppers Co. Mr. H. P. Zellar, who had charge of investigations and efficiency studies of coke ovens, was, at the time of his entrance, superintendent of a by-product coke-oven company, and left the department in January, 1919, to accept a position with the Donner Union Coke Corporation, at $12,000 a year. Mr. C. J. Ramsberg was a technical expert in the toluene department; he was also vice president of the Koppers Co. He worked two days a week for the Government and four days for the Koppers people and drew a salary from both. Mr. H. B. Kirkpatrick was also a technical expert. He was an employee of the Koppers Co. and drew a salary from both the Government and the company. There was another technical expert named Engleman; he left the department to take a good position with the Birmingham Coke & By-Products Co. Of course, the Koppers ovens were used by Jones & Laughlin, and in most of the Government work.

"When the contract of Jones & Laughlin was suspended they filed their claim. Early in January some claims-board men, and by-product coke-oven people met in New York. They fixed a value on toluol at 17½ cents a gallon and on ammonium sulphate at $60 a ton; why, nobody knows.

"At this time, on account of the armistice, the market was greatly depressed. Acting at the time of greatest depression these prices were fixed. Almost as soon as settlements were made with the producers of toluol and ammonium sulphate at these figures the prices reacted and rose. Then they settled with Jones & Laughlin, estimated their full production for two years, and gave them the difference between 17½ cents and $1.50 a gallon and $90 and $60 a ton.

"In the judgment of this subcommittee, this settlement was fraudulent per se. Further reference to this general subject will be made in another report of this committee on by-product coke ovens."

(Only excerpts from committee report have been copied.)

ANOTHER MELLON COMPANY A WAR PROFITEER

Probably more scandal was connected with the Standard Steel Car Co. in its dealings with the Government during the World War than any other war-profiteering company. Mr. Andrew W. Mellon, Secretary of the Treasury, was a director of that company. (Directory of Directors, Pittsburgh, Pa., 1917, 1918, and 1919). In addition to his own interest in the company a large part of the stock of the Standard Steel Car Co. was owned by the Mellon National Bank, and the Mellon-Stewart Construction Co. Mr. Andrew W. Mellon was president of the Mellon National Bank and a director of the Mellon-Stewart Construction Co.

The Graham investigating committee in its report on expenditures on the Ordnance Department stated the following:

"As has been said, this company contracted to build nine hundred and sixty-four 9.5-inch howitzer carriages. Although the Government prepared several contracts, the company would never enter into one. The Government did not receive a single carriage that we could use prior to the Armistice. The War Department spent in this venture $18,582,428.88. After the Armistice the Ordnance Department had them finish 200 of these carriages. The company placed in the record a statement that the cost of production was about $23,000 each. At this rate the total cost of production was about $4,600,000. The balance of this vast sum, or about $14,000,000, was used in overhead, and in building an immense plant, filled with costly machinery, all of which the contractor now has. The company was permitted to take buildings and machinery that cost $2,987,200 for $600,000, and materials that cost approximately $5,558,000 for $300,000. There was a bid for this latter material of about $700,000 from another reliable firm, which Col. E. S. Hughes, negotiating officer, concealed from his associates. The arsenals of the United States were clamoring for this raw material and machinery, but they were handed over to the contractor. There was fraud and bribery admitted by the Government agents in some of the subcontracts, but all such accounts were allowed in full.

"A member of the War Claims Board at Washington wired to know if the claim had been audited. He received an answer from a member of the Chicago board to the effect that it had. The answer was false. All this time the Government accountants were protesting against the allowance of it. The company stole a carload of small tools from this plant and removed them clandestinely to their own plant. The wonderful machines which they took from the Government as junk they have since sent to their subsidiary factories for use.

"Three million dollars was allowed on this claim, without an audit, by a negotiated settlement, only $800,000 of which was profit on manufactured goods, according to the contract, and the balance was for various items—"carrying charges, unabsorbed administration expenses," etc. (1678).

"The subcommittee is of the opinion that the settlement of this claim constitutes a palpable fraud upon the Government and that Col. E. S. Hughes, an officer of the Regular Army, willfully violated the military code in what he did."

The Standard Steel Car Co. built a three or four story hotel, costing more than $100,000, near its steel plant at Hammond, Ind., during the war. Officers of the Government who were supervising the war contracts with this company were given free accommodations at this hotel along with the Standard Steel Car Co. officials. It was known as a club. The officers received their per diem expenses from the Government and accepted hotel accommodations free from the company. (Graham committee, series 6, vol. 2, pp. 1970–1971.)

"LARGE CONTRACTS GIVEN MELLON'S STANDARD STEEL

"The Standard Steel Car Co. had a number of contracts; they had this contract for the 240-millimeter carriage, and also a shell contract, and they had at the Worcester plant a contract for 155-millimeter carriages, and at the Butler plant, outside of Pittsburgh, I do not know just what they had there. They also had contracts from the Railroad Administration making cars; they had a great many contracts, they were making both passenger and freight cars." (Mr. Russell before Graham committee, 6–2, p. 1755.)

MELLON HAS A LOBBYIST IN WASHINGTON ALL DURING WAR TO LOOK AFTER HIS INTERESTS

Excerpt from testimony of Mr. Lewis J. Blakey, formerly assistant supervisor, Ordnance District Claims Board, Chicago, Ill., before Graham committee, 1919, series 6, volume 2, page 1693:

"Mr. JEFFERIS. Who are the leading men of this Standard Steel Car Co.?

"Mr. BLAKEY. Mr. John M. Hansen is president, and, as I understand, it is backed by the Mellons, the bankers in Pittsburgh, and the Mellon-Stewart Construction Co. is interested.

"Mr. JEFFERIS. Who was this man Cory that you say went back to Washington?

"Mr. BLAKEY. All I know about Cory is that he was employed all during the war and had an office here in Washington, and we called him their 'political representative' here in Washington."

Further testimony disclosed that Cory and Hughes were together a great deal and had many conferences in connection with the claim of the Standard Steel Car Co. Cory is assistant to the president of the Standard Steel Car Co.

MELLON AND COPPER

During the war all the companies producing copper formed a trust. One of these companies was the American Metal Co. (Graham committee ser. 6–1, p. 276). Mr. Andrew W. Mellon was at that time a director of that company. (Directory of Directors, Pittsburgh, Pa., 1917, 1918, and 1919.) The Graham investigating committee, which filed a report of expenditures in the Ordnance Department, March 2, 1921, had this to say about the Copper Trust:

"The companies who thus united in the combination that authorized the United Metals Selling Co. to act as their agent were the Anaconda Copper Mining Co. and 26 other companies.

"It is in testimony that the United Metals Selling Co. under this arrangement represented practically all the copper producers in the United States.

"As soon as the arrangement was made with the Government by the cooperating copper companies through the common agent, the United Metals Selling Co., four things were accompanished; first, all competition was eliminated; second, all expense of selling and finding a market was eliminated; third, the possibility of all loss from bad accounts was eliminated; fourth, the market was absolutely under the control of the American producers of copper.

"Mr. Baruch, a member of the War Industries Board, appointed one Eugene Meyer, jr., as his representative, and who in turn requested all copper producers to arrange for a copper producers' committee. Mr. Meyer, at that time, had large copper investments and was heavily interested in the business.

"To illustrate the profits made during this period by some of the copper companies, four instances are cited:

"The Utah Copper Co. in 1917 made a profit of $32,000,000, which was 200 per cent of its capital stock, and in 1918 a profit of $24,750,000, which was 150 per cent of its capital stock. The Calumet & Hecla Mining Co. in 1917 made a profit of $9,500,000, or 800 per cent of its captal stock, and in 1918, $3,500,000, or 300 per cent of its capital stock. The Inspiration Consolidated Copper Co. in 1917 made a profit of $12,260,000, or 55 per cent of its capital stock, and in 1918, $9,250,000, or 40 per cent of its capital stock. The Kennecott Copper Co. in 1917 made a profit of $11,826,000, or 70 per cent of its capial stock, and in 1918, $9,390,135.90, or 60 per cent of its capital stock. It is probable that other companies in the list made similar profits, but the exact information is not available without a careful and detailed audit of the books of those various companies.

"The profits given here are net."

SHOULD DIRECTORS OF STANDARD STEEL AND OTHER PROFITEERING COMPANIES HAVE BEEN HELD GUILTY OF TREASON

The Graham committee was so shocked at the way the war profiteers robbed the Government during the war that it recommended on page 148 of its report No. 816, filed April 10, 1920, that the Constitution of the United States be so amended as to make such unconscionable taking of the Nation's resources in time of war be made treason. That part of the report is as follows:

"Your committee respectfully recommends that an amendment to the Constitution be drawn and submitted to make profiteering in war times treason.

"Article 3, section 3, of the Constitution of the United States provides that—

" 'Treason against the United States shall consist only in levying war against them, or in adhering to their enemies, giving them aid and comfort.'

"Modern war has been called 'technical war,' and we now know what such technical war means in the straining to the utmost of the resources of the Nation. What can then be more dangerous or give more 'aid and comfort' to the enemy than that which seriously strikes at and impairs such resources? All profiteering does this. It is common knowledge that the profiteering during this war has been great, but what proportion of the $22,000,000,000 expended falls under the head of profiteering will probably never be known.

"While hindering the Nation's war program by impairing its resources through profiteering is, to that extent, giving aid and comfort to the enemy, still it is clear that it may not be, and probably is not, coupled with such personal adherence to the enemy as is necessary to bring such conduct within the constitutional definition of treason. Your committee appreciates fully the seriousness of enlarging the constitutional definition of treason. However, it assumes to be a certainty that in every future war a strict censorship will be in force, thus practically suppressing criticism, whether honest or unwarranted. That being so, it would seem additionally necessary, as far as possible, to provide against the recurrence of those things which should be criticized. And it is the deliberate judgment of your committee that effective legislation to prevent profiteering is one such much-needed step.

"Realizing, as it believes fully, the seriousness of its recommendation because of the seriousness of the need, your committee respectfully recommends that a constitutional amendment be prepared and submitted for ratification, so amending the constitutional definition of treason as to include that form of unconscionable taking of the Nation's resources in time of war, which is commonly known as profiteering.

"It suggests the following language for consideration:

"That Article III, section 3, of the Constitution of the United States, be amended by inserting a comma in lieu of the period at the end of the first sentence thereof, and adding the following: 'or in giving them aid and comfort by injury to the military, physical, or financial resources of the United States.'

"PENALTY FOR TREASON

"Whoever is convicted of treason shall suffer death; or, at the discretion of the court, shall be imprisoned not less than five years and fined not less than $10,000 * * *." (T. 18, pt. 1, sec. 2, Criminal Code and Criminal Procedure.)

INTERNATIONAL BANKERS VERSUS VETERANS

During the past few years international bankers in New York City have loaned to Germany more than $3,000,000,000. Many of these loans bear a high rate of interest. They were also purchased from Germany in many instances at a big discount.

England and France owe the United States many billions of dollars. This money was loaned to these countries during the World War, except about two and a half billion dollars, which was loaned after the signing of the armistice.

Under the agreements between the United States and these latter countries they are supposed to pay our Government more than a quarter of a billion a year. They are not asking that this amount be reduced. They are not objecting to making the payments.

However, Germany has been telling the international bankers and Wall Street that she can not pay France and England and also her obligations due to them. Therefore, some of our so-called great statesmen devised a plan for our Government that will permit England and France to fail to pay our Government the quarter billion dollars each year, with the understanding that England and France will forego the collection of a like sum from Germany, and with the further understanding that Germany will pay the Wall Street bankers.

This is nothing more nor less than the Government of the United States paying Wall Street bankers more than $3,000,000,000.

The Government of the United States owes 3,500,000 veterans of the World War a remainder of about $2,000,000,000 on their adjusted-service certificates. This is an honest debt that has been publicly confessed by the Congress of the United States for services rendered.

If France and England are required to continue to make their payments to the United States, the debt to the soldiers can be paid without the least embarrassment to the Treasury of the United States. The question occurs, Which will promote the general welfare to the greatest extent—paying Wall Street bankers a bonus of $3,000,000,000 or the veterans an honest debt of $2,000,000,000?

Three hundred million dollars paid Government employees who drew $2,500 or less in adjusted compensation. This was paid during and after the war. Extra pay amounted to $20 a month, or $240 a year. (P. 4882, C. R. 2/28/23.)

SOLDIERS WHO WORKED ON ROADS PAID CASH

I want to call your attention to a proposition that is on all fours with this. When the war was over and the agricultural and the post office bills before the House there was a rider attached in the Senate providing that all veterans of the World War, during a certain period, who worked on the public roads in the United States should receive adjusted pay equal to the difference between what the Government paid them as privates or corporals or sergeants and the amount a civilian would have received under the same circumstances rendering identical service.

Here is just one illustration: Barney Allen, of Tennessee, whose military title was a corporal, received pay of $1.66½ a day, while the civilian working by his side received $8 a day—the difference being $6.33. Barney Allen received $158.23 for that month's work in adjusted pay in addition to his regular pay of $1.66½.

He worked side by side with a civilian, and this Congress said that that man is entitled to adjusted pay equal to the difference he received and what he would have received as a civilian. The amount was $6.33 a day, or $158.25 for the month. He was paid this and he did not have to wait until 1945.

I submit to you, my friends, then, when you allow the veterans for home service $1 a day and the overseas man $1.25 a day it ought to be paid as of 1918, when the services were rendered.

Total debts canceled by United States owing by foreign countries

[Congressional Record, p. 10513, June 2, 1926]

Countries	Date of agreement	Total canceled on 4¼ per cent interest basis
Belgium	Aug. 18, 1925	$463, 221, 500. 00
Czechoslovakia	Oct. 13, 1925	15, 042, 566. 12
Estonia	Oct. 28, 1925	6, 096, 860. 00
Finland	May 1, 1923	3, 962, 945. 00
France	Apr. 29, 1926	4, 627, 225, 895. 83
Great Britain	June 19, 1923	2, 008, 207, 000. 00
Hungary	Apr. 25, 1924	834, 760. 00
Italy	Nov. 14, 1925	3, 413, 874, 500. 00
Latvia	Sept. 24, 1925	2, 505, 365. 00
Lithuania	Sept. 22, 1924	2, 659, 060. 00
Poland	Nov. 14, 1924	73, 360, 450. 00
Rumania	Dec. 4, 1924	4, 615, 739. 95
Yugoslavia	May 3, 1926	84, 001, 365. 00
		10, 705, 618, 006. 90

Mr. PATMAN. In regard to the issuance of the money, I just merely want to make this statement. I presume the committee realizes that we are about to close this case, and I just wanted to mention some of the things that have happened.

The money that would be issued under the plan I have proposed would be like this money that is known as United States notes. There would be no way to distinguish that money from any other money, and it would be backed by the same amount of gold that United States notes are backed by. There would be no reason on earth why it should depreciate in value and other money would not depreciate in value. It would be convertible into gold the same as United States notes are convertible into gold under that 1891 act.

Mr. RAGON. May I ask the gentleman some questions when you get through?

Mr. PATMAN. May I finish this one comment, if the gentleman will permit?

Mr. RAGON. Yes.

Mr. PATMAN. Now, there are three plans that I think this committee will probably seriously consider, and I know that all the members of the committee have been very nice and considerate, and for myself and for those who are interested in this cause, we desire now to thank you, each and all of you, for the careful and courteous consideration that you have given to this cause. We know that you are just as anxious to do what is right as we are. You have the interest of the people just as much at heart as we have. We do not question your motives or intentions now, neither will we question your motives or intentions if you were to decide against us in this case.

But, in concluding, I want to mention the three plans. First there is the plan that I have suggested, about the issuance of this currency, which would be backed by gold, and a sinking fund for its retirement if you should desire to retire it, but I do not believe that you will ever desire to retire it once it is put into circulation, because it will be money that the people can use upon which no one will be paying interest. Other people say that we should get it from the Federal reserve system. On that money, interest must be paid.

In order to build up this sinking fund for the purpose of retiring this money, we would use the same sinking fund that is now being built up to retire the certificates in 1945, and I suggest for the consideration of the committee that the payments that are due on the war debts be considered as one way of building up this reserve. That is about twice as large each year as is necessary to build up this reserve to retire these certificates in 1945, and, of course, the money, if it is issued now, would not be fiat money, no more fiat money than any other paper money that you have. No person has a right to call that fiat money unless he calls all paper money fiat money. I know it is a term that carries a great deal of force and prejudice along with it, but it is not fiat money.

The second plan is the Owen plan, of Senator Owen, of Oklahoma, and the other day he conferred with a large group of Members of Congress—I presume that there were about 30 Members there, those that we could assemble quickly who were interested in this cause, and Senator Owen suggested that although he is favorable to my plan and that, as he said, it would be a godsend to the Nation, yet, if those who are the most conservative ones object to it because it is a direct issue from the Treasury of the United States, he had a plan to suggest for the consideration of the committee.

Now, let me state that I think that because this money is issued directly by the Treasury is another reason, an added reason, why it should be done that way. If it is issued that way, it can not be taken out quickly. The Federal reserve banks, if they issue this money, can take it out just as quickly as they issued it.

Mr. HILL. You mean that they can draw it in, and cancel it?

Mr. PATMAN. Absolutely; they can withdraw it and cancel it, and now they have their expanding in order to meet the argument we are making. They have confessed that they have been wrong for many months because they have failed to expand the currency when it was within their power to expand it, but who knows that as soon as this Congress adjourns or as soon as the election is over that they will not withdraw that currency and destroy it as rapdily as they put it out into the country?

Under my plan they could not do it; it would be outside of the scope of their authority to do it.

The Owen plan is that bonds shall be issued, say 3½ or 4 per cent bonds, and that these bonds are not to be interest-bearing immediately. The Government would not pay any interest on them, but they would take these bonds and place them in the Federal reserve banks to the credit of the Federal reserve agents of those banks. The Federal reserve agents, as agents of the United States Government, would hold these bonds as security for the currency issued through the Federal reserve system to pay off these adjusted-service certificates, holding the bonds in lieu of the certificates, and then Senator Owen said that if you desired to put stabilization in this bill, to make sure that the prices do not go too high—and I do not think it is necessary, but if you want to consider it, you can put a clause in there that in the event commodity prices rise above the level, say, of 1926, using 1926 as 100, and you desire to retire some of that currency, you can permit the Federal reserve agent to sell off enough of these bonds and withdraw a sufficient amount of currency in order to stabilize the price level; and until the price level gets to the level of 1926, you would not have to pay one penny of interest on those bonds, and I believe that all of you gentlemen will admit that you would be mighty glad to pay interest on several times the amount of the bonds if you could only restore this country to the 1926 price level.

Now, the Thomas plan is next.

Mr. HILL. Before you get to that, who owns these bonds when they are placed with the Federal reserve agents?

Mr. PATMAN. They will be the property of the United States Government, placed in the hands of the Federal reserve agents to hold, to secure the issuance of these Federal reserve notes.

Mr. HILL. And they will not be interest-bearing so long as they are so held?

Mr. PATMAN. They will not be interest-bearing so long as they are so held, except as a matter of bookkeeping, until they are sold, and they will not be sold until the price level goes back over a certain level.

Mr. HILL. And the only purpose of placing them on sale would be to reduce the circulating currency by the amount of the bonds sold?

Mr. PATMAN. Yes, sir.

Mr. HILL. And, after they are sold——

Mr. PATMAN. They would become interest bearing, but not before; but I think all of us will admit that we would be mighty glad to pay interest on those bonds.

Mr. HILL. What rate of interest have you in mind?

Mr. PATMAN. Senator Owen suggested 3½ per cent or 4 per cent. I do not make that statement. I know that even those connected with the Federal reserve system will tell you that 3½ per cent would be a reasonable rate to put there.

Now, the next plan is the Thomas plan. Senator Thomas's plan is just to issue the bonds and to turn them over to the Federal reserve system and let the Federal reserve system issue immediately that amount of Federal reserve notes which will circulate as currency to pay off the adjusted-service certificates. Under his plan, there would be an interest charge immediately, and it would continue. Of course, he says that only 2 per cent interest would be charged, but I do not know whether that would be agreed upon or not. But there is some doubt as to the constitutionality of that. Of course, I want the committee to pass upon it and give it careful consideration, and with that thought in view, I invited Senator Thomas to come over here, and we gave him all the time he wanted and we also gave his witnesses all the time he wanted.

But I believe that the plan suggested either by myself, which is not original with me—others have advanced it for years and years as far back as 50 or 100 years ago—and I desire no credit for it and am not asking for any credit, but I believe that that plan or the Owen plan would be preferable to the Thomas plan.

Mr. CRISP. Are there any questions?

Mr. RAGON. The information I wanted I suppose I can better get from General Hines. He will be called later.

Mr. VINSON. In regard to the sinking fund, what use would you make of it?

Mr. PATMAN. Well, there is no disposition made of the sinking fund under my bill, and the sinking fund would continue as in the past and then this money could be used each year, $112,000,000, or set aside; you could either leave it there, or build up the sinking fund as now, or you could use that money, but under my bill the sinking fund would be continued as it is now.

Mr. VINSON. Does your bill provide the use to which the sinking fund would be put?

Mr. PATMAN. No; it does not, because it is a good many years until 1945, and I believe that by that time this money will be a part of our permanent circulating medium and you will use that three and a half billion dollars for something else.

Mr. VINSON. Does your bill deal with the sinking fund?

Mr. PATMAN. No, sir; it does not.

Mr. CRISP. I am under the impression that the principal and interest collected under the Owen bill is pledged or impounded under the law to go to the retirement of the national debt of the United States, and the interest on the money loaned to the foreign governments at the time the loans were made, when we were in the war. Am I correct in that?

Mr. PATMAN. I am not sure. I am not informed.

Mr. CRISP. I think that is correct. I won't make it as positive statement.

Mr. PATMAN. Anyway, that could easily be changed, and I think it would be more incentive for those countries to pay that up.

Mr. CRISP. But if we had pledged that before the bonds were sold, could Congress change that? Would that be keeping faith with the present holders?

Mr. PATMAN. As much as granting a moratorium without the consent of the bondholders.

Mr. CRISP. I think, as to the moratorium, that if we had not granted it, we could not have collected.

Mr. McCORMACK. I do not think it is part of any contract we made with the people of the United States when we sold the Liberty bonds, because the agreements with respect to the payments were not made until several years thereafter.

Mr. CRISP. I will say to my friend from Massachusetts that, unless I am mistaken, some of those original bonds have been called in and new bonds issued to take their place after the war.

Mr. HAWLEY. My memory is that the law provided that when we made the loans to the foreign countries we should take their securities under the same terms and conditions as those we issued to the people to obtain the funds with which to make the loans.

Mr. CRISP. Same interest and same maturities. We were simply to loan them the benefit of our credit for the purpose of financing them, to keep their armies in the field and to keep from sending more American soldiers abroad.

Mr. PATMAN. The debt funding commission, however, and I believe the chairman will agree with me, changed that contract, and Congress ratified the change.

Mr. CRISP. I do not know that that has any bearing here, but I was a member of the debt funding commission, which was confronted with the proposition of trying to salvage as much of the money already loaned as possible. They would not pay it, and there are only two ways to collect an international payment, by voluntary payment or by war, and we were trying to save as much of that as had already been loaned during the war to keep their armies in the field.

Mr. PATMAN. I was merely suggesting, in answer to the question by the chairman, that we have a right to issue this money for that purpose. If we had a right to make a novation of the contract at one time, I presume that we would have a right to change it.

Mr. CRISP. Of course, the change we made was as to how much the foreign governments were to pay us. The question of any obligation to our people who bought the bonds to furnish the money was not, in my view, involved in that case.

Mr. PATMAN. Mr. Chairman, Sergeant York was to be here last week. He is on a speaking tour, and Mr. Ray, the legislative representative of the Veterans of Foreign Wars, received a letter expressing regret that he could not be here, but he wants to be here at the earliest possible date, and Mr. Ray tells me this morning that Sergeant York said that he can get here by Thursday if we still want him to come, and we would like to have him come for a short statement and we would like to reserve the right to use him between witnesses at that time, if the chairman will give us permission.

Mr. CRISP. I will try to see that he is given an opportunity.

Mr. HILL. May I ask you one more question before you conclude?

Mr. PATMAN. Yes, sir.

Mr. HILL. Assuming that the plan offered by Senator Owen should be adopted for the payment of the balance of the bonus money, in what way would the Federal reserve system be compensated for handling the transaction?

Mr. PATMAN. Well, the Federal reserve system would not receive any compensation, and I do not think it is in a position to ask too much from the Government in the way of compensation on this, since the Government is helping out the Federal reserve system so much in other ways. You know that the credit of the Nation is behind all the notes issued by the Federal reserve system, and since the Federal reserve system has been permitted to borrow on the credit of this nation for so many years, and now even the banks have borrowed on that credit, I think the banks certainly would not object to reciprocating.

Mr. HILL. I just wanted to find out whether there was to be any compensation. Ordinarily we understand that these banking institutions do not contribute their services.

Mr. PATMAN. No, but this is a semi-Government institution, I would think, and although the Government does not own a dime of the stock in the Federal reserve banks, as I understand the law the Government can take over those banks any time at all and issue stock to the people who have investments in them if it is necessary to take over the banks to accomplish good results and to promote the general welfare, if they refuse to expand the currency when it should be expanded, or when they contract it when it should not be contracted. I do not think it would be out of place for the committee to consider that.

Mr. VINSON. Referring again to the sinking fund, some reference has been made to the general sinking fund. As I understood your remarks, you suggested that you could take that portion of the sinking fund relating to adjusted-service certificates between now and 1945, to back up the issue of this money.

Mr. PATMAN. That is right, and it will be backed by better than any paper currency in existence to-day except the gold certificates, because the entire paper money is backed up by a sinking fund.

If no other member of the committee desires to ask me any questions, I again want to thank the chairman and each and every member of the committee for the careful consideration which you have given this matter, and we desire to close our case at this time, with the understanding, of course, that we will be allowed time in rebuttal after the other side has been presented.

Mr. CRISP. We thank you and your witnesses for the information given us and for your opinions, and, as I told you, you will be given an opportunity to put on witnesses in rebuttal if you desire to do so.

Mr. Clerk, if you have not already done so, please notify Congressman Royal Johnson, Congressman LaGuardia, and Congressman Lea that we will be probably able to hear them to-morrow.

The committee will stand adjourned until 10 o'clock to-morrow morning.

(Thereupon, at 12.05 o'clock p. m., an adjournment was taken until Tuesday morning, April 19, 1932, at 10 o'clock.)

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ADDENDA

BRIEF OF D. GEORGE PASTON, NEW YORK CITY, JUDGE ADVOCATE GENERAL KINGS COUNTY WORLD WAR VETERANS' ASSOCIATION, (INC.)

As the judge advocate general of the Kings County World War Veterans' Association (Inc.), I have been asked to give to your committee the attitude of the members of the association with reference to liquidating the so-called bonus certificates. This association is, at present, composed of about 3,000 veterans, located in Kings County, State of New York.

The Congress's decision should be motivated by several factors. These are:

1. Are the veterans entitled to the legislation proposed?
2. Do the veterans at present need it?
3. Can the country afford it?

The first factor, that is, whether or not the veterans are entitled to it is not open to question. By the enactment of the bill in 1925, Congress placed itself on record as being in favor of adjusted compensation for the veterans.

The second factor, that is, whether the veterans need the same at present, is also not open to question. The misery, the unemployment, and other hardships brought about by the present economic conditions throughout the country are too obvious to admit of any doubt.

The third factor, that is, can the country afford the proposed legislation, is also not open to question. Only very recently there was proposed in Congress that the Government organize and finance a reconstruction finance corporation to the extent of $2,000,000,000. Very little opposition, if any, was offered against said proposed legislation, despite the fact that the money was to go, not to the people to whom the Government had previously acknowledged an obligation, but to railroads and bankers to whom the Government owed nothing. No question was raised as to whether or not the Government could afford it. It having been suggested that it would be a good thing for the country, the legislation was accordingly enacted.

It is with ill grace that the opponents to Congressman Patman's bill now come forward and state that, whereas the country was able to afford to give $2,000,000,000 to the bankers and railroads, the country can not afford to give a similar amount to the veterans.

The statement of Mr. Stevens, national commander of the American Legion, that only 23 posts out of 10,400 favor the cash liquidation of their adjusted-compensation certificates is, unwittingly, the best argument in favor of such liquidation.

Assuming that the 23 posts and the others that make up the 10,400 are average in size, he estimates that only 0.002 of the legionnaires are in favor of Patman's bill.

The legislation will not compel any veteran to accept cash liquidation. The latter will have the option to retain the insurance certificate instead. If all the certificates were now cashed, it would cost the Government about $2,600,000,000. Carrying Stevens's estimate that only 0.002 veterans want the cash at present to its logical extreme, the Government will not have to pay the two and a half billion mentioned, but will have to pay but 0.002 thereof, or only $5,000,000 and not the alleged figure of five hundred times that amount.

Even the Budget wrestlers and all those now opposed to the legislation will concede that the payment of $5,000,000 will be a mere drop in the bucket.

The fact of the matter, however, is that Stevens' statements must be based on estimates furnished to him by post commanders who did not first consult their membership. I am a member of the American Legion, in good standing, and I know that the rank and file (not the titular leaders) are decidedly in favor of the legislation.

At the Detroit convention, the leaders induced the delegates to vote against the said legislation as a trade for so-called beer legislation. What has been the result? No beer, and now, perhaps, no cash.

Let us assume that every veteran will casn his certificate as soon as the legislation is enacted. The question is can the country afford at present to pay out over $2,000,000,000 on such liquidation? It is said by economists and political economy and Government experts that a country that has a 40 per cent gold reserve for the paper money issued is on a safe basis. I understand that we have in the Treasury to-day over $4,000,000,000. To keep the country on a 40 per cent gold basis, we can, therefore, safely issue $10,000,000,000 in paper money. There is at present in circulation about five and one-half billion dollars in paper money and if we add to that sum two and one-half billion dollars more for tne cashing of the veterans' service certificates, we will have in circulation only $8,000,000,000 in paper, so that our gold reserve will be 50 per cent and the country remain on a safe gold reserve basis.

On behalf of the several thousand veterans of the Kings County World War Veteran Association, and numerous other veterans who have written to me, and others whom I meet daily and who are unanimously in favor of the legislation, I urge the immediate adoption of Congressman Patman's bill.

To defeat the bill when the veterans are in such dire need, and when the circulation of this money will help the entire country, and when the country certainly can afford to pay the certificates, would be saying to the world that the United States Government is more interested in the welfare of European countries than in our own, because of our cancellation of certain war debts and the moratoriums declared.

I respectfully urge upon the Ways and Means Committee to bethink itself about this very serious and important legislation and to report unanimously in favor thereof to the House of Representatives.

D. G. Paston,

Judge Advocate General of the Kings County World War Veterans Association.

PAYMENT OF ADJUSTED-COMPENSATION CERTIFICATES

TUESDAY, APRIL 19, 1932

House of Representatives,
Committee on Ways and Means,
Washington, D. C.

The committee met at 10 o'clock a. m., Hon. Charles R. Crisp (acting chairman) presiding.

The Acting Chairman. The committee will be in order. The first witness to-day will be Congressman LaGuardia.

STATEMENT OF HON. FIORELLO H. LAGUARDIA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. LaGuardia. Mr. Chairman, at the outset I want to say that it is a rather novel situation for me to be opposing a bill sponsored by my best and closest legislative friends. I consider our colleague from Texas, Mr. Patman, one of the most promising of the younger statesmen. We have worked together on a great many important issues. I do not believe there is any one to whom I have been closer legislatively than my good friend from Mississippi, Mr. Rankin. It is typical of the so-called independent or progressive to do his own thinking. If we were ready to go along, we would not be, perhaps, in a class by ourselves; and because we are that, we have become callous to abuse and being misunderstood and we just keep on going along according to the dictates of our best judgment and our conscience.

Mr. Chairman, there are two propositions involved in this question of the cash payment of the bonus. One is whether or not the American people through Congress have properly provided and cared for the veterans of the World War; and I fear that in the course of the discussion of this bill, in the heat of debate and argument throughout the country, there may be in certain quarters a misapprehension that the people of this country have been unappreciative or have to a degree neglected the care of the veterans.

I do not think that is fair. I believe Congress in this instance has provided most generously for the care of the veterans. Of course, in dealing with four million or more men, it is quite possible that there are individual cases that perhaps have received too generous treatment and individual cases here and there that might have been neglected, or not properly cared for. But, on the whole, I believe Congress has responded since 1919 to every demand, to every suggestion, to every request made by the veterans of the World War through their organizations.

The last bill that I voted for before leaving the House in 1917, was the War risk insurance bill. We thought at the time that the establishment of this insurance system would take care of the casualties, disabilities, and that we would embark upon such a system rather than to repeat the mistakes of the treatment accorded veterans of the Revolutionary War, the War of 1812, the Civil War and the Spanish-American War.

Grave mistakes were made in the treatment of veterans in the past. After the World War, there was a demand for vocational rehabilitation. I believe this committee had jurisdiction of the bills providing for that. In the enthusiasm, in the desire to properly care for and rehabilitate these young heroes, we spent over $600,000,000. The law was administered very generously. The benefit of the doubt was given to every applicant and it continued for a period of three or four years.

After that we sought to develop a system of hospitalization, which was followed by the first compensation act. I will not bore the committee with figures, but suffice it to say that over 313,700 veterans are, in various degrees, of course, now the beneficiaries of the existing law—from a slight degree of disability up to total.

In addition to that, last year we passed a new act allowing as much as $40 for disabilities not incurred in line of duty, not service connected. That was not a novel departure, by any means. It was novel as to the time, the short time, after the war provision for nonservice disabilities were made. If we take 1918, the end of 1918, as the end of the war, it followed 12 years after the war. While the first nonservice-connected allowance made for veterans of the War of 1812 was enacted on February 14, 1871, 57 years after that war.

The first act granting compensation to disabled veterans of the Mexican War, not service connected, was 38 years after that war; as to the Civil War, 25 years, and the Spanish War, 31 years. They were included in the same act which granted compensation for nonservice connected disabilities to veterans of the World War.

It is true that in the construction of the various acts applicable to the Civil War veterans, they were very broad in their interpretations. But as far as Congress is concerned this great lapse of time to which I have referred existed before compensation was allowed for nonservice-connected disabilities.

The question of pensions has been a very disturbing element in our legislative history from the days of the Revolution. In 1818 we had a situation very similar to this one in the case of the veterans of the Revolutionary War.

In 1789 by act of Congress the Federal Government assumed the payment of such Revolutionary war pensions as had been granted by the States, and this provision was continued by subsequent legislation. Later on, pensions were granted to widows of revolutionary soldiers, and in 1861 the pension rolls contained the names of 63 survivors of that war and 2,728 widows. Total paid $70,000,000.

The 1818 pension law provided that every person who served in the revolutionary army through its close or for nine months during any part of the war and was "in need" should be pensioned. District judges heard applications and transmitted recommendations to the Secretary of War. By the middle of September the rush of applicants was so great that the War Department could not take care of them all. Flagrant abuses came to light and were the subject of severe newspaper comment. Expenditures increased from $200,000–$300,000 per year to $2,000,000 to $3,000,000. In 1819 there was a Government deficit and that made the situation more acute. When Congress met in December, 1819, the abuses of the service pension were properly brought to its attention. Secretary of War Calhoun admitted that in spite of every precaution his department had been imposed upon to a great extent. Congress ordered a roll of all pensioners to be published and set a committee to work investigating the situation in the spring of 1820. The most damning charge was that the rich took advantage of the act to cheat the Government out of money and that "many in the community less able to bear the burdens of Government are compelled to pay heavy taxes to support their more opulent neighbors." So on May 1, 1820, Congress passed supplemental legislation requiring the filing of sworn schedules of property and a more certain showing of "need" in order to secure the pension. Thousands were stricken from the roll under this act. Many more failed to reply and many were rejected.

The fact that there had been much fraud and imposition at the expense of the Government was clearly established.

It is interesting to note that the relief of veterans ran a little over $100,000 in Washington's administration; it varied from about $75,000 to $100,000 until we come to this period; and it was during Monroe's administration that it jumped right up to $3,000,000. Then, after the investigation to which I have just called attention, and the scandal which ensued, it came down to a normal of about $300,000 and then adjusted itself.

Now we come to the period 1829 to 1836, when there was added to that column the veterans of the War of 1812.

Mr. Ragon. You have been speaking here about the revolutionary soldier?

Mr. LaGuardia. Yes; the veterans of the War of 1812 were added later to the pension rolls.

Mr. Lewis. You did not include there the soldiers of 1812?

Mr. LaGuardia. Not in that period.

The Acting Chairman. May I say to the gentleman from New York that it is not necessary to yield until the gentleman has concluded his statement?

Mr. LaGuardia. I would prefer to continue uninterrupted, if I may, and then I shall be glad to answer questions.

The Acting Chairman. The rules of the House apply to these hearings.

Mr. LaGuardia. February 14, 1871, was the first pension legislation concerning veterans of this war. Congress then granted a pension of $8 per month to the survivors of the War of 1812 who rendered a service of 60 days, and to their widows provided they were married to such soldiers or sailors prior to the treaty of peace. The act of March 9, 1879, reduced the period of service to 14 days and made no limitation as to date of marriage in case of widows. By subsequent legislation the pension to widows was increased to $12 per month. Ten widows were still on the rolls on June 30, 1930. Total paid, $46,194,000.

The first act touching specially this war passed January 29, 1887, when Congress granted a pension of $8 per month to the surviving soldiers and sailors of this war provided they had served 60 days and were honorably discharged. By act of March 3, 1903, the compensation was increased to $12 per month. To be eligible survivors were required to be 62 years of age or over or else disabled from causes not connected with rebellion against the United States. Widows were entitled to pension on same terms. On June 30, 1930, there were still 630 widows of this war on the rolls and the total expenditure had been $59,470,000.

There are two distinct systems of pension connected with this war. Under the acts of July 14, 1862, and March 3, 1873, any soldier or sailor disabled by reason of wound or injury received or disease contracted in the service of the United States and in the line of duty, may be pensioned for such disability during its continuance. In case of his death from causes originating as above set forth, his widow of his child or children under 16 became entitled to pension.

The other class of pensions, not related to disability, first became a serious issue in 1886 when President Cleveland vetoed a bill to provide such. On June 27, 1890, however, such a bill became law and any soldier or sailor who had served 90 days or more during the Civil War and was honorably discharged became eligible for a pension of $6 to $12 per month if he was suffering from a permanent disability not the result of his own vicious habits such as to prevent him from earning his own support. Widows and children of such veterans were provided for under similar terms. On June 30, 1930, there were 48,991 veterans and 167,674 widows and minor children and to that date the total sum paid to pensioners of the Civil War was $7,370,462,000. The original 1890 bill was liberalized somewhat by an act of May 9, 1900, and May 11, 1912; 69,254 cases were dealt with, also, by special acts to June 30, 1927. The high point was 1913, 48 years after the close of the war, when the total sum paid was $174,171,000 for a single year. The highest number of pensioners was in 1905, 998,441.

The provisions of the Civil War pension acts of 1862 and 1873, etc., regarding total and complete disability contracted in the service and the supplementary provision regarding widows and orphans apply also to the widows and orphans resulting from this war.

In 1922 and by subsequent legislation the treatment of these veterans has been liberalized. As far as I am able to determine there was no provision before 1930 which awarded compensation to Spanish War veterans for disabilities not contracted in the service, though the administration of the existing law was very liberal and in case of doubt as to whether a disability was contracted in or out of the service the petitioner was awarded relief. The absence of special legislation for the benefit of these veterans can be attributed to the fact that the Civil War pension system applied to these veterans from the first. The first provision for soldiers in this war compensating them for nonservice connected disabilities was on June 2, 1930. (This act included the veterans of the World War of 1917–18.)

Thank you. Now, gentlemen, if this were a question only of the bonus and the finances of the country permitted, I do not believe this committee would be holding extended hearings.

We were asked to adjust the compensation of all veterans of the World War and many plans of bonuses and adjustments were submitted. Finally various organizations agreed upon a plan which resulted in the adjusted compensation act and the issuance of certificates payable in and around 1945.

The fact that we had 4,400,000 or more veterans in the service, of course, meant that every time any question of bonus or adjustment was raised, we were faced with the question of finding the money. Any cash settlement involved a total staggering in its amount.

The reasons that the provisions of the adjusted compensation act were found satisfactory were first, they were capable of being financed on a sinking fund basis by setting aside an amount every year to build up the fund necessary to pay the certificates at maturity.

The act also contemplated a larger amount payable to each individual veteran than would otherwise have been possible and gave them the benefit of 20 years' amortization.

It also took into consideration the fact that the certificate would become payable at the very age when a tidy little sum would be helpful to the average American family. Every one seemed satisfied at the time. We passed that act over the veto of the President. Then we were confronted with the necessity of permitting loans up to 50 per cent to be made upon these certificates. We were told then, and the estimates were given to us of the number of men who might take advantage of that loan, how much would be borrowed. The number who took advantage of the loan provision far surpassed any estimate that was made.

The members of the committee and my colleagues who are here to-day will recall that the estimates made by the proponents of the cash bonus at the time of the consideration of the bill were that from \$300,000,000 to \$500,000,000 would be required. The estimate made by General Hines of the Veterans' Administration was \$1,000,000,000. I am sure my colleagues will all remember that that estimate was ridiculed as being excessively high and not justified. Now we know that since February 27, 1931, no less than 2,554,400 loans have been made and that \$963,759,953 have been paid out on these loans. It is interesting to note that of the 3,662,374 certificates issued, 2,554,400 have taken advantage of the loans.

We were told then that the additional amount of money placed in circulation would serve as a stimulant to business and that that in and of itself would be sufficient to pull us out of the depression we were then in. Some voted in accordance with that belief. Others of us voted from purely sentimental reasons.

Now we find that a large percentage of the veterans have taken advantage of that act and have borrowed 50 per cent of the face value of their certificates, and unless the law is changed, at the time of maturity there will be very little, if anything, coming to them.

As I read the history of the treatment of veterans by the United States Congress, and as I know the feeling of the Members of the present Congress, I am just as certain as I am standing here this moment that eventually legislation will be passed refunding the interest charges, so that the veterans who were compelled to borrow will not be wiped out entirely.

Now we come to the proposition that is before you and that is urged for two reasons. The proponents have been very fair and frank in their attitude. They state that primarily the purpose of this legislation is to inflate currency, and the question of paying the bonus to the veterans at this time is purely incidental or secondary.

Now, gentlemen, if that is all, I submit it is hardly fair to use the veterans for this purpose. If the real purpose is to inflate the currency then, of course, that contemplates an increase in commodity prices. It decreases the value of the dollar. If the purpose is to inflate the currency so as to decrease the value of the dollar and increase commodity prices—and that is conceded—then I say that we promised these boys good, wholesome, American dollars and we ought to pay them in good, wholesome American dollars. It is not fair to take it out of the veterans. We will be confronted with that after the first impulse of the cash payment has passed away.

The second reason for selecting the veterans is the critical condition of unemployment and destitution existing among the veterans. That is a subject to which I have been giving a great deal of time and study. I believe that in my repeated statements on the floor of the House on that subject of unemployment direct relief and stabilization of industries I have made myself perhaps something of a nuisance in the House. But, gentlemen, we are not only in the midst of an economic depression, but we are in the midst of an economic readjustment and a change in our whole economic system. Not all the platitudes nor all the presidential proclamations, nor all the corner turning is going to get us out of this depression. The whole financial structure is collapsing and the method suggested here is by no means a cure, a permanent cure.

It may cause a flurry for a short time, but it will redound to the disadvantage of these very veterans we are trying to help and the wage earners in general. Mr. Chairman, if only the veterans were unemployed, we could deal with this question very quickly. But I can not see how we are going to solve the problem of unemployment, if we take only the smallest percentage of any group of the army of the unemployed to-day. When I say the smallest percentage, I want to submit some figures to this committee. Let us take the youngster who was from 5 to 13 years of age in 1917 and 1918. He is to-day 20 to 28 years of age.

Those youngsters were not in the Army. They could not have been, by the nature of things. The census of unemployed as taken by the United States Bureau of the Census shows that in class A—that is, persons out of a job, able to work and looking for a job—in 1930 there were 2,420,062 total. I have criticized that figure. It was too low. But that is by reason of the classification of the Census Bureau and perhaps because of its limited means and time to get the figures. The census of unemployed does furnish us a basis for accurate computation for our purpose here.

But we can take that as a basis to figure our groups according to ages, and if the figure is 50 per cent too low, as it was at the time—I think it was about 55 or 60 per cent too low—our proportions still remain the same.

Of the 2,420,000 unemployed in 1930 according to the Bureau of Census, 361,262 were women. In this computation we have disregarded entirely the children of 10 to 14 years in class A, because some of them were not even born when war was declared; in fact, none of them were born. We then eliminated the group from 15 to 19 years, for obvious reasons, because the oldest was 4 years of age when war was declared. We excluded the group from 20 to 24, and the group from 25 to 29 years for the reason that the oldest of this groups was not of military age in 1917.

Then we took a proper percentage of the group from 30 to 34 years, granting that every boy of 18 years of age at the time was in the Army, which, of course, is a most violent assumption. But conceding all that, we then got the percentage of the men over 35 years of age who were in the service. There were 113,190 over 35 years of age. I was one of them.

We took that percentage of the total number and applied it to the group 55 to 59 years of age and then excluded all the rest from 59 to 70 years of age, because owing to their age they could not have been in the service because they were too old at the time. And I say, we allowed every young man over 18 years of age to be counted as having been in the service and I repeat that is a most wild assumption. Taking all of those, there can be to-day only about 13 per cent of the unemployed who are veterans.

Now, can we single out 13 per cent in dealing constructively with the question of unemployment, regardless of our feeling for the veteran, regardless of our desire to help him? Can we take the boy who was 18 years of age in 1917 and hand him a lump sum because of the unemployment situation and leave his neighbor or his brother who, through no fault of his own, was only a youngster 15 years of age at that time, but who is also unemployed now, without help?

Can we take the man who was 40 years of age, who was too old to enter the Army, who is now 55 years of age and, gentlemen, who is unemployed, and perhaps permanently unemployed, and do nothing for him?

Can we disregard the need, the necessity of doing something constructive to aid the superannuated worker, and go to the extent of putting our printing presses to work and issuing $2,000,000,000 of relief money to take care of 13 per cent of the unemployed, absolutely ignoring the superannuated worker and the other mass of workers who were too young to enter the service?

In other words, under the cash bonus bill, in dealing with the subject of necessary relief based on destitution brought about by unemployment, we would care for only 12 or 13 per cent of the total, ignoring 68 or 67 per cent, giving this 68 or 67 per cent no consideration at all, and in order to take care of the 13 per cent we would have to give a cash bonus to over 2,700,000 men who do not need a cash bonus. That surely is not only an unscientific but a manifestly unfair way to approach the subject of unemployment.

Will that solve our unemployment problem? If we are to do something, if we are to go to the extent of printing money or issuing bonds to the extent of $2,000,000,000, let us do something so that the veteran will get the full benefit of it, but also the entire country will get some benefit of it; do something that will prevent a recurrence of the depression we are in now, a recurrence of a prolonged period of unemployment in the future.

If 13 per cent of the unemployed constitute the body of veterans, how many of the veterans are there who fortunately are employed and cared for and who would be in no need of a bonus? Have you considered that?

Why, gentlemen, we have in the Government service alone—the Federal Government—152,562 veterans. They are on the pay roll. Surely, they should not be handed a bonus when an equal number of their fellow citizens have no employment, want to work and are unable, through no fault of theirs, to find employment, but were either too young or too old to be veterans, are not provided for.

I have endeavored to obtain an estimate of the number of veterans in the State, county, and municipal services, but it is extremely difficult to get those figures, because some of our States have no statistics on the subject.

Have you been able to get any, Mr. Bacharach?

Mr. BACHARACH. No, I was going to ask you that question.

Mr. LAGUARDIA. Now, New Mexico reports there are 1,000, approximately, in the State, municipal, and county services.

Massachusetts reports there are 37,726 in the permanent employ of the State and municipalities who are under civil service. They report that it is impossible to obtain the number who are not under civil service.

Pennsylvania has 1,075 World War veterans employed by the State (this does not include county and municipal service).

Texas reports that they estimate 3,000 out of approximately 150,000 ex-service men are in municipal or governmental service in the State of Texas, either State, county or municipal.

Virginia reports that 15 per cent of the personnel in State, county, and municipal services are veterans of the World War.

Arizona—and Arizona seems to have the most complete and accurate figures—report 302.

Perhaps by taking the States from which we have reports and the percentage of population together with their civil-service rolls that we might strike an average. I might say that my own State, New York, has no accurate figures on that subject. But I simply want to point out to you gentlemen that since the war every possible consideration has been given our veterans in civil-service preference both in the Federal Government and in State, county, and municipal governments.

Relief is being accorded all over the country to veterans. Time did not permit a canvass of all the States but responses received from 12 cities, I believe, reflect the attitude all over the country toward veterans' relief.

Newark, N. J.: Jerome T. Congleton, mayor: Of 7,500 families receiving aid 60 per cent are veterans. Money appropriated by the city. City has always cared for needy veterans but numbers are much greater now, due to present conditions. Aid will be continued until the need does not exist.

Boston, Mass.: John J. Lydon, soldiers' relief commission: Approximately $200,000 expended on veterans since January 1, 1932. Anticipate spending $800,000 in 1932; 1,625 families and veterans aided in March, making a total of 5,644 individuals. One hundred and three Spanish War veterans aided in March, 209 individuals benefiting; 179 Civil War cases aided in March, 180 individuals benefiting. Money received by taxation. Forwarding annual report of department for 1930.

Detroit, Mich.: John F. Ballenger, general superintendent, department of public welfare: 1,750 families of veterans received aid in March from public welfare. Average cost per family per month, $33 permanent. City department financed through taxation. Community fund spent $873 for veterans' families in March. Funds derived from solicitation community fund considered permanent organization; spends average of $12,000 per year for veterans.

Philadelphia, Pa.: J. Hampton Moore: City makes no direct appropriation for veterans' relief. Veterans in distress may have received assistance from an independent committee to which city transferred $3,000,000 last year but that city fund expired December 31.

New York, N. Y.: Frank J. Taylor: 15,000 veterans and families receiving aid. New York City funds appropriated by city government. Been going on for many years according to State law. Four million dollars spent 1931; $6,000,000 estimated 1932. All expenses borne by taxpayers New York City.

San Francisco, Calif.: 600 to 1,000 World War veterans receiving relief from community chest, the San Francisco municipal employees' relief fund, and veterans' organizations. Figures approximate because no distinction made as to recipients of relief. Organized relief started in fall of 1930. Will cease in May to reopen in fall if conditions necessitate.

Milwaukee, Wis.: Daniel W. Hoan, mayor: Since 1929, Milwaukee County spent over $360,000, raised by direct property tax, to take care of veterans. In February the total number on relief lists was 2,283. This work handled by soldiers' relief commission created in 1888 and will continue indefinitely. Amount spent in 1931 was $65,000 greater than in 1930.

Minneapolis, Minn.: Relative veterans receiving aid from city would estimate 300 single men and 1,000 families. Funds from taxation. Difficult to say just how long this has been going on and will continue. Above figures do not include private agencies.

Cincinnati, Ohio: Fred K. Hoehler, commissioner of welfare—700 families on soldiers' relief granted by Hamilton County; approximately 600 individuals aided by transient service bureau; 1,000 additional families ex-service men helped by family welfare agencies.

Buffalo, N. Y.: Chas. E. Roesch, mayor—veterans receiving aid from 1925 to 1931: World War veterans, 8,084; G. A. R. and Spanish War, 2,117. World War veterans' relief has had 4,787 applications for home relief since July 1. In March, 1932, there were 3,226 active cases. Funds provided by local taxation. In 1920 legislature authorized aid for World War veterans. Has heard of no suggestion that the State laws relative to veterans' relief be changed.

Cleveland, Ohio: B. S. Pyke, welfare division, city of Cleveland—no veterans on city. City subsidizes private agencies; 2,000 families active cases on soldiers and sailors' relief, county supported; 3,000 families on waiting list; 125 on Red Cross. Figures obtained from soldiers and sailors' relief.

Pittsburgh, Pa.: Local Red Cross reports 618 disabled veterans and 483 able veterans on their relief; Veterans of Foreign Wars have 75 men on relief; Legion gives no relief. Unable to get figures from their auxilaries. Disabled Veterans report 25. City hospital has 70, both disabled and psychopathic; Allegheny County, similar institution, has 44; total of 1,315 that are known. Further investigation might disclose more.

Of course, if 13 per cent, which is a very fair and generous estimate of the present unemployed who are veterans—and it is easy to compute that a large percentage of the veterans certainly are not now unemployed—represent the proportion of veterans to the total of unemployed, in dealing with the question at this time as it is presented, one of relief and of necessary, immediate relief, I would take all of the unemployed and consider them as a group, and not pick first the small percentage of veterans who are unemployed and at the same time include the larger percentage of veterans who are employed and not in need of a cash bonus at this time; at a time when a large number—I estimate that number easily between six and seven million—of American workers are unemployed.

What is going to be the feeling of the veterans' neighbors in their home towns, if Congress says, "We have solved the unemployment situation by paying a cash bonus to the veteran," and the veteran goes to his bank and cashes his check, and his fellow citizens who are unemployed can not even get a job. What will they think of Congress in solving this serious problem that is not only confronting our country, but is confronting the whole world?

When I say the whole world is confronted with this problem, it is. First there are the changed methods of production by machine, displacing men. That would have happened had we no World War and we in this country would have been the first to feel it. We would have unemployment, gentlemen, in this country even if we had no financial crisis or depression, by reason of our modern, progressive, efficient methods of production.

So that is a question which we will have to solve by legislation affecting the hours of labor, the number of days of labor in the week and caring for superannuated workers. That must keep pace with the machine age.

The same problem arose in other countries after the World War. England was facing an unemployment situation before the World War and I do not believe that we can afford to sit idly by and take a laissez faire attitude and say that this question is going to adjust itself. It is not.

I want to make a prediction right now, gentlemen, that before long some of the people who are now opposing the cash bonus are going to come out for it, for selfish, sordid, unpatriotic reasons.

The poor veteran has been used and misused. When I was at the City Hall in New York in 1920, my colleagues on the committee from New York will remember that we had pending a readjustment in wages and salaries; there were labor troubles, and one time we were threatened with a longshoremen's strike. Selfish people, seeking to take advantage of the situation, endeavored to set up the patriotic organizations of veterans, to break the strike of the longshoremen. I called them into my office at the City Hall, the representatives of the veterans' organizations, representatives of the workers who themselves were veterans, but we adjusted their dispute in 15 minutes. The boys saw the light. They saw that they were being misused for many occasions the veterans are sought for exploitations. The friends, the real friends of the veteran, will keep them but will not permit them to be used for selfish interests, for potitical advantage or be exploited in any way.

We are confronted with an economic readjustment in this country and we have to face the situation. We have to take into consideration the machine age in which we are, we have to provide shorter hours and a shorter work week and unemployment insurance, old age pensions, in order to bring up the level, and then you are going to see, gentlemen, a dash made by selfish people to use these same veterans to offset social legislation of that kind. The veterans I know will not lend themselves to any such purpose.

I do not want to see my comrades improperly used for any such purpose. I am sure that if we could explain the mathematics of our economics to the veterans, they would be the first to say, "Don't turn over $2,000,000,000 to us at this time. We will get that eventually. But do something for all Americans who are unemployed."

Now, this committee has jurisdiction. You are now considering H. R. 1. I ask this committee to give consideration to H. R. 2. I introduced that bill the first day of the session, after many, many months of study and consideration. I will concede it is crude, it is imperfect. At least it will give us a starting point, give us the basis of applying some thought to this economic readjustment.

My bill provides for a national system of unemployment insurance. Call it a dole, gentlemen, you are not going to scare me. No one is going to be scared by a name. We have had some experience with dole-giving in this session of Congress. Call it a dole. It is going to retard its acceptance, perhaps, somewhat, but if I understand conditions, American people will simply refuse to go hungry while they are in the richest country in the world. We will have to provide some system of insurance to take care of such depressions, periods of unemployment. It will shorten these so-called economic cycles, because it does not entirely destroy the purchasing power which falls immediately upon any period of unemployment.

If we are to use money for the purposes of inflation, if we are to start the Bureau of Engraving working nights and overtime for that purpose, may I submit that we could start by furnishing the initial fund necessary to put a national system of unemployment insurance into effect? That will immediately create purchasing power, a demand for the necessaries of life, and that will have a permanent effect on our economic system.

It will be said, "Well, England has a system of unemployment insurance. It has ruined England." It has done no such thing. It has saved England. There would be no England to-day had they not had the foresight away back in 1910 to pass the first unemployment insurance law, which was perfected in 1912. Then the war came along.

But the mistake in the English system was this, that they excluded all industries where employment was permanent, such as state railways, civil service; all industries where employment was permanent were excluded from the original unemployment insurance act of England.

Profiting by that experience, of course, we would not repeat what they did, because we have learned in this depression that even those industries where employment is permanent, are affected. We have seen that in our railroads and we are seeing it right now in our Government service. So that any national system of unemployment insurance which we would adopt would necessarily benefit by the experience of England and Germany and some of the smaller countries that have adopted a system of unemployment insurance.

Gentlemen, we can not avoid it. As optimistic as we may be, we are not going to get out of the situation and get to the point where we will have no unemployed, for a long time. We must take care of the superannuated employees who can not keep pace with the machine age.

Leave it to the States, you say? We can not leave it to the States. We are one economic unity, regardless of how we may feel about State rights and our State pride. We find that unemployment in Alabama affects New York; unemployment in New York affects Nebraska and North Dakota. We have experienced that in our factory laws and in our child labor laws. Some of the States have enacted proper, protective laws preventing the employment of children of tender years in factories. What was the result? We open our daily papers and we find full page advertisements of chambers of commerce of other States who say, "Come down to our State and establish your factory there, where labor of all ages is plentiful and where we have no restrictive laws."

And they do. We found that out in our income tax and inheritance tax system. States will go along while other States will refuse and advertise the fact and then there is migration to those States. That was the case in the inheritance tax provisions until we hit upon the policy of the 80–20 system of inheritance taxation and several States changed their constitutions to take advantage of it.

So we will have to adjust ourselves in this matter of unemployment to make it uniform, so that the progressive, advanced State, will not be put to a disadvantage in good times by a State which refuses to keep abreast, and in times of unemployment the State with the insurance system would inherit all of the unemployed from the other States. I say, we must make this a national system.

Now, I understand, gentlemen, the tremendous pressure that is being brought to bear upon you. I know that some of my colleagues and friends will say, "Why, LaGuardia, you know you have not got a chance to have H. R. 2 considered at this time." But we are accustomed to that. We know that we are leading the way for welfare and social legislation. We know that it is coming.

Gentlemen, 10 years ago I sat and talked with Governor Shallenberger of Nebraska. We talked of a system of guaranteed bank deposits. I talked about that for the last 10 years, and I was laughed at. I was howled down many times on the floor of the House. But within not very many weeks from now we are going to pass a law guaranteeing deposits in banks. Senator Owen who sits here likewise was one of the pioneers in that movement. We did not lose courage, but it took us all of this time to get the action we wanted. We worked for 15 years before we could convince Congress of the necessity of remedying the condition of the abuse of Federal courts in labor disputes and a few weeks ago, thanks to the kindly interest of the gentleman from Illinois, Mr. Rainey, and the Speaker, we passed that bill.

So, I am not discouraged at all. I know that I am going to be misunderstood by many of my comrades in my attitude to-day, but I follow that school of politics that believes in thinking out loud, that believes in taking a position. And I want to say this, without criticism of the slightest of my colleagues, that if a secret vote were taken on this bill in the House of Representatives, it would not get 30 votes. I say that after cloak-room conversation with my colleagues. That being so, it seems to me I am justified in coming here before this committee and making this statement.

Now, are we to admit that representative government is a failure because of organized demands for legislation? We have organized demands. Sometimes we succumb and sometimes Congress does not. No one knows it better than the distinguished acting chairman of this committee, because I know he went through hell during the last few weeks in the consideration of the tax bill. I know the tremendous pressure that was brought to bear on this committee and the most dismal, dark pictures of the future were depicted in order to convince this committee that they ought to adopt a taxing policy which was contrary—at least I believe so—to the best interests of this country.

There you had organized propaganda. Here you have organization. Oh, I know I am going to meet it; it is not the first time I have had to meet it.

There are three forms of government that are being tested in the world to-day. We have the soviet system of Russia. We have the Fascist system, the dictatorship of Italy, and we have the representative form of government, government of the people, still in the United States, England, and France.

Are we going to say that although we know it is wrong, because of organized groups of splendid, active young men who misunderstand the situation, we are going to succumb and vote contrary to the best interests of the country. Are we going to admit that Mussolini is right, that Republics and parliamentary forms of government are failures for that reason? I do not believe it. I still have hope in representative government. I still think it is possible, if a measure is wrong, that we can stand up and oppose it.

Are we going to sit idly by and let the wealth of this country tell us that "we will not put our money to work, we will buy Government bonds and you will have to support us, if you do not pass the kinds of laws we want industry will stop?" Are we going to admit that Lenin was right? I refuse to do so. But we have to meet the attacks from both of these sources.

We have to consider the welfare of 126,000,000 people and worse things can happen to a member of Congress than being defeated, if he knows, if he feels he is right.

I appear this morning not on behalf of organized veterans. That is the easy thing to do. I appear this morning on behalf of the 6,000,000 unorganized, unemployed, among them veterans who have no means of contacting Congress, who are willing to work, who are unable to understand why they are not able to find work. On their behalf I appeal that if Congress is going to do something to relieve distress, do not single out a small, powerful group, but consider this great army that has contributed to the make-up, the wealth, the power of this country. Let us take the whole situation, let us take the whole economic problem and consider it and deal with it constructively; and if we want to inflate our money, we can inflate money in such a way as to give all the people of this country the full benefit of any such measure.

The ACTING CHAIRMAN. Are there any questions of Mr. LaGuardia?

Mr. RAGON. I want to ask the major a few questions that I wanted to ask Mr. Patman. I have noted a number of questions. The major dwelt on this subject at the beginning of his remarks. I saw a statement of the benefits given to the veteran up to date, I believe in the New York Times of Monday a week ago. I was wondering if you had checked up on those figures. For instance, I find an item of $644,000,000 for vocational training.

Mr. LAGUARDIA. Yes. That was in the first few years right after the war.

Mr. RAGON. Have you the amount that the Government paid on insurance for the veterans?

Mr. LAGUARDIA. You will find that in the insurance adjusted——

Mr. RAGON. I mean the war-risk insurance. I have a figure here of $1,003,000,000.

Mr. LAGUARDIA. That is about right.

Mr. RAGON. And then for Veterans' Administration there has been spent $2,100,000,000. Have you any figure on that?

Mr. LAGUARDIA. That is right.

Mr. RAGON. And then for allotments and allowances, $582,931,000.

Mr. LAGUARDIA. Yes; $582,931,845.08.

Mr. RAGON. And administrative overhead and miscellaneous expenditures, $656,000,000. That gives a total, in other words, of $5,435,000,000 that has been spent on the veterans since 1918 or during the war period and up to the present time.

Mr. LAGUARDIA. That does not correspond altogether with my figures. My figure from the Veterans' Bureau is to date a total amount of $6,124,068,083.80 has been spent.

Mr. RAGON. Your figure is $6,000,000,000?

Mr. LAGUARDIA. Yes, sir. That includes military and naval compensation; emergency officers' retirement pay; disability allowance; military and naval insurance, United States Government life insurance; adjusted service certificate fund; adjusted service and dependent pay; administration and hospitalization; hospital and domiciliary facilities and services, V. A. construction—that includes construction. There is the difference between our figures. Vocational rehabilitation, allotments and allowances, marine and seamen's insurance and miscellaneous.

I believe the difference between us is the figure of construction. That figure in this table is $60,607,133.

Mr. RAGON. I do not have that item. Have you any tabulation as to what that amounts to per soldier?

Mr. LAGUARDIA. Yes, but it would be a few minutes to get it.

Mr. VINSON. Does that sum include the money paid into the sinking fund to take care of the bonus?

Mr. RAGON. No.

Mr. LAGUARDIA. The disbursements on the adjusted-service certificates—the adjusted-service certificate fund was $124,917,000 and adjusted-service dependent pay $42,000,000.

Mr. RAGON. It would be something in the neighborhood of $1,200 or $1,500 per man at a total expenditure of about $5,000,000,000.

Mr. HAWLEY. Mr. Chairman, may I suggest that Major LaGuardia put that table to which he has been referring in the record.

The ACTING CHAIRMAN. It will be made a part of the record.

(The table referred to is as follows:)

Active awards at the end of each fiscal year

Fiscal year	Compensation		Insurance	
	Disability compensation	Death compensation	War risk (term)	United States Government life
1919	$24,947	$24,458	$104,126	----------
1920	134,308	42,945	129,133	----------
1921	154,960	47,559	138,434	$394
1922	173,793	51,339	141,568	931
1923	182,869	55,305	146,403	1,480
1924	[1] 179,037	58,110	149,857	2,054
1925	211,644	65,391	153,074	2,602
1926	227,650	78,693	150,679	3,375
1927	245,253	82,839	146,047	4,086
1928	257,774	86,562	144,081	5,298
1929	266,498	88,529	141,919	6,634
1930	279,539	92,040	155,254	8,042
1931	304,791	95,033	152,982	8,025
Dec. 31, 1931	318,114	97,543	152,722	8,459

[1] Correction.

Active awards at the end of each fiscal year—Continued

Fiscal year	Active claims	
	Emergency officers retirement pay	Disability allowance
1929	4,243	
1930	6,083	
1931	6,364	$229,568
Dec. 31, 1931	6,469	326,495
Feb. 29, 1932		353,744

Amounts paid for disability allowance:	
From July, 1930, to Feb. 29, 1932	$76,866,520.59
Calendar year 1931	59,018,361.82

Disbursements

Total disbursements to Feb. 29, 1932:[1]	
Military and naval compensation—	
Disability and death compensation	$1,988,215,849.20
Emergency officers' retirement pay	35,672,230.76
Disability allowance	76,866,520.59
Military and naval insurance (term)	1,456,970,753.02
U. S. Government life insurance	162,164,690.54
Adjusted service certificate fund	124,917,609.10
Adjusted service and dependent pay	42,692,855.51
Administration and hospitalization	912,704,805.38
Hospital and domciliary facilities and services, Veterans' Administration (construction)	60,607,133.14
Vocational rehabilitation	644,943,410.24
Allotments and allowances	582,931,845.08
Marine and seamen's insurance	35,077,918.69
Miscellaneous	302,462.55
Total	6,124,068,083.80

[1] The total amount includes $951,649,458 made available by deduction for allotment from the pay of World War veterans while in service and from amounts collected as premiums on the various farms of Government insurance.

Mr. DICKINSON. Congressman LaGuardia made the statement, which attracted my attention, that sometime in the future Congress, in his judgment, would pass a provision returning to the ex-service men who held these certificates the interest charge. I want to ask him if he saw in the press about the time the 50 per cent was authorized a statement as coming from the Treasury Department that if all veterans applied for loans, the Treasury would make about $70,000,000, annually based upon the idea that the Government was borrowing money at a low interest rate and was charging interest at 4½ per cent.

I want to ask Major LaGuardia in this connection, is it his idea that Congress in the future will pass a law returning the interest charged to the veterans, because the interest charge was excessive; and may I suggest to him—he probably has it in his mind—that it is the interest charge that will eat up the difference between the 50 per cent of the loan and the balance of the face value at the time of maturity.

Mr. LAGUARDIA. Exactly. Of course the excess of interest is indefensible and I suppose the rate was fixed at the time to care for any future period when the cost of money would be greater. But, regardless of that, I think in the light of our past experience and in our desire to be helpful to the veterans, I think that no Congress would ever permit interest charges to eat up the balance of the certificate; and I would vote accordingly.

Mr. BACHARACH. There are two or three questions I want to ask you, Mr. LaGuardia. In the first place, in answer to my colleague, Mr. Dickinson, you were going a long way when you inferred that there might be no interest charge for the balance that the soldiers owed. Personally, I do not approve of the rate of interest, that is being charged; in the first place, we are charging 4½ per cent compound interest, but if a man happened to be foolish or ignorant enough to go to the bank and borrow the money, he is charged 6 per cent and when the Government takes up that certificate it still charges the veteran 6 per cent. Manifestly there is an injustice there and I think I approve very heartily of what you say except I do not believe it would be fair to the men who have not borrowed to eliminate the interest entirely. I think there should be a fair rate of interest, say, the rate that the Government has to pay.

Mr. LAGUARDIA. Mr. Bacharach, I do not want to shock you, but I will say this——

Mr. BACHARACH. I have been shocked before; it is all right.

Mr. LAGUARDIA. I will say this. I firmly believe that by the time these certificates will mature, there will be such a change in our financial structure that no money unaccompanied by effort or labor will be worth more than 1 or 2 per cent a year.

Mr. BACHARACH. That may be all very true, but that is your judgment and of course I do not have to agree with it. Now, Mr. LaGuardia, I do want to ask a question merely for the sake of the record. I happen to know something about your own war record. Will you give it to us for the purposes of our record here?

Mr. LAGUARDIA. My reply to that is this. I can only repeat the words of Orville Wright who, when he was discouraged, went to France to try out his plane. He had his opportunity and for the first time the people witnessed a sustained flight of a heavier-than-air machine. The Academy of Science gave him a banquet and they praised his great abilities. He was asked to make a speech and he said, "Gentlemen, the only bird that talks is a parrot and it does not fly."

Mr. RAINEY. Mr. LaGuardia, it is proposed to expand the currency in order to meet this charge. I would like to hear you on that point. What do you think of that?

Mr. LAGUARDIA. Well, the spending of money is one of the easiest things Congress can do. But if that is the only justification for it, why not take this kind of money and use it to meet the deficits that are staring us in the face, instead of disorganizing the United States Government with arbitrary reductions of all kinds. If we are to distribute money, circulate money, why can we not use that to pay the interest on our outstanding bonds, which will take up a billion dollars in a year? Why can we not use this kind of money for public improvements?

Mr. HAWLEY. That is not all interest.

Mr. LAGUARDIA. Interest and sinking fund requirements. It is over $800,000,000, $900,000,000, and the sinking fund requirements bring it to over a billion dollars. Why not take this kind of money and go out and buy all our surplus crops, which will bring up commodity prices, sell the crops abroad for any price we can get for them; it will be that much to the good and that will reflect directly to the benefit of the veterans?

Mr. RAINEY. May I, apropos of your argument, as you reached the end of it, call your attention to what happened in Germany yesterday? It was not carried in display headlines, but in Germany they only had $225,000,000 worth of gold, nothing upon which they could base a further expansion of their currency. So they took the first steps toward inaugurating a system of international barter which would not require any money at all. They have had such a recent bad experience with expanding their currency that they do not want to go into that any more unless they have at the base of it a sufficient amount of gold to do it. So they have now inaugurated a system of international barter for their purposes.

Mr. LAGUARDIA. Of course, there was a time, Mr. Rainey, when economists could get up and talk to people about gold and gold reserves and they thought it was something mysterious that could not be fathomed and they accepted what they said about it. But now the average working man thinks in terms of food and clothes and shoes and rent and education, and after all, that is the real test of the value of your services or for the return of what you produce. Our whole economic system is artificial and it has been kept alive all these years because of the ignorance of the masses. But we are slowly evolving from that stage and coming to an enlightened period when the farmer who raises so many acres of wheat figures that wheat in terms of machinery and education for his children and the opportunity to live decently. So I think we will have very soon a change in our whole monetary system.

Mr. HILL. Mr. LaGuardia, what is your information as to the number of unemployed veterans?

Mr. LAGUARDIA. I figure that assuming that every boy of military age from 18 to 30 were in the military service in 1917 and 1918, it would be about 22 per cent of the present unemployed.

Mr. HILL. About 22 per cent?

Mr. LAGUARDIA. About 22 of the unemployed.

Mr. HILL. Of the total of unemployment?

Mr. LAGUARDIA. Twenty-two per cent would be veterans; yes. Then we have to allow something for the veterans who are employed and I think a very generous allowance would show that the percentage of unemployed veterans to the total of unemployed would be less than 13 per cent.

Mr. HILL. That is 13 per cent of the total unemployment?

Mr. LAGUARDIA. Yes.

Mr. HILL. Not just of the veterans themselves?

Mr. LAGUARDIA. No; 13 per cent of the unemployed army. I think that is a fair estimate.

Mr. CANFIELD. What percentage of the World War veterans are unemployed?

Mr. LAGUARDIA. There are various estimates that have been given here on that. Perhaps Mr. Rankin can answer that.

Mr. RANKIN. I do not know just what the percentage is. I do not think that is very material. This is a bill for the benefit of all the American people.

Mr. CANFIELD. Just one other question. The tables that you submitted for the record, did you compile it yourself or did you get it from the Veterans' Bureau?

Mr. LAGUARDIA. I got that from the Veterans' Bureau. Gentlemen, may I cite for the record a most interesting compilation of our pension laws, Federal military pensions of the United States, by Glasson. I want to give you that because I know you will find it very useful, very enlightening.

Mr. CROWTHER. Congressman, you have referred almost wholly to the Patman bill for the issuance of $2,400,000,000 worth of Treasury notes. In your opinion, is there any more merit attached to the so-called Thomas bill, which provides for 2 per cent consols, 30 years, distributed among the Federal reserve banks according to their proportionate residence of soldiers, or other things, and the issuance of currency on them, or have you looked into the proposition by Senator Owen——

Mr. LAGUARDIA. Let us take one at a time.

Mr. CROWTHER. Yes.

Mr. LAGUARDIA. Take the Thomas proposal. That practically is the same as the Patman proposal, except it would cost us 2 per cent a year.

Mr. CROWTHER. Well, of course, Senator Thomas did not agree to that. He argued, among other things, he was rather opposed to the Patman method in that it might result in disturbing the present Federal reserve currency by this new issue.

Mr. LAGUARDIA. If we issue bonds to the Federal reserve and they, in turn, issue currency, it is tantamount to the same system; except you have one hurdle in between and an additional cost to the taxpayers of 2 per cent a year.

Mr. CROWTHER. Have you given any consideration to the plan presented by Senator Owen?

Mr. LAGUARDIA. What plan is that?

Mr. CROWTHER. Senator Owen has a plan for the issuance of 4 per cent bonds to be distributed to the Federal reserve banks and by them to their agents, and then I think he has linked up with it—and he is here and I know he will correct me if I am wrong—he has linked up with that a suggestion that we use the Goldsborough and similar bills for the stabilization of the representative commodity prices, 100 of them, on the basis of the involved year, 1926. Then, of course, they all make the statement that necessarily following one of these bond issues of money, commodity prices will immediately rise; but none of them suggest to us it will take more of that kind of dollars to buy commodities. Now they suggest, or I think Senator Owen suggests, when those commodity prices show any evidence of rising, then they shall sell some of these bonds and cancel the currency which resulted from them, and maintain a balance. He claims we may maintain an economic balance by that method.

Mr. LAGUARDIA. Of course, in any system of inflation we must bring wages up to meet the increased commodity prices. If you do not do that, then the working people of this country are going to pay all of the costs. So that when we do have inflation, we can not just say we will dump in $2,000,000,000; we have to inflate gradually and bring up the standard of wages to it; otherwise, the working people are going to pay for it. And I am not going to stand for that, if I can help it.

Mr. WATSON. Do you consider, if we pass the $2,000,000,000 bonus, that will be only temporary relief; or do you think it will be permanent?

Mr. LAGUARDIA. It won't solve any particular problem permanently.

Mr. WATSON. No more than the $1,000,000,000 that was given one year ago?

Mr. LAGUARDIA. A little more, Mr. Watson. There will be a flurry, but it will last a little longer. Commodity prices will go up; but, at the end of that, we will have just as many unemployed.

Mr. WATSON. Then after two years, how are we going to take care of the veterans?

Mr. LAGUARDIA. That is why I am pleading to-day to make a comprehensive study of our whole unemployment situation and our depressed industrial system. I am not concerned, Mr. Watson, about the stock ticker; it is no indication at all either of our financial, or our industrial, or social well-being; but I urge a comprehensive study of our industrial depression, our unemployment, so that we can solve this question. And if we are to spend $2,000,000,000, let us do it at least where we can have a hope of some permanent cure.

Mr. WATSON. We must take care of the soldiers after the two billions are expended. We have already given $8,500,000,000 in pensions since 1790.

Mr. LAGUARDIA. Yes; war is awfully costly.

Mr. WATSON. Therefore I can not see any other way of taking care of the soldiers two years from now, after all this money is expended, than to have a system of pensions.

Mr. LAGUARDIA. If we follow the same ratio and the same attitude of other wars and we continue to provide for disabilities not service connected, in 1952 the requirements will be, yearly requirements will be, about $2,000,000,000.

Mr. WATSON. For veterans?

Mr. LAGUARDIA. For the care of veterans.

Mr. HAWLEY. In you compilation of the number of unemployed, do you segregate them so that you could tell how many are men and how many are women?

Mr. LAGUARDIA. Yes; we made that allowance.

Mr. HAWLEY. Do you know of the number of unemployed you stated how many are men and how many are women?

Mr. LAGUARDIA. Yes; it is in the record now.

Mr. HAWLEY. Does the gentleman recall about the proportion?

Mr. LAGUARDIA. Of the 2,420,062 unemployed covered by the Census Bureau, 361,262, or roughly 15 per cent, were women.

Mr. TREADWAY. Mr. LaGuardia, in the earlier part of your testimony, I understood you to say you regarded the payment to the veterans secondary to the desire on some people's part of inflation of the currency?

Mr. LAGUARDIA. No; I stated that the sponsors of H. R. 1 so stated.

Mr. TREADWAY. Yes; that the real object, the primary object——

Mr. LAGUARDIA. The primary object.

Mr. TREADWAY. Was the inflation of the currency. Is that correct?

Mr. LaGuardia. That is what I understood from reading the reports of these hearings.

Mr. Treadway. Was that same argument used when Congress, in the last session, paid 50 per cent?

Mr. LaGuardia. Yes; but it was more crudely and not as scientifically used.

Mr. Treadway. Then that was secondary?

Mr. LaGuardia. Well it was stated and a great many of our colleagues believed that the placing in circulation of this added amount would help; would give a stimulus to trade and business, local and otherwise.

Mr. Crowther. With reference to this very last statement that you made, it was suggested to us that it would pull us out of this hole we were in and help us to return to somewhat normal conditions.

Mr. LaGuardia. The record will bear that out, I think.

Mr. Crowther. But the proponents of this new measure, this year, suggest the reason it did not do it and did not do it more materially than it did, was the fact we simply took money from one class and distributed it to another; but that this measure would do it, because we are putting new life blood into the currency—putting new money in circulation.

Mr. LaGuardia. I think the proponents are absolutely sincere in their convictions, although I do not agree with them.

Mr. Crisp. We thank you, Major. Now we will hear Congressman Royal C. Johnson, of South Dakota.

STATEMENT OF HON. ROYAL C. JOHNSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH DAKOTA

Mr. Johnson. Mr. Chairman and gentlemen of the committee, naturally there can be but one set of arguments for or against the passage of any legislation, and therefore the arguments that I shall have to make will be materially shorter than I had intended because of the very scholarly and fair presentation of the arguments against H. R. No. 1 by Mr. LaGuardia. Some of the facts with reference to pension legislation in the past I had intended to present, but Major LaGuardia has covered that ground rather thoroughly and, as I say, very fairly.

I can not but discuss Mr. LaGuardia impersonally for a moment, because it has been my pleasure to know him for 17 years rather intimately as a Member of the House of Representatives, except for the time that he left during the war period and for the time that he left to act as chairman, I think they call it, of the Assembly in New York City. We have disagreed very vitally on many matters of legislation, but I think he has expressed it when he said we have approached those disagreements purely upon our own study of different matters; that we have made up our own minds rather independently and that, without any consultation together, we have happened to agree on the present legislation. That is so true that I did not have the slightest idea of what he was going to discuss to-day and he does not have the slightest idea as to what presentation I shall make. I must say that he has one of the most distinguished war records and he is one of the real independents in political thought of the entire United States, and I commend his courage to any one who discusses a question either of war or legislation.

Now I do not think you can discuss this question of the full payment of adjusted compensation, or the bonus, or whatever you wish to call it, without knowing the history of the legislation affecting service men. I believe I know as much about it as any Member of the House, or perhaps have had as much experience as any Member of the House, or perhaps anyone else in the United States, and this legislation that is proposed to-day naturally is correlated with all of the legislation affecting the disabled.

When we returned from France, many of us, we knew what the situation was. There were no hospitals in the United States; yet the hospitals in France were full of disabled men. The man who was disabled and had lost perhaps both arms and both legs, and had other disabilities, would receive only the sum of $30 a month. That is all he received—$30 a month. That was a ridiculous situation. Therefore, perhaps some of the so-called leadership in legislation for the disabled was forced upon some of us who were familiar with the facts and that legislation correlates with what we are trying to do to-day.

One of the first things we were forced to do at that time was to try to secure decent compensation for the disabled. The members of this committee are familiar with the work of the Committee on Interstate and Foreign Commerce which had that legislation which eventually resulted in the passage of the so-called Sweet bills, war compensation for the disabled, and they are the ones in whom this Government ought to have an interest. That compensation was raised from the $30-a-month level to the present level of $100 a month to-day for those totally disabled, and $80 a month for those temporarily totally disabled, with grades in between depending upon the disability. Now no one can ever settle accurately the disability of any man. Originally we tried to do it on a 1 per cent basis. Why, only God Almighty can state whether a man is 9 or 10 per cent disabled; therefore, any schedule we have adopted would be unscientific, based upon the service of the individual and the effect of that service upon him. I still believe and always believed that the real duty of this Government is to take care of the actually disabled, and it will be a perpetual debate until the last man and woman who served in the World War has passed on.

Now we had no hospitals and I can well recall, in 1919, and so can you Members of Congress with long service—I won't say elderly Members—when in 1919 the gentleman from Iowa, Mr. Good, and myself had a very strenuous debate on the floor of the House, running through two months, in order to secure the so-called Speedway Hospital in Chicago, which was the opening wedge, you might say, to secure hospitals for the disabled, until there has developed a great comprehensive plan of hospitals that are taking care of the disabled and doing much to take care of men not disabled—which is something that we all know; because humanity can not reach into a man's heart or mind, or body, and tell that to which he is entitled.

We passed the Sweet bills and we secured compensation for the disabled, and we passed hospital bills until about 1924 when this whole matter of adjusted compensation and veterans' legislation for the disabled happened to peak up all at one time. The veterans' committee was formed and there was finally enacted the so-called bonus act or adjusted compensation act. By a strange streak of fate (and there are many strange streaks of fate in life), I believe I am one of the men who helped to name it adjusted compensation rather than bonus; because I believed in 1919, when we first discussed it, it was adjusted compensation and not bonus. The same arguments used in 1924 for the passage of that legislation are used to-day for the passage of this legislation. They are the very arguments, if you will look at the record, that were invented in 1919. But we finally passed the compensation legislation.

When the Committee on World War Veterans' legislation was formed in order to take care of the disabled I happened to have been made temporary chairman of it. All through the years I knew that chairmanships were purely temporary but for several years it was my duty, together with other Members of Congress, service and nonservice, to draw the legislation for the disabled. I still believe that the veterans' act of 1924, even without its amendments, was the most liberal law ever enacted in the history of the world for any service men. It was more liberal in many respects than it should have been because no one knew exactly the problem we were approaching, because we never had had a war like the World War and never had any laws that were enacted to compensate for injuries, rather than to pension for injuries. Therefore, we were all pioneers. I have, therefore, no apologies for the mistakes I made as chairman of that committee, nor does any Member of Congress or the representative of any of the veterans organizations need to apologize, because they were pioneering along new lines.

We have amended that law every year, that World War veterans' act of 1924, since the time of its enactment, until, as was brought out by Mr. LaGuardia, the last law passed in 1930 is perhaps one of the most liberal pension laws ever enacted in the history of the United States. It provides payment of not to exceed $40 a month for those who are totally disabled through no connection with the war whatever, but because they have been run over by an automobile, or have become afflicted with any of the diseases to which all mankind is subject.

I sketch that hastily, because I know the committee does not want too much time used; but I do it rather to draw the connection between the present legislation and that of the past.

Now in that connection some questions were asked of Major LaGuardia about what had been done for service men, and I am going to ask the permission of the chairman to insert at this time in the testimony a very scholarly address made on the floor of the House recently by Major Bulwinkle, a Member of the House from South Carolina, who has a very distinguished service record, and his figures will perhaps approximately agree with those of the gentleman from New York (Mr. LaGuardia). I think that should be inserted.

Mr. CRISP (presiding). Without objection, that will be inserted.

(The paper above referred to will be found at the conclusion of Mr. Johnson's statement.)

Mr. JOHNSON. I should also like to insert in that connection the different preferences, which I shall not take time to discuss, which have been given to service men by Congress.

Mr. CRISP (presiding). Without objection, that will be inserted.

(The matter above referred to will be found at the conclusion of Mr. Johnson's statement.)

Mr. JOHNSON. Now we come up eventually to the veterans act—the adjusted compensation or veterans act of 1924.

Mr. RAGON. I would like to know just what some of those burdens are; I did not know we had given any preferences except the one in civil service.

Mr. JOHNSON. Well there are the civil service, land grants, and it runs through a long schedule. I had rather insert them, because I had not thought it would come up at the time and it was rather an afterthought that I used them; but I will insert them, because this discussion on this proposed law is not a thing of just to-day; the discussion on this law, before this the greatest committee of the House of Representatives in power, authority, and effect upon the people, will be read for many, many years. I believe there are service men in the United States who do not wish anything from their Government, and some of these debates and some of the testimony put before this committee by some of the economists of the United States will be read and reread and quoted for many, many years.

Now when the adjusted service compensation act of 1924 was discussed, there were five different plans suggested. At that time I believed that the sum ought to have been paid in cash, even if we had to issue Government bonds. I still think that would have been preferable, because the question of payment would have been settled; the man would have secured exactly that which was promised to him and would have gone on his way and known there were to be no more bonuses, no more adjusted compensation. If he had been disabled in the World War, he would get what the Government said he was entitled to, which would be increased as time went on. Those bonds would now be out somewhere in the United States in the hands of whoever purchased them and there would be no demand in the United States to come in and cash bonds and issue currency against bonds. As I say, I think it would have been much wiser to do it that way. But we did not do that way; we decided—and it was done with the consent of all the veterans organizations who knew, unless the insurance plan was adopted, nothing would be adopted. The service men of the country are bound by what their predecessors said just as we are bound by what has been said by Congress. A contract or promise was made and it was agreed there should be an insurance policy; that the Government could not pay at that time and there should be deferred payments and, because of the deferred payments and the men not securing cash, that each man would secure a dollar a day for home service and a dollar and a quarter a day for overseas service. And just to be certain that that is in the record, I wish to quote from the law:

The amount of adjusted-service credit shall be computed by allowing the following sums for each day of active service, in excess of 60 days—

And I wish to call attention there that every man secured that 60 days—

* * * in the military or naval forces of the United States after April 5, 1917, and before July 1, 1919, as shown by the service or other record of the veteran, $1.25 for each day of oversea service, and $1 for each day of home service; but the amount of the credit of a veteran who performed no oversea service shall not exceed $500 and the amount of the credit of a veteran who performed no oversea service shall not exceed $625.

Now that is what Congress promised. We added 25 per cent to that, because of the deferred payment. We took that amount of money and guaranteed to the service man 4 per cent compound interest until the date of the expiration of the policy. Now if we had not written into that policy the total amount, after making all the interest additions, but if the Government of the United States had done what it should have done at that time, inserted the amount of the promise, which was a dollar a day or a dollar and a quarter a day, we would not have this debate to-day about whether the balance of it should be paid; because every man would have in front of him the promise made to him, which was that he would receive a dollar a day for home service and a dollar and a quarter a day for overseas service; but, if he waited for payment he could as time went on secure his 4 per cent interest. And he therefore would not have to-day a certificate for $1,500 or $1,000; he would possess a certificate based on the promise made, and the exact promise. This would make a very great difference on the face of the policy.

I only bring that up to call attention to the fact that every man, who has borrowed on his certificate, and the most of them have—and I will say I know they needed to do it, because practically every man in the United States needs to borrow money to-day; I know this distress as well as any one else; there is not any human being who does not know the distress in the world, and, if he does not know it, he should not exist in the world—every man who has borrowed has secured full payment of the promise that was made, if he never secures anything else. In that connection, I still think the law can be amended and bettered, because I have never thought the Government ought to charge any more on the loans than the money costs the Government.

Now many people do not know where some of this interest money has gone; some of those men who have borrowed, not knowing that it went from the insurance fund, or converted insurance of the United States; so that when it has come from one group of veterans it has gone to another group of veterans. Many of them have thought the Government reached in and gouged them, when it did not, and simply took the interest—the money collected from the service men—and put in the insurance fund. But I still think this committee could well bring out a bill that would reduce the interest payment to the amount that it costs the Government, forgetting altogether the fact that the Government is paying 4 per cent on the money; because the Government has made that promise and must keep that promise. I think in that connection that the law ought to be amended and a bill ought to be brought out and ought to be brought before the House shortly and passed under suspension of the rules.

It should provide another thing, which is that those men who, by reason of the fact they desired nothing from their Government at that time, did not take out certificates and they are now less than two years old—it should provide that those men should be entitled to borrow on those certificates whose life is less than two years, the same as other men; because many of those men who delayed in filing applications never intended to file them until this depression came on. It will treat, therefore, 200,000 of those men, in my judgment, fairly.

Now, I have tried to cover the question of the promise made; I have tried to show that this promise has been actually kept. Nevertheless, if this money could be paid, these men could be helped, and, in order rather to settle some difficulties in Government, I would like to see it done. But I know it can not be done; in my judgment it can not be done without creating another panic in this country and without doing injury to the great mass of people of the United States. As Major LaGuardia said, 13 per cent of the service men are among the unemployed; also, there are 30,000,000 young men and young women, our Census Bureau tells me, who have grown up since the World War and practically none of them are the sons and daughters of service men. Their sons and daughters, those of us who are service men and the older ones of us—and I am one of the older service men—our sons and daughters are just coming of age, or have just come of age. I think that generation who had nothing to do with the starting of the war are going to have something to do with paying for it; I think they ought to be considered in any adjustment that is made that affects the whole economic structure of the United States. The laws that come from this committee ought to affect the whole economic structure and every individual.

I do not believe, from my study of the question, that you can issue two billion and quarter dollars of paper money without immediately depreciating the value of that money; I am satisfied it can not be done. I know what happened in the Civil War; I know we issued $140,000,000 of paper money and immediately $141,000,000 of gold left this country. That ought to teach us something, because economics are as old as all history and I am satisfied the same thing would happen in this country to-day. I think, in other words, this: If we can issue $2,000,000,000 of currency at this time, then we can issue any amount of money and, without levying a tax, we can comply with the requests before Congress to-day. Nine billion dollars is requested by the farmers of this country to take up the mortgages on their farms, at a very low rate of interest of 1½ per cent. If you can issue fiat money, there is no limit to the place where the end will come, and you must treat all applicants alike. In other words, printing-press money, in my judgment, can not be issued in this country if we are going to come back to economic stability.

Now, I do not say demagoguery is ever used by any group or minority; I would not even say, in my 17 years in Congress, that I have watched the influence of organized minorities by the use of coercion, by the use of money, or any of those things. But I do think there have been some statements made with reference to this legislation that can not and are not based on any foundation of fact. For instance, this propaganda—and it is propaganda—states that the Congress has given to the banks and railroads $2,000,000,000. Why that statement has been made by honest men who believe it. I am not going into it in detail, because people should know exactly where that money has gone should be before this committee; that is, somebody connected with the Reconstruction Finance Corporation, and, when that is done, you will find the most of that money went to the little, small country banks and saved those banks. Those little, small country banks were able to bring in the paper of Tom, Dick, and Harry, who run a little grocery store or farm and were able, therefore, to secure some of that money. And it is not a gift; it is a loan with collateral put up and it will be paid back. Therefore, when some one says—and scores of them honestly believe it—that you gave the banks and railroads $2,000,000,000 and therefore you ought to give the veterans $2,000,000,000, that is not sound, because it is not based on any facts. I trust this committee will call some one connected with the Reconstruction Finance Corporation and have him come before this committee and show not only the States where this money is loaned, but show the number of banks in each State and show the names of the banks in the State, the size of the banks, the towns where they are located, and show just what sort of collateral was put up for those loans, so that even those who can barely read and write will know exactly what was done. I think the people of the country are entitled to that.

Mr. Crisp. I will say that General Dawes, head of the Reconstruction Finance Corporation, will appear before this committee on Thursday.

Mr. Johnson. I will say to the chairman I am very glad that will happen, because then that myth will be exploded and perhaps we won't hear any more of that argument which never was sound, which we all knew was not sound, but which many of the poor men in this country who really need this money thought was sound, because some one down here in Congress, or some one somewhere, made the statement this money was going to Wall Street instead of going to the country producers.

Mr. Rainey. And he will corroborate what you said.

Mr. Johnson. I know that is true, because I know that is the law; the money is only loaned and must go back to the little producers and consumers in some of those States. And that will explode—I won't say that propaganda, but let us say that misapprehension.

Mr. Rainey. He will also show the Reconstruction Finance Corporation is being conducted by the Government at a profit to the Government.

Mr. Johnson. Yes. Now I am not going to take much more time, but so much has been said about Veterans' organizations that I want to say a few words on that. I do not speak for any one of them; incidentally, I am not bossed by any of them. I happen to be or have been—I guess I am now; my dues are paid; if not, I would just as soon pay them—a member of the American Legion, a member of the Veterans of Foreign Wars, and I think at one time I was National Judge Advocate of it, and I was a member of the Disabled American Veterans. I have a great deal of respect for the veterans' organizations. Run as they should be, they are a great stabilizing influence of the United States; there is no question about it. But, like any other organization, used purely for propaganda purposes, used one against the other just to get membership, or used for the dissemination of false information, they are a bad thing in Government, just as any other organized minority would be a bad thing in Government. I have been in Congress long enough and have seen some of the propaganda of the Anti-Saloon League that I thought was propaganda and thought was unfair; on the other hand, I have seen the same sort of propaganda used by the National Manufacturers and Dealers to promote the liquor traffic. I have seen all those different propagandas, and I know a veterans' organization sometimes will fall for that propaganda.

Something was said about the American Legion. I do not represent them any more than I do the others; but I happen to have been a delegate sent by my own service men from my own State of South Dakota—I was not elected by any head of any service organization in the United States, but the folks I grew up with and was in the war with sent me as a delegate to the Detroit convention and I want to insert in the record at this time, just to clarify the situation, exactly what was done at that convention and every speech that was made, just to show exactly what occurred in that group of service men. And they are not run by any particular group; I know they are not, because if there is anything in the world that is hard to boss, it is a bunch of service men; they are not used to bossing from any one. I want to insert in the record just to show what happened.

Mr. CRISP (presiding). Without objection, it will be inserted.

(The paper above referred to will be found at the conclusion of Mr. Johnson's statement.)

Mr. JOHNSON. Mr. Patman, the gentleman from Texas, came before that convention. He had the privilege of the floor. He made his debate; he made one of the finest speeches I have ever heard on the other side of this question. And after that speech was made there, with all of the other speeches, the American Legion Convention voted by a vote of 9 to 5, approximately, they would not ask for payment at this time.

Mr. CRISP. You have permission to put that in.

Mr. JOHNSON. In conclusion, I want to say I am opposing this because I think it is a bad thing for the Government. It is not an easy thing to say that you won't give something to a group that you have been with, when you were with them perhaps more than two-thirds of the people who make most of the fuss about it; it is not an easy thing to refuse to help any one when you know that those people need help, and I, not being particularly, politically interested, will vote against it. As Major LaGuardia said, we are used to abuse, because we think rather independently. I am opposing the payment because I think it is a bad thing for the Government and I think two years from now the men who have put this propaganda on, many of them, most of them inherently honest and honest in their viewpoint, will say with us that we have been right in the matter and have had perhaps greater vision than they have had. Have been better able to look over the whole situation in the whole country than one isolated group which happens to be our group. I say "our group," because Mr. LaGuardia and I happen to be the only two men in Congress who were there before the World War and were overseas.

I say I think this committee ought to bring out two amendments; I suggest you ought to act as quickly as you can in completing the testimony and then ought to settle the controversy so that every person in the United States will know what I have known all of the time, and what you have known and what I think most of the Members of Congress have known, which is that this proposed legislation, H. R. No. 1, will not become a law; never had a chance to become a law, because of the economic situation. All that it has done is to make tragedy in the world by holding out to men who actually needed the money the thought that they could get it. And what will come out of this proposition will be the tragedy of blasted hopes, and the tragedy of blasted hopes is something I do not like to contemplate.

I have long felt the greatest enemy of any man is the person who will hold out false hope with reference to his family and friends about his job, his work, or his financial condition.

Now I will be glad to answer any questions.

Mr. SANDERS. Mr. Johnson, these questions are a little bit personal, but they are not asked with a view to embarrassing you; but because I think we are entitled to have the information. You have just stated that you saw overseas service. How long were you overseas?

Mr. JOHNSON. I do not know that it is pertinent in here. I do not think it is necessary to have any of this in the record; because, as Major LaGuardia well expressed himself when he told the parrot story around here a little while ago, I do not think it is pertinent.

Mr. SANDERS. All right, if you do not want to answer that question, I will ask you one other: At the time you entered the service, were you a Member of Congress?

Mr. JOHNSON. I think all of this is a matter of record, and I would rather not go into it. I am appearing to-day purely as the Representative in Congress of the second congressional district. My war service or nonwar service, and whether I am a Republican or Democrat, a Catholic, Protestant, Gentile, or Hebrew, I do not think is pertinent here.

Mr. RAGON. Mr. Chairman, I think, though—I do not know what the purpose is in asking these questions, but I do think it is pertinent to show something of the character of the witness for the benefit of the people who are going to read this record in the future.

Mr. SANDERS. I think so, too, Mr. Chairman.

Mr. RAGON. I know it may be embarrassing to some of you gentlemen, but I think we are entitled to have it.

Mr. JOHNSON. I would say to the distinguished gentleman from Arkansas (Mr. Ragon) that nothing can be embarrassing to us; because we have probably been through all of the different angles of life.

Mr. RAINEY. I will say for the benefit of the witness, and to relieve him of any embarrassment, that he voted against the war, voted for conscription, as I know, because I was here at that time, and then he enlisted in the war as a private and he came out with a commission; he was wounded in the war and still suffers from those wounds, and is compelled to go to the hospital frequently. I will say that and relieve him of any embarrassment.

Mr. SANDERS. In addition to that, I want to state for the record I am informed by a lot of veterans—he says he does not represent the veterans and they claim he does not—they claim he drew a salary as a Congressman while he was in the war, drew his mileage and stationery allowances, and I think the background of any witness ought to be incorporated in the record so that people may know who the witness is, what his past was and all that kind of thing. If he does not want to answer, all right; but my statement, I think, ought to go in the record.

Mr. JOHNSON. I think it should all be put in. I think perhaps one of the best things that could be done would be to take the complete military record of every person who has appeared before this committee and put it in the record, and everything else. It will afford many enlightening suggestions.

Mr. BACHARACH. I want to say that I happened to be in Congress the same as many of us were at the time the gentleman enlisted and I know the great sacrifice he made at that time—I want to be very sure this goes in the record—and I know that Mr. Johnson could not afford to go to war. I happen to know of a very good friend who gave Mr. Johnson some money to leave with his family.

Mr. JOHNSON. I prefer that be put in here as "loaned him some money that was repaid."

Mr. BACHARACH. As long as you have brought up about his service I want it distinctly understood I know about my colleague's record.

Mr. SANDERS. I would like to ask that the gentleman from New Jersey (Mr. Bacharach) incorporate in his remarks the answer to my question.

Mr. JOHNSON. I would suggest to the distinguished member for the committee, Mr. Sanders, that he incorporate it himself.

Mr. SANDERS. I do not know; I am asking you.

Mr. BACHARACH. I think, if we are going to do that, we should find out the record of every soldier who has testified before this committee, their length of service and, if they were Members of Congress, find out if they drew their salaries.

Mr. JOHNSON. All this is a matter of public record and any person can get it in the public record, if they want to, and nobody can object to what is in the public record appearing.

Mr. BACHARACH. I think it should be put in in regard to every man, but I do not see why it was brought out in this case.

Mr. JOHNSON. Personally, I do not care either way.

Mr. TREADWAY. Mr. Chairman, may I add that I happened to be one of those who were here at that time, and if there was any one thing that was a source of individual pride to me, it was the remembrance of seeing Mr. Johnson return from the training camp in his uniform and appear on the floor in uniform. I want that to be put in the record, too.

Mr. JOHNSON. Are there any more questions?

Mr. MCCORMACK. Mr. Johnson, as I view it, eliminating the veteran angle, the great fundamental question involved is whether or not our conditions are such that a reasonable expansion of the currency would tend to bring about improved conditions for the people generally throughout the United States. Have you any opinion on that?

Mr. JOHNSON. I would say to the gentleman from Massachusetts I believe it would. I think what is being done now will do some good and I believe a reasonable expansion that treats every one alike, based on a solid foundation will do good. I am not an economist, but I have become convinced, from my study of it, it would be of value to have a reasonable inflation.

Mr. MCCORMACK. I would rather call it "expansion."

Mr. JOHNSON. Well, a reasonable "expansion."

Mr. MCCORMACK. The law creating the Reconstruction Finance Corporation was based on an expansion of credit.

Mr. JOHNSON. I think that is right.

Mr. MCCORMACK. This involves, whether we adopt the Patman bill, or the Thomas bill, or the Owen bill, an expansion of currency and they all agree to a reasonable expansion. Of course everybody views an unreasonable expansion as something that would be foolish. But having agreed that a reasonable expansion would be justifiable and the circumstances might be considered favorable to a reasonable expansion, have you given any thought as to what would be a sufficient gold basis to assure that the reasonable expansion, if one took place, would not affect the value of the American dollar?

Mr. JOHNSON. I would answer that by saying I have read some of the testimony before this committee, and I am familiar in a way with it. I could not say exactly, but I think it ought to be done under the Glass-Steagall bill, inasmuch as that has already passed Congress, and where we know there will not be any great unreasonable expansion, and, if there is, it can be contracted again; while, under this bill, if passed, if there is too much expansion, you can not ever contract it; it is done and over with. Under the Glass-Steagall bill you might even want to expand more than under this bill.

Mr. MCCORMACK. In other words there is agreement as to a reasonable expansion of the currency, but a disagreement upon the method by which it is to be brought about; is that correct?

Mr. JOHNSON. Will you rephrase that question; I did not catch that.

Mr. MCCORMACK. If it is agreed that a reasonable expansion of the currency is necessary or justifiable under existing circumstances, then the next question is what is the best method to bring that about.

Mr. JOHNSON. Yes, that is true.

Mr. MCCORMACK. Now, Senator Owen made a suggestion about the issuance of 4 per cent bonds that Doctor Crowther referred to, and that they be put into the Federal reserve system and not be issued for sale to the public and, as I understood his suggestion, or his proposition, or his idea, it was that they be used as the basis for the issuance of currency, just the same as our consols are now, and that the veterans, such veterans as desire payment, could go and receive payment, but the bonds would still remain in the Federal reserve system and there would be no interest charge to cover them except just a technical interest charge as far as bookkeeping is concerned; later, if the issuance of the currency tends to bring prices up too high, then that we sell these bonds for the purpose of contraction. Have you given any consideration to that?

Mr. JOHNSON. No, I have not. I have a great deal of respect for the former Senator from Oklahoma, because I know he was chairman of the Banking and Currency Committee of the Senate years ago. I have not studied that plan and, therefore, would not wish either to approve or disapprove of it, because I know when he presents any plan to this committee or any other committee it is a lifetime study for him and I would be compelled to make a snap judgment here.

Mr. MCCORMACK. If it is agreed that reasonable expansion of the credit would be justifiable, having in mind 122,000,000 people and not speaking of those with a fixed income, because the person with a fixed income, of course, is in a fortunate position under existing conditions——

Mr. JOHNSON. Yes.

Mr. MCCORMACK. Having in mind the great mass who have no fixed income, if it is agreed that a reasonable expansion would be supported by a sufficient gold reserve to assure the value of the

American dollar, because nobody wants the value of the American dollar in the foreign markets depreciated, what would be the best method of putting that currency into circulation? I do not want to ask you any questions unless you have given it consideration——

Mr. JOHNSON. I would have to go back to the original consideration—if it could be assured all these things would happen. It is purely snap judgment, because I have not studied the plan; but from this little discussion of it, I would say I would want to read that plan of Senator Owen very carefully, because that seems to me to have attributes in it that some of the others do not; yet, as I say, I have not studied it enough to pass upon it.

Mr. McCORMACK. Have you given any consideration to what gold reserve will be necessary to insure the value of the American dollar? What gold reserve was necessary in the past as a basis for the issuance of currency and which would in turn assure the value of the American dollar?

Mr. JOHNSON. Is not the law that it must be 40 per cent?

Mr. McCORMACK. That seems to be the evidence.

Mr. JOHNSON. That seems to be the evidence, anyway.

Mr. McCORMACK. Now, do you know that we have considerably more gold in the Treasury, in relation to the currency outstanding, than would represent 40 per cent of the currency outstanding?

Mr. JOHNSON. There may be some reason for that, in that we have been facing all this withdrawal of foreign gold from the United States. That might be that we could stand some inflation. We therefore come to the question "Will we inflate and, if so, how much?"

Mr. McCORMACK. I would rather use the word "expansion." I think that is what the banks use, and I think it is a very appropriate word. I think the use of the word oftentimes determines the outcome of anything. Now if a reasonable expansion of the currency is agreed upon, or if it is necessary and the gold reserve is sufficient to justify an expansion sufficient to call in these adjusted service certificates, do not you think, or have you any opinion as to whether or not, to put the currency into every little town and hamlet all over the country, that the consumer would, in all probability, be the best means of bringing about the favorable results which would be expected from the reasonable expansion, of course, of the currency?

Mr. JOHNSON. Here is where you get to this problem: If you pass this bill and expand it in that way, then you have dropped two billion and a quarter fiat dollars all over the United States; it is spread thoroughly and distributed almost in proportion to the population, but you never can deflate. Therefore, if you carry it to excess, then you have forced on the country all of the evils of inflation, and I have thought it would be better to proceed with this Glass-Steagall bill, pushing money out and carrying it out until you get the right amount, which you can then contract, if you wish. Or there may be something to this plan which I would want to study of the former Senator from Oklahoma, Mr. Owen.

Mr. McCORMACK. You take the Thomas plan or the Owen plan, his plan had that in mind, apparently, because his plan, as I have said, provides for the issuance of 4 per cent bonds to go into the Federal reserve system and not to be issued to the public, but to be used as a basis for the issuance of currency; then, if there is too much inflation, or expansion, the bonds to be used for sale to the public for the purpose of contraction. That would coincide more with your views than the Patman bill; is that correct?

Mr. JOHNSON. If such a thing is to be done, I think it should be made elastic. I still am not going to pass on the Owen plan, because I am not familiar with it, but, assuming your statement of facts is true, I would perhaps favor it.

Mr. MCCORMACK. The purpose of my asking these questions is this: I think it is an issue involved here of whether or not conditions justify a reasonable expansion and what reasonable expansion we could make without diminishing the value of the American dollar, and then whether or not the calling in of these debts is the best means of bringing about the results that are generally desired; whether or not it would be accomplished better by bringing about the expansion through groups like the banks, or whether we could put it directly into the hands of 3,500,000 consumers with their families in every little town and hamlet—if that would not bring about better results than putting it into the hands of small groups.

Mr. JOHNSON. It is a difficult problem to decide which would be the better way.

(The papers submitted for the record by Mr. Johnson are as follows:)

SUMMARY OF PROCEEDINGS OF THE THIRTEENTH ANNUAL NATIONAL CONVENTION OF THE AMERICAN LEGION, DETROIT, MICH., SEPTEMBER 21, 22, 23, AND 24, 1931

Chairman Colmery, then read the following resolution which has to do with the interest on adjusted service compensation certificates:

"Whereas the Government of the United States is borrowing funds at a substantially lower rate than it charges the veteran for his loans on his adjusted service certificate, and is thus making a profit out of the veteran: Now, therefore, be it

"*Resolved by the American Legion in National Convention assembled*, That this situation be called to the attention of Congress with the assurance that they will at once end this injustice."

The resolution was adopted.

Chairman COLMERY. In presenting this resolution I desire to announce, in order that there be no misunderstanding, that there will be a minority report, and the gentleman from Oklahoma is on the stage, waiting recognition to present that at the conclusion of this resolution:

"Whereas the unqualified, generous, and unstinted relief of our disabled comrades has always been, and ever will be, the task to which The American Legion is chiefly dedicated, and is the surest path for service to God and country; and

"Whereas the American Legion, having never demanded gratuity for the able, but now, as always, unrelenting and determined in its solicitations for succor by a grateful Government for those disabled in its service, protests any proposed economy at their expense; but

"Whereas millions of men and billions of dollars and of property can not be destroyed except the survivors be called upon for sacrifice and self-denial to make good the laws which has visited "service-connected disability" upon all mankind; and

"Whereas the Nation to-day faces an economic and financial crisis which calls for sound, unselfish, and patriotic action upon the part of all America: Now, therefore, be it

"*Resolved*, That, the American Legion, in full possession of its limitless faith in the destiny of the Nation we fought to preserve, calls upon the able-bodied men of America, rich and poor, veteran, civilian, and statesman, to refrain from placing unnecessary financial burdens upon National, State, or municipal governments and to unite their efforts as they all did in 1917 to the end that the war against depression be victoriously concluded, prosperity and happiness restored."

The resolution was adopted.

MINORITY RESOLUTION

Delegate Ray Field, of Oklahoma, spoke as follows:

"Your 14 departments, representing almost half of the vote of this convention, join in presenting the motion to substitute for the majority report of the committee. The motion to substitute is as follows:

"'Whereas resolutions submitted to the national convention of the American Legion, held in Boston, Mass., favoring the payment in cash of the adjusted service certificates, were tabled because the American Legion was firmly opposed to initiating such legislation within itself, and because the first and major activity of the American Legion has been and always will be the care of his dependents, whose welfare has been and must of necessity remain our first obligation; and

"'Whereas at the special meeting of the national executive committee of the American Legion held in Indianapolis, in January, 1931, there was unanimously passed by said committee a resolution indorsing the principle of immediate retirement on application of the adjusted-service certificates; and

"'Whereas said national executive committee, in said special session, specifically declared that in their opinion the passage of such legislation would benefit immeasurably not only the veterans themselves but the citizens of the entire country and would be an appropriate demonstration of the Nation to those who carried its arms in 1917 and 1918: Now therefore be it

"'*Resolved, by the delegates of the thirteenth annual convention duly assembled*, That we again declare and reaffirm as our first and major objective legislation for the further relief of the disabled men and their dependents, widows and orphans and will take definite exception to any interference with or delay in the passage of such legislation; and be it further

"'*Resolved*, That this convention approves and confirms the action taken by the national executive committee in its January meeting of 1931 and hereby indorse the principle of immediate cash retirement on application of the adjusted-service certificates, it being the opinion of this convention that the passage of such legislation would benefit immeasurably not only the veterans themselves but the citizenship of the entire country.'

"In consideration of this matter we must promise one thing, and that is that this is not the creation of a new obligation on the part our Nation.

"This is only going to our Nation in our emergency as we went to her at hers. We are asking our Nation now to select her resources as we selected her men in 1917 and pay us the remaining part of the adjusted-service certificates.

"A man can be disabled by other means than by health. If he can not properly provide for his family; if he can not feed his children; if he can not send them to school with good clothes on their backs, and shoes on their feet, then that man is disabled as well as the man to whom we owe our first obligation, who lies in the veterans' hospitals of this land. Personally, I believe that the right hand of the American Legion should be held out to the man who is disabled by circumstances and finances. We have before us to-day a Nation with $400,000,000,000 in wealth, seventy-five billions in annual income; and the consideration of this is small in comparison to that wealth. I might ask you, as individuals, if you had $400 in material resources, and you owed $16, such as our Government owes sixteen billions as a Nation, and the borrowing of $2,000,000,000 would relieve this distress, then you would consider it good business to go and borrow that $2. And, I am saying now, that our Government, with all of her resources should, I repeat, even to the extent of double the amount of the adjusted-service certificates, place those resources throughout the land, so that the distress of to-day can be alleviated.

"Comrade Commander, I move the substitution of the motion."

National Commander O'NEIL. You have heard the motion.

Delegate PATMAN (Texas). I second the motion.

(Motion duly made, seconded.)

National Commander O'NEIL. The Chair recognizes Monroe Johnson, of South Carolina.

Delegate JOHNSON (South Carolina). Mr. Commander, gentlemen of the convention, many words may cloud some issues. The issue before the American Legion to-day is plain and clear: Whether or not we are for further cash payment on the adjusted-service certificates or are we in favor of postponing any action in the time of stress of the United States and of all nations and individuals?

There is no lack of clarity in the two reports, majority and minor, from the legislative committee, laid before you, save one, and to that I wish to address myself. The minority report was by reason of a suggestion to reframe and reenact the utterances of the national executive committee taken last January at a special meeting of that committee in Indianapolis. I might well couch such a suggestion to a convention of the American Legion, for on that executive committee there was a representative of every department, and you are supposed to have acted through that committee, and you are supposed to have been advised, and certainly there could be no crime in reaffirming anything said and done there. But there was never so turbulent a meeting of the executive committee in the 13 years I have attended the meetings of that body until some time during the day a special subcommittee was appointed for the purpose of attempting to bring in a unanimous report. On that committee the commander appointed some members, 10 or 12, representing every possible point of view from the hundred percenters to those who thought at that early date in the depression no demand should be made on the Government by the American Legion.

The speaker who has just preceded me was a member of that subcommittee representing those who demanded 100 per cent of the face of the service certificates at that time. There were members on there who wanted no demands made on the Government. In five hours a unanimous report was brought forth by that subcommittee and unanimously carried by the executive committee without a dissenting vote.

He went into that meeting of the subcommittee demanding a hundred per cent of the face value. He came out with the report unanimously adopted, which asked the Congress of the United States to announce the principle of the American Legion desiring immediate cash retirement on application of the adjusted service certificates. His failure to agree within five hours was because he wanted 100 per cent of the face value, and when he agreed he reluctantly did so. That part of the face value was sacrificed.

They are now here to-day presenting that action to you as meaning that the immediate cash retirement means the face figure of the certificate; but at that time he claimed that he made a concession of a great portion of the face value.

The Congress of the United States immediately paid attention to what the Legion said through its national executive committee, and it not only gave you cash retirement on an insurance policy, which we all say is an adjusted-service certificate, but in fact is an insurance policy. They granted not only what we asked, cash retirement, but in addition left half its face value in full force and effect as it stands to-day. So do not be misled into the belief that a restoration of the acts of the executive committee means the full face value of the adjusted-service certificates. It meant what it said, and in addition half the face value is still in effect.

Never before has the American Legion taken an action of that sort which did not receive generous criticism of the United States vilifying us in various and sundry ways. In this instance all of that criticism that we have had has been mild and ineffectual, emanating from those not understanding the principles involved, in that we merely asked that on our promissory note of the Government we be given a loan. The criticism has been mild in comparison to some of the criticisms when we made a seemingly extravagant demand for a hospital connected with the demand of the Legion last year for retirement of the service certificates.

You are going to hear to-day from those demanding full payment a criticism of the authority and action of the national executive committee. Certainly they have never before criticized the Legion or the executive committee or subcommittee until this controversy arose. Do not be confused by the reiteration and reaffirmation. The issue is clear and distinct whether or not the honor of mankind, the honor of governments, and all peoples owe the world, affected by the war, that gave us birth, whether or not to-day we are going to demand, regardless of the rights of those for whom we fought, and make demands for our own interests whether it is just or not, in ordinary times. Are we to-day for those people for whom we fought, which includes ourselves and our posterity, going to make ruthless demands at this time, or are we going to invite all the people of the United States, whether they are veterans or civilians to unite with us that we place no unnecessary burden on the backs not only of veterans but those who gave devoted service at home while we were in the trenches? I thank you.

National Commander O'Neil. The Chair recognizes Wright Patman, of Texas.

Delegate Patman (Texas). Comrade Commander, ladies and gentlemen of the Legion, regardless of what the executive committee intended in the passage of the resolution at Indianapolis in January, 1931, we know exactly what the Fields resolution proposes now, and that is that those of us who vote for that, the Fields resolution, do so with the knowledge it means 100 per cent cash payment of the adjusted-service certificate.

There is a reason for this passage of this legislation. The American Legion, the members throughout the organization, have never asked for a single new principle or policy of our Government to be invoked in their favor. All legislation that has been asked for by the Legion has had a precedent for it. We are asking for no more rights or benefits to be extended to the veterans of the World War than have been extended to the veterans, the widows and orphans, of other wars. Now, then, my friends, the reason for the passage of this legislation is that property rights were drafted into the service the same as human rights. The railroads were drafted into the service, I am not criticizing Congress. I am not criticizing the railroad owners for accepting the subsidies, gratuities, or adjusted compensation, or whatever you may call it, but I do give it as an example. When the war was over and the railroads were turned back to the owners, Congress passed a law which gave to the railroad owners certain benefits and rights from the World War.

All of them put together, if they were given just exactly the same amount as the railroad owners were given in increased stocks and bonds, and adjusted compensation, if you please, would, instead of having a certificate for $1,575, have a certificate for $7,950. There were 7,000 war contractors who came to the doors of Congress when this war was over. They did not have legal contracts. They were illegal and informal. Every one of them represented a violation of the law. Notwithstanding that, Congress passed a law, and I am not criticizing Congress for doing it, but the result of the passage of that legislation was that these war contractors were paid adjusted compensation amounting to hundreds of millions of dollars, estimated over one billion to two and a half billion dollars. Five hundred thousand Federal employees, or about that number, were given adjusted compensation of $20 a month during the war, and for five years after the war. Soldiers who worked on the public roads during the war, in America, side by side with civilians, when a civilian received $8 a day and the corporal who worked by his side received $1.66½, when the war was over, Congress passed a law adjusting the compensation of that enlisted man and paid him adjusted compensation of $5.33 a day, for every day that he worked side by side with that civilian.

Furthermore, my friends, when this war was over, and the foreign countries said "we do not have the ability to pay our debts," Congress passed laws giving to those countries billions and billions of dollars, and those countries used our own money not only to pay adjusted compensation to their soldiers, but to pay bonuses aggregating in some instances as high as $7,000, and that, my friends, at a time when our Nation that is worth $500,000,000,000, owed $26,000,000,000. To-day we owe $10,000,000,000 less than that. And permit me to invite to your attention the fact that Congress passed a law 10 years ago that had for its purpose refunding the national war debt, and in the passage of that act it was intended that a certain program or certain payments would be made up until this time, and I heard the Secretary of the Treasury admit before a Senate committee that, notwithstanding that law, that he had paid three and a half billion dollars more on that national debt than Congress said by law should be paid at this time. And permit me to invite your attention further to the fact that if we pay the adjusted service certificates in cash and pay them now, that it will represent less than one-half of 1 per cent of our national wealth, and if we pay them in cash now, we will not be in debt one dime more than Congress said by law 10 years ago we should be in debt at this time.

"I am interested in equalizing the burdens of the next war, if we have a next war. I do not want to think about the next war. But I am more interested in equalizing the burden of the next war and letting those who profit most pay the most. We know that the enormous concentration of wealth in our Nation, we know that in 1920 we had a per capita circulation of more than $53. It has been reduced and reduced until to-day it is below $40, in fact, $38.50. More than $1,000,000,000 has been taken out of circulation during the past 10 years in our country.

Economists will tell you, and it does not take an economist to know it—that as the population of a nation increases, the volume of money should increase. Notwithstanding that the population of our nation has increased 17,000,000 people in the last 10 years, the volume of money in the United States has been reduced more than $1,000,000,000. You had just as well expect your body to remain well after a surgeon withdraws from your veins one-third of your circulating blood as to expect your country to remain prosperous after one-third of your circulating medium has been withdrawn. Money is the blood of the body politic.

Now, then, my friends, there is another reason why we are right in this fight. This is not a bonus. The term "bonus" was coined by the enemies of the act.

Those of us who are friendly to the payment of 100 per cent are required to call it a bonus because that is the name by which it is known. It does not represent a bonus. It represents an honest debt that the Congress of the United States has publicly confessed, and as to whether or not it should be paid is not a question before you now because Congress has already passed that legislation. Here is what we are asking to-day: We are asking the Congress of the United States to pay that dollar a day and that $1.25 a day for home and overseas service, as suggested in the original act. We are asking that that payment be made as of 1917 and 1918, at the time the services were rendered, and not 1925, an entirely different time. We are asking that a reasonable interest be given to each veteran on what is due him. That rate of interest will not be one penny higher than the veterans have been compelled to pay for their own money in borrowing on their certificates.

Is there anything unreasonable about that? Certainly there is not. During the war there was one concern that made one-half million dollars a day clear profit by reason of the country's misery and misfortune. Ten years after the war was over the Secretary of the Treasury was convinced that it was entitled to a refund of $15,000,000, that it had overpaid its taxes during that year. I am not criticizing anyone for paying it back. I presume it should have been paid back. But that company was paid back that $15,000,000 as of 1917, and interest allowed from 1917 is 6 per cent. The Secretary of the Treasury himself was unfortunate in that he overpaid his own income tax during the year 1926 $72,399, and when the error was discovered, was that paid back as of the time he discovered it? No; he was paid back as of the time he overpaid his income tax, with 6 per cent interest from that time.

Now, then, my friends, this is not an unreasonable demand. It is just, because we are right. I know we are right, because we are not asking for any benefits to be extended that have not been extended to other people, and I only ask that you give it fair consideration and fair thought, because of all the times on earth when we need that $2,000,000,000 in circulation in our country—it will cost $2,000,000,000 to pay these certificates—we need it now. These certificates can be paid without trouble to our Government. All these predictions about how you ruin our country were made just before the passage of the 50 per cent loan bill. Nothing new has been said. None of it has come through. Don't be mislead by that talk that the country can not stand it. We owe $10,000,000,000 less to-day than 10 years ago, and 10 years ago they paid the war contractors, the railroads, the Federal employees, the soldiers that worked with the civilians, and gave the foreign countries millions of dollars. I say if we could stand that 10 years ago when our national debt was $10,000,000,000 more than it is to-day, we certainly can afford to place this money that is due the veterans of the war in the hands of those 3,500,000 veterans who live in every nook and corner of America.

National Commander O'Neil. The chair recognizes Past Commander O. L. Bodenhamer, of Arkansas.

Past National Commander Bodenhamer. Mr. Commander, ladies and gentlemen of the convention, the men and the women of the Legion have been good to me. In appreciation of that friendship I could not and would not presume to tell this convention what action it should take upon any question or policy presented for your consideration.

In keeping with my love, however, for this organization which you privileged me to lead, I do believe that I have a right to make an appeal at this time for a fair-thinking decision, a decision which will be fair to the members of this organization, to the program of the Legion, to the disabled to whom we owe our first obligation, to the widows and orphans to whom we are pledged by convention action and to the future of this Republic for which we fought.

There has been feeling already in this convention as between those contesting on an issue already settled. As good legionnaires, we will forget our differences and unite soon behind a new national commander.

On this question, however, there will be still more feeling, and I want to appeal that the men and women of this convention will think fairly, wisely and be friends with each other in whatever action shall be taken.

Yesterday you passed a resolution pledging this organization to call upon the American people for still further benefits for our disabled. Shall our action on this issue be in keeping with the best interests of those disabled? At the same time we pledge the Legion to secure from the Federal Government certain benefits for the widows and orphans of those made such through no fault of their own.

Shall our action as the result of this question now under consideration be in keeping with the best interests of those who are dependent upon us as their solicitors before the American people?

We passed a resolution calling upon the American Congress to put into effect the principle of universal service so that never again shall we have the inequalities which developed as the result of our entry into the recent world conflict. Shall our action on this next question jeopardize the passage of that great principle as a part of the fundamental law of this land?

I am asking the delegates of this convention to be true to their disabled, to be fair to those widows and orphans of men made disabled, killed as the result of their entry into the great conflict. And I am asking the delegates of this convention to be loyal to the country for which we fought. Whatever your action may be, let the guiding principle be not one of selfishness, but one of fairness to the program of this organization, so that no man and no woman in American to-day can point a finger of shame at this organization and say that we have not lived true to the ideals and principles for which we were organized.

National Commander O'Neil. The Chair recognizes Fred Frazier, department commander, District of Columbia.

Department Commander Frazer. Comrade Commander and comrades of the convention, the District of Columbia in its department convention passed a resolution to be presented to the national convention for the full payment of the adjusted compensation certificate. The District of Columbia a short two weeks ago had a session of the national organization known as the unemployment committee, presided over by your beloved past department commander, Howard Savage. At that time much was said on unemployment. Much more was said on relief.

We went to war in 1917. We are now standing face to face with a crisis equally as important as that of 1917 in bringing relief to the community, to the State, and to the Nation. We don't believe that the American Legion is begging the American people for anything, but we are asking for that which is right, that which Congress said in 1924 was a debt, to adjust differences that had taken place in time of war.

Are we to have the question raised by those back home that we did not bring the question before you? Are we to answer them like we did last year that nothing was done toward relief? A man who is in want needs that which he is entitled to, and the American soldier, certainly he who is out of employment, needs that more now than in 15 years to come.

I thank you.

National Commander O'Neil. The Chair recognizes Jim Morris of Florida.

Mr. Jim Morris. Mr. Commander and delegates of the convention, I shall not add to the burden of this debate but a few briefs words to raise my voice at this time because I conscientiously feel, as I know that many of the members of this convention feel, that the American Legion is to-day standing at the crossroads.

We have struggled. We have striven in the building of the Legion, that organization which will stand forth in the leadership of the citizenship of this country. It is not up to me to say what action would advance or further our progress in that direction, but I do beg of you to consider this question now before you in the light of the interest of the American Legion.

I understand the appeal that is being made for the demand for the payment of the cash bonus at this time, prompted by the need that the ex-service man shares with the citizenship of the country in this crisis. But, men and women, they share it with the full citizenship, and let us not in the name of the American Legion, which has stood forth as the unselfish, the idealist leadership of our citizenship, demand for ourselves special indulgences at this time of such critical need.

I appeal to you to consider this question in the light of the destiny of the American Legion. It has never yet done anything that we can not well defend. I fought, you fought, we all fought to our uttermost for adjusted compensation, for every possible benefit and relief for the disabled ex-service man. We will continue to carry on that battle. We want never to be justly charged with having sought selfish advantage at a time when the crisis of our country is so great as to make it the business of us all to develop leadership to lead us back to prosperity and soundness.

I do not share the same political faith that our President does, but when he came to this convention the other day, an unprecedented action, appealing to us to consider the welfare of the country and to help take the leadership to bring back the citizenship to a realization of what the condition is, and what it means, let us not forget our pledge to give when the demand calls for us to give, to sacrifice, if sacrifice we must, and to put the American Legion at the head of the citizenship of this country so as to quiet forever the vicious charges and criticisms that have been since its existence hurled at us as being the selfish money-grabbing organization, charges that we know are not so, charges that we can successfully refute, but I beg of you now not to do that which would give color to such charge and belittle or strangle the influence of the American Legion for the finest leadership that this country can possibly have.

I beg of you to turn down at this time any demand upon our Government for payment of money to the ex-service man and I urge you to call upon the whole citizenship of this country to help work us out of the desperate situation we find ourselves faced with.

Thank you.

National Commander O'Neil. The Chair recognizes John McCall, of Tennessee.

Mr. John McCall. Mr. Commander, and gentlemen of the convention, at the outset I want to agree with everything that has been said here justifying the passage of the adjusted-service compensation certificates and acknowledging an indebtedness by reason of those certificates of the Government to the veterans of 1917 and 1918.

The past year I have spent almost all my time going about the State of Tennessee and justifying the passage of the act permitting a 50 per cent loan on those certificates. I detest the critics that have appeared from every corner of this Nation seizing upon this just legislation to prejudice the public opinion against the American Legion and the veterans they represent.

There is no question as to whether or not there will be a full payment of the bonus. Certainly there will. The question here now is whether or not the American Legion considers its first purpose to guarantee the future welfare of the disabled and of the widows and orphans of the veterans. Some have said the future welfare first is the immediate money. The question here is not the fulfillment of the bonus, but whether people are willing to go to the country at this time of crisis and demand that you receive full payment of interest which has not been earned thereby jeopardizing the program which has for its purpose the care of the disabled.

It is inconsistent that we should go to this Government this year demanding tens of millions of dollars in increased hospital facilities, tens of millions of dollars for the widows and orphans of the veterans and that we should ask the Government to forego the interest charges upon our bonus loans, and that is a reasonable request. We can not make all of these requests and believe that they will continue to receive the support of the people of this Nation if at the same time we ask for a tax at this time for the able-bodied soldier.

Did you ever hear of the time when an able-bodied American soldier could not take care of himself?

(Voices: "Yes.")

Mr. John McCall. Are you willing to jeopardize the future welfare of the disabled, a program which is increasing every year for the welfare of the widows and orphans, for a few hundred dollars ready cash? If you are, you are not worthy of admittance to this organization——

National Commander O'Neil. The convention will be in order.

Mr. John McCall. As I said, you are not voting upon whether or not the bonus will be paid in full. You are voting whether or not you will jeopardize the future welfare of the principal purposes of our organization.

National Commander O'Neil. The Chair recognizes Comrade Broon, of California.

Mr. Broon (California). Comrade Commander and comrades, I step from the press up to the microphone for one purpose only, to say to you that I speak to you as a returned wounded legionnaire, having left a leg in France and most of my left arm.

This urge for the full payment of this adjusted compensation certificate is not right. The American Legion has a job to do more important than this. Forget yourselves. We gave in 1917. Give in 1932.

National Commander O'Neil. The Chair recognizes Comrade Wally Williams, of Maryland.

Mr. Wally Williams (Maryland). Mr. Commander and comrades: I like that, Mr. Commander [pointing to National Commander O'Neil]. I served for a year and a half under him in France.

I haven't any business to be here on this platform arguing with brilliant minds from the congress of the country, but I have got to go back to the post which I come from and argue there, and the thing that is in my heart and mind I am determined to say to this assembly.

I am not a trained speaker. I am a farmer from a country community with a little post. The speaker before has referred to the wealth of this great country and he says that $2,000,000,000 is only a small part of the wealth. I don't know what $2,000,000,000 is, and nobody back in my country has any conception. I tried to figure it out. It is two thousand million dollars. A bank back there failed for a half-million dollars. We know what that was, and we know that 4,000 banks like that would be something. I don't know. He might be right about that, only $2,000,000,000.

I do know that I was a soldier once and I am a legionnaire now and have been from the beginning. I do know that I was a post commander when we made the fight for this adjusted-service certificate and believed in it and preached it and employed people in my district and in yours believe in it because the Legion was for it. They saw the right of the thing and they were for it. I have got my certificate stuck away. I have not borrowed on it yet, although I am poor. I sold my wheat and can't pay my taxes, but I am here in Detroit and I got my health, and I am going to borrow on that thing this winter according to the amount legally authorized when it was given to me, and I am going to take that money and turn it over to the welfare association in my county because I got a lot of neighbors who are a damn sight worse off than I am.

The speaker said something else that I know is wrong. I know about that two billion, only two billion. He said it is not too late to equalize the burdens of the war.

Thirteen years ago this fall, October 14, Dike O'Neil and I crawled out of a lousy trench and the regiment that we served with took that piece of ground where the Romagne Cemetery is to-day, and when it was taken half of that regiment were killed and wounded. Comrade ———, from my State, lived, but lost both his arms. Comrade ———, from downstate, took three hours to die and left behind him nothing much—a wife, and a kiddie he had never seen. The Legion has had the esteem and the affection and the love of the people of America because it has done the job of taking care of them and the names that you and I can name, and on the day when we use our organized power to ask for a special privilege for ourselves and not for them, the Legion loses the love that it has so richly deserved.

Some of you fellows feel you are bound by a majority vote from back home or in a delegation or somewhere else. You are not bound by anything except your conscience before God and your duty to the disabled, the widows, and the orphans to-day.

Delegate ——— (Indiana). I think we are all capable of deciding on this question individually, and I think instead of going along with speeches, because the hour is getting late and there is still further business. I would move that we take up this question and vote on it now

Delegate ——— (Indiana). Second the motion.

Delegate Hatfield (California). I move the previous question.

Delegate Ray (Florida). I second the motion.

Delegate Stell. Perhaps that motion should be withdrawn, as there are only two other speakers, one on each side.

National Commander O'Neil. The previous question is called for.

Delegate Hatfield (California). I will withdraw the motion.

National Commander O'Neil. With the consent of the second?

Delegate Ray (Florida). The second consents to the withdrawal.

Delegate Graff (Wisconsin). I made the original motion. I move the previous question.

National Commander O'Neil. The previous question is called for.

Delegate ——— (Virginia). Second it.

National Commander O'Neil. You have heard the question. The previous question was called for. All those in favor of the motion signify by saying aye; contrary nay. The ayes have it.

The question now is shall the minority report be substituted for the majority report. Are you ready for the question?

Delegate Hatfield (California). On your ruling upon the prohibition matter, I understood that the previous question called for a report of the committee.

National Commander O'NEIL. He withdrew his substitution on the minority question on the prohibition matter. The motion now is will you substitute the minority report for the majority report.

Delegate POORMAN (Illinois). Roll call.

National Commander O'NEIL. A roll call has been demanded by Illinois. It takes three departments for a roll call.

Delegate from District of Columbia. District of Columbia.

Delegate from Texas. Texas.

Delegate from Indiana. Indiana.

National Commander O'NEIL. We will now proceed to a roll call.

VOTE ON CASH PAYMENT

National Commander O'Neil announced that in voting "no," it meant against cash payment of the adjusted-service certificates. The leaders of the two forces agreed, and the following vote was taken:

Alabama, 20 votes for.
Alaska, 7 votes for.
Arizona, 12 for.
Arkansas—Arkansas one for; 19 against.
California—California passes.
Canada, 6 no.
Colorado, 15 no.
Connecticut, 20 no.
Delaware—Delaware, 7 no.
District of Columbia, 11 yes.
Florida, 18 no.
France, 7 no.
Georgia, 17 no.
Hawaii, 8 no.
Idaho, 11 no.
Illinois, 93 yes.
Indiana, 44 yes, 1 no.
Iowa, 44 no.
Italy, 7 no.
Kansas, 31 no.
Kentucky, 22 no.
Louisiana, 15 yes.
Maine, 14 no.
Maryland, 12 no.
Massachusetts, 29 yes, 26 no.
Michigan, 22 yes, 15 no.
Minnesota, 8 yes, 27 no.
Mississippi, 10 yes, 8 no.
Missouri, 31 no.
Montana, 12 yes.
New Mexico, 11 no.
Habana, Cuba, 1 no.
London, England, 1 no.
Nebraska, 27 no.
Nevada, 8 no.
New Hampshire, 12 no.
New Jersey, 31 no.
New Mexico, passes.
New York, 92 no.
North Carolina, 4 yes, 21 no.
North Dakota, 10 yes, 6 no.
Ohio, 14 yes, 42 no.
Oklahoma, 35 yes.
Oregon, 18 no.
Panama, 7 no.
Pennsylvania, 63 yes, 17 no.
Philippine Islands, 6 no.
Porto Rico, 7 no.
Rhode Island, 7 yes; 3 no.
South Carolina, 16 no.
South Dakota, 18 no

Tennessee, 31 no.
Texas, 45 yes.
Utah, 10 no.
Vermont, 12 yes.
Virginia, 17 no.
Washington, 24 yes.
West Virginia, 19 no.
Wisconsin, 3 yes; 35 no.
Wyoming, 12 no.
The vote against the cash payment was 902, and for it, 507.
The majority report then was adopted.

[From the Congressional Record, April 9, 1932]

Mr. BULWINKLE. Mr. Chairman, I move to strike out the last word, and I ask unanimous consent to revise and extend my remarks, and also to insert some statistics in the Record.

The CHAIRMAN. Is there objection to the request of the gentleman from North Carolina to revise and extend his remarks, and insert certain statistics in the Record?

There was no objection.

Mr. BULWINKLE. Mr. Chairman, frequently I have heard it said by many of my former comrades of the World War that the United States Government did nothing for the service men of the World War. Those who made such a statement as this had evidently not given any thought to the benefits that the service men derived from the Federal Government, on account of their participation as soldiers, sailors, or marines during the greatest war in all history. And it is to correct that idea that I am speaking to the Committee of the Whole House on H. R. 10022, the appropriation bill for the independent bureaus of the Government, and in which bill all appropriations for the veterans are carried for the ensuing year, amounting to approximately $1,000,000,000.

Speaking from my own personal knowledge, I entered Congress for the first time shortly after the conclusion of hostilities, which was the Sixty-seventh Congress. Since that time and before, the United States Government, by laws enacted by the various Congresses, has given compensation for the disabilities incurred by every member of its armed forces furing the war; has given hospitalization, not only to those who were disabled on account of their service in the World War, but to all veterans as well; has allowed compensation benefits to the dependent relatives of those who were disabled in the war; has given disability allowance or pensions to many of those who could not connect their disability with the service, and who suffered from disabilities not caused by their service; permitted each and every man who desired to do so to take war-risk insurance up to the sum of $10,000 at a reasonable price; provided a number of national soldiers' homes for those veterans who desire to spend the remainder of their days in a well-equlpped, well-managed home, surrounded by their comrades; and granted at the request of the service men themselves certificates known as adjusted-service certificates in the form of an insurance policy, which in 1922 and 1923 every veterans' organization in the United States requested, without a single exception. The amount that the service men asked was $1 per day for domestic service and $1.25 per day for foreign service. All veterans' organizations at the time of the passage of the adjusted-service certificate law said that they did not want the bonus in cash, but they wanted it in the form of an insurance certificate, payable 20 years after date, and approximately two and one-half times greater than the amount of the service paid, if it had been paid in cash. And notwithstanding the agreement that was made by the veterans' organizations with the Government of the United States, asking that this bonus be paid 20 years after date in the form of an insurance policy for the protection of their families, Congress at the request of the service men has already permitted loans up to 50 per cent of the full value of the certificate, the value of which would have been the amount due in the year 1945 and later.

No country on the face of the earth, in all history, has ever given as much in compensations, pensions, disability allowance, hospital treatment, and other benefits as has our Republic, the United States Government, to its former soldiers. I think it entirely proper to give this House the statistics showing the amount that has been expended by the United States Government for compensation to the disabled veteran and his dependents for disability allowance, for Spanish-American War pensions, for hospitalization and medical services, and for other benefits that the veterans have received.

Mr. SNELL. Mr. Chairman, will the gentleman yield?

Mr. BULWINKLE. I yield.

Mr. SNELL. Is it not also the fact that we have done more than all of the other nations combined have done?

Mr. BULWINKLE. May I not tell the gentleman from New York that I will come to that just a little later?

[Here the gavel fell.]

Mr. BULWINKLE. Mr. Chairman, I ask unanimous consent to be given five additional minutes.

The CHAIRMAN. Is there objection?

There was no objection.

Mr. BULWINKLE. The English Government, with all of its men, in the four years of service, with all the death and destruction which followed in the wake of it, has paid in cash only three-quarters of the amount paid by the United States Government to this day.

Mr. KETCHAM. Will the gentleman yield?

Mr. BULWINKLE. Certainly.

Mr. KETCHAM. How does the number of men enlisted compare?

Mr. BULWINKLE. The English Government had a far greater number of men.

Mr. DYER. Will the gentleman yield?

Mr. BULWINKLE. I would be glad to.

Mr. DYER. In view of what the gentleman has said and what I know he is going to say, speaking as a Member of Congress and also as a World War veteran, is there any justification for the demand upon Congress at this time for the cashing or paying of the adjusted-service certificates?

Mr. BULWINKLE. May I say in reply to the gentleman from Missouri that I do not at this time care to enter into a discussion of the bonus question one way or the other. I only intended to bring to the attention of this House and to the former service men the amount which I shall show has been expended by the Government for all compensation, allowances, hospitalization and medical service, administration costs, and all other expenditures.

From the year 1918 to the 1st day of January, 1932, the United States Government has expended for compensation, which is a pension granted to the veteran or his dependents for disabilities or death incurred in the service by the veteran, the sum of $1,940,252,074.14. And for each year from 1918 to 1932 there was expended by years the following amounts:

Fiscal year:	
1918	$282, 367. 21
1919	9, 360, 278. 69
1920	100, 347, 443. 45
1921	118, 612, 780. 87
1922	120, 663, 462. 30
1923	125, 275, 404. 76
1924	115, 418, 883. 09
1925	129, 474, 616. 81
1926	164, 380, 505. 88
1927	173, 475, 773. 57
1928	181, 799, 665. 82
1929	184, 215, 946. 87
1930	188, 030, 643. 61
1931	213, 423, 164. 91
1932 (6 months)	115, 491, 136. 30
Total	1, 940, 252, 074. 14

The payment to a soldier of an allowance for a disability not incurred in or aggravated by his service in the World War was authorized by Congress by act of July 3, 1930. During the time that this law has been in force, up to the 31st day of September, 1931, the Government has expended approximately $65,000,000 for this disability allowance or pension purpose.

While I have not the figures to show what was expended by the Government for medical and hospital services from the armistice to the 1st day of July, 1920, the amount expended for all medical services and for all hospitalization of veterans to the 1st day of last July amounted to $420,011,705.26, and to this amount can well be added an additional $45,000,000, making a total of over $465,000,000 up to the 1st day of last July. For each year, from 1921 up to and including 1931, the amounts expended each year are:

Fiscal year:	
1921	$45, 277, 864. 62
1922	68, 970, 568. 42
1923	51, 447, 864. 63
1924	29, 618, 747. 28
1925	33, 033, 371. 64
1926	31, 197, 947. 20
1927	31, 554, 979. 20
1928	30, 166, 865. 68
1929	29, 808, 711. 18
1930	32, 185, 206. 37
1931	36, 749, 579. 04
Total	429, 011, 705. 26

[Here the gavel fell.]

Mr. DOUGHTON. Mr. Chairman, I ask unanimous consent that my colleague may proceed for 10 additional minutes.

The CHAIRMAN. Is there objection?

There was no objection.

Mr. BULWINKLE. The Members of the House may be interested in knowing the number of cases that have been in the hospitals from 1920 to 1931, as well as the number of service-connected cases, and also the number of nonservice-connected cases and the total of both.

Admissions

Fiscal year	Service connected	Nonservice connected	Total
1920	43, 233		43, 233
1921	91, 440		91, 440
1922	134, 354		134, 354
1923	82, 597	217	82, 814
1924	63, 624	429	64, 053
1925	63, 569	13, 243	76, 812
1926	45, 255	24, 186	69, 441
1927	36, 581	35, 386	71, 967
1928	27, 439	45, 831	73, 270
1929	26, 296	56, 892	83, 188
1930	26, 298	65, 817	92, 115
1931	24, 618	85, 031	109, 649
Total	665, 304	327, 032	992, 336

The membership in the House will realize that from these figures that a total of 992,336 service men during this period of time has been to the hospital for treatment as patients. The Administrator of Veterans' Affairs, at my request, has given me the estimated hospital and domiciliary loads for the future, which are the number of beds estimated for the future.

Year	Hospital	Domiciliary
1935	45, 628	28, 481
1940	47, 710	38, 070
1945	52, 491	51, 801
1950	59, 661	61, 018

The total amount expended by the United States Government for all these purposes, including all administrative expenses, salaries, and wages, since the fiscal year 1920, will be approximately $7,500,000,000. And this does not include some of the expenditures made prior to 1920 for vocational training, for hospitalization, and for other benefits, which the veterans receive; and while I have not the complete figures at this time, yet I might safely say that the entire benefits for all purposes, which the veterans of the World War have received, would amount to close to $8,000,000,000.

From the time of the passage of the adjusted service certificate law or the bonus, up to January 31, 1932, the sum of $122,899,674.70 was disbursed by the Government on those adjusted-service certificates, which matured by reason of the death of the veteran. And the amount to be expended in payment of the remaining certificates in force on January 4, 1932, is $3,513,175,863.30. Under the provisions of the act of Congress, loans were made by the Veterans' Administration to the veterans on their certificates, amounting to $1,233,859,223.36. This, of course, is up until the 1st day of February.

During the fiscal year 1931, $102,256,497.96 was disbursed for pensions to veterans and dependents of veterans of the war with Spain. The total amount disbursed to December 31, 1931, for the above purposes was $628,987,326.63. The future expenditures for pensions to veterans of the war with Spain has not been estimated.

Several bills have been introduced in Congress, and I myself introduced one for the dependent widows and orphans of deceased veterans. This is part of the American Legion program, and the Congress should at this session give serious consideration to the passage of a widows and orphans bill. As I have stated, this is one of the major objectives of the American Legion on its legislative program. And may I not say here that during the past few months the American Legion, under the leadership of Henry L. Stevens, of North Carolina, has performed a most remarkable service for the country. Since the 15th day of February the American Legion, through its organization for employment service under the direction of Mark McKee, of Michigan, has placed approximately 400,000 unemployed in positions. [Applause.] This, of itself, speaks well for the Legion and its program, and the gratitude of the Nation will eventually be given to Henry Stevens and his coworkers, who have so unselfishly given of their time to relieve the unemployment situation in America.

I have brought these matters to the attention of the House for its consideration, and also to the attention of the country, that the people of this Nation may know that the United States Government, through its Congress, has never been niggardly or miserly in its expenditures for the benefit of the veterans of the various wars. And I believe that it has been said that all pensions from the time of the Revolution in 1776, and all benefits which the veterans of all wars have received, would amount to well over $15,000,000,000. This figure may not be accurate, but I venture to say that it is fairly so, and reiterating what I have just said, especially do I want this convention of men who were patriotic in the days of 1917 and 1918 to realize that this Government has been extremely liberal, and that each and every one of us has a duty to perform to this Nation as great, if not greater, in time of peace than that which we performed during the war. [Applause.]

VETERANS' PREFERENCE

Public No. 32. Service in time of war accepted for homestead residence requirements. (40 Stat. 248, July 28, 1917.)

Public No. 36. Time extended for expenditures by desert-land entrymen while serving in the World War. (40 Stat. 250, August 7, 1917).

Public No. 71. Affidavits of homestead entrymen in service may be made before officer of armed forces. (40 Stat. 391, October 6, 1917.)

Public No. 325. Authorizing preference to veterans in appointments in Government service. (40 Stat. 1203, March 3, 1919.)

Public No. 52. Homestead entrymen allowed absence for vocational rehabilitation. (41 Stat. 288, September 29, 1919.)

Public No. 29. Discharged soldiers of World War given preference right of entry before general opening of homestead lands. (41 Stat. 434, February 14, 1920.)

Public No. 254. Amending immigration laws to permit admission of illiterates who married members of armed forces during the World War (act expired June 5, 1926). (41 Stat. 931, June 5, 1920.)

Public No. 337. Credit preference for veterans in Postal Service. (41 Stat. 1160, March 1, 1921.)

Public No. 351. Homestead settlers serving in World War, physically unable to complete entry, may receive patent, etc. (41 Stat. 1202, March 1, 1921.)

Public No. 366. Patent rights of priority to inventors while serving abroad. (41 Stat. 1314, March 3, 1921.)

Public No. 111. Authorizing the issuance of patents to certain desert land claimants injured in the World War. (42 Stat. 348, December 15, 1921.)

Public Resolution No. 36. Discharged soldiers of the World War given preferred right of entry for a period of not less than 90 days before general opening of public lands. This act to continue for a period of 10 years. (42 Stat. 358, January 21, 1922.)

Public No. 187. Homestead entry preference extended to all World War veterans receiving disability compensation. Absence allowed those furnished disability treatment after discharge. (42 Stat. 491, April 8, 1922.)

Public No. 188. Homestead and desert land entrymen who received physical disability in World War and are physically unable to complete entry may receive patent. (42 Stat. 492, April 7, 1922.)

Public No. 319. Allowing credit for husband's military service in case of homestead entries by widows. (42 Stat. 990, September 21, 1922.)

Public Resolution No. 79. Homestead preferences and entry preferences extended to citizens serving with Allies in the World War. (42 Stat. 1067, December 28, 1922.)

Public No. 294. An act to extend naturalization privileges to alien veterans of the World War. (44 Stat. 654, May 26, 1926.)

Public No. 485. Preferential passage rates by Shipping Board to alien World War veterans. (44 Stat. 837, July 3, 1926.)

Public No. 623. Extension of term of patent inventor in World War. May 31, 1928. (45 Stat. 1012–1014.)

Executive Order No. 3567. Giving preference to honorably discharged soldiers and sailors whose ratings are good in selecting employees for retention. (October 24, 1921.)

Executive Order No. 3801. Exempting from physical requirements a disabled honorably discharged soldier, sailor, or marine upon proper certification that he is otherwise qualified, and waiving such requirements in case of a disabled veteran not so trained to permit his examination. Also giving preference to veterans honorably discharged, widows of such, and wives of injured soldiers, sailors, and marines of 5 points in civil-service examinations and 10 points to disabled veterans. Eligibles who have been granted military preference shall be certified without regard to apportionment. (March 3, 1923.) No employee entitled to military preference in appointment shall be discharged or dropped or reduced in rank or salary if his record is good.

Executive Order No. 4031. Revoking time limitation for reinstatement of person honorably released from service. (June 19, 1924.)

Executive Order No. 4240. Prescribing rules to govern the selection of employees for demotion or separation from service, thereby giving preference to honorably discharged soldiers, sailors, and marines, and the widows of such, and the wives of injured soldiers, sailors, and marines if an efficiency rating of not less than 80 is attained. (June 4, 1925.)

Executive Order No. ——. Giving certain preferences to disabled veterans, their wives and widows on the appointment register. (March 2, 1929.)

Executive Order No. 5396. Special leaves of absence to disabled veterans. (July 17, 1930.)

Mr. Hawley. Mr. Chairman, the committee invited Mr. Owen D. Young to be present, but he writes that he is unable to attend and I submit for the record this statement from him.

Mr. Rainey (presiding). It will be printed in the record.

(The statement above referred to is as follows:)

New York, *April 18, 1932.*

Hon. Charles R. Crisp,
House of Representatives, Washington, D. C.

Dear Mr. Congressman: On my return to the office to-day, I have seen your telegram to Mr. Young of April 16 which was acknowledged by his secretary in his absence. I want to explain a little more fully his situation this week.

Mr. Young must be at Schenectady to-morrow and Wednesday because of the annual meeting of the stockholders and subsequent meetings of the organization. Returning here Thursday morning, he has on that day a meeting of the directors of the Federal reserve bank, and on Friday he must preside at the meeting of the General Electric board.

In view of this succession of meetings which Mr. Young is obliged to attend, and since his views regarding the immediate cash payment of the adjusted-compensation certificates have already been expressed in his reply to Congressman Patman's inquiry, Mr. Young would, I know, appreciate it if he might be excused. You have doubtless seen his message to Congressman Patman, but for your information I am attaching a copy.

Respectfully yours,

EVERETT CASE,
Assistant to Mr. Young.

NEW YORK, *April 11, 1932.*

Hon. WRIGHT PATMAN,
House of Representatives, Washington, D. C.:

Replying to your telegram of to-day my answer is first, sympathetic as I have always been toward prepayment of adjusted-service certificates to meet the needs of veterans, I believe now that it is impossible to increase the Budget of the United States by $2,000,000,000 to meet such payment and that an attempt to do so would be injurious to the general welfare; second, while I believe that an increase in our money volume, which includes bank credit as well as currency, is essential to increase our commodity prices and therefore highly desirable. I do not think that the printing of money and the distribution of it in payment of service certificates is the sound and helpful way to increase our money volume.

OWEN D. YOUNG.

Mr. RAINEY (presiding). Now we will hear from Congressman Simmons of Nebraska.

STATEMENT OF HON. ROBERT G. SIMMONS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mr. SIMMONS. Mr. Chairman, between all of the other things that have been going on in the last few weeks, I have at different times jotted down two or three different observations regarding this bill, which I would like to present to the committee, being perfectly willing to be interrupted at any time if my statements call for further explanation. First, I wish to recommend to the committee an amendment to the existing law based upon the proposition that the obligation of the Government accrued when the law was passed authorizing the issuance of adjusted compensation certificates and not when the certificate was issued. Loan privileges should therefore be based not on the date of issue of the certificate, but on the date of the passage of the law authorizing the issuance. The present law requires that the holder can not borrow on a certificate until it has been outstanding two years. This is a discrimination against the man who applied during the last two years and it should be repealed and the law amended so that all of the certificate holders should have the same loan rights. I have introduced a bill and Congressman Johnson has introduced a companion bill that does that—they have been referred to this committee—and I recommend, no matter what you do regarding the Patman bill, that that sort of provision be reported out.

The adjusted-compensation certificates are in the nature of paid-up insurance policies. The war-risk insurance policies have a clause providing for payment upon the beneficiary becoming totally and permanently disabled. Many old-time policies have similar clauses. I suggest to the committee that the law be amended to provide that when the holder of an adjusted-compensation certificate becomes totally and permanently disabled, the policy will then mature and payment be had upon it.

The cause and necessities of the service men should not be the vehicle of putting through Congress a bill to inflate the currency. If Congress is going to pass a bill to inflate the currency it should do it openly and by a bill from the Committee on Banking and Currency. The subject of inflation could then be considered on its merits, free from the influences both for and against the service men and the bonus. Inflation should be considered on its merits and not as a part of this bill. The service men should not be required to carry that burden.

It has been proposed that we pass the Patman bill and pay the cost thereof with a tax on beer. There again, I feel an attempt is being made to use the cause of the service men as a vehicle for putting through Congress a proposal that should be considered exclusively on its merits. Assume that we were to pay these certificates by a tax of 3 cents on a pint of beer as the wets advocated in the House the other day. It would mean the consumption of 9,000,000,000 gallons of beer, or a per capita consumption of 72 gallons. Assuming that beer would sell at 15 cents a pint, the American people would be required to spend $11,000,000,000 for beer in order to pay the bonus—a per capita cost of $88 for beer by that plan. So I think that proposal may be dismissed, both on its merits and because it has no part in this controversy.

The question has been discussed here as to whether or not the service men would use this money advantageously. It is my honest belief that the service men would not dissipate these funds if they were paid to them; that the great majority of the men could use these moneys if they were paid to them and that, if Congress passed this law, the men would take the money. But all of that is beside the point. The question is not can the Government pay the money now, not will it be dissipated by the men if paid, not will they take it; the question is—does the Government owe the face value of these certificates to the men now? If the Government does owe the face value of these certificates to the men now, we should undertake to pay it.

In my judgment, the overwhelming majority of the service men do not want money paid to them that the Government does not owe them. They have been repeatedly told that this money is due now. The service men are American citizens; whatever affects them affects the whole body of our citizenship. The service men are not and should not be considered wards of the Government; their prosperity, their well-being, must be considered along with the well-being and best interests of the 120,000,000 people of America who are not World War veterans.

The question, then, for this committee and the Congress to decide is—does the Government owe this money to the men on these certificates. I believe a great majority of the men who have indicated a favorable view on this bill have been led to believe that the Government owes them the face value of the certificates now. I do not believe they would want payment if they knew the money was not a debt now due and I do not believe it can be established that the money is due now on these certificates.

Let us review the history of these certificates. Immediately following the war there was a determined feeling among the service men that there should be some adjustment of the pay of those who were in the armed forces. As members of this committee well know, the validity and the merit of that contention was disputed. As a service man I believe in the merit of the adjusted-compensation request. I fought for it; I ran for Congress my first campaign in 1922 on a pro-bonus platform; I voted for it in the House, and I voted to override the President's veto. I still believe I was right.

As I remember it, six different plans of adjusting the compensation of the men were originally advanced. These included cash, land grants, educational opportunities, insurance, and so forth. The final bill was admittedly a compromise bill. It resulted from the contentions of the pro and anti bonus advocates. The final passage of the bonus act was the settlement of a disputed claim against the Government. Every man who accepted an adjusted-compensation certificate accepted it, both as a matter of law and equity, as a settlement of his claim against the Government. Some of us did not like it, but we took the certificate and, in my judgment, have no right now to go behind that settlement and set it aside. The passage of the act constituted both an admission of the claim on the part of the Government and fixed the terms of the settlement. As I have listened to the proponents of the Patman bill, they insist on the maintenance of the admission of the claim by the Government, but try to reject the terms of the settlement by which that admission was secured. It is fundamental that one can not accept the benefits of a settlement and reject whatever disadvantages went with that settlement. Every argument that has been made before this committee and on the floor of the House in favor of the Patman bill, on the basis that the money is due now, was made when the question of any bonus was up several years ago. It is all beside the question now; those issues were all settled when the act was passed and the certificates issued.

Now, what are the facts about the certificates? The amount of adjusted compensation by the law was $1 a day for home and $1.25 a day for overseas service. Had the compensation been paid in cash, that amount only would have been paid. That was the basis of the certificates. But because the Government was not going to pay those certificates in cash it was increased 25 per cent and then that sum compounded at 4 per cent for 20 years, to arrive at the amount fixed in the certificates as payable in 1945.

Mr. RAGON. Would the gentleman yield right there for a question which is pertinent at this point?

Mr. SIMMONS. Yes; but may I make this statement first: There would be a slight variation there, due to the fact the insurance features were considered in that tabulation; but, in the main, that statement is correct.

Mr. RAGON. I was here at the time the bill passed; but I have forgotten. What was claimed then as just compensation before there was any bill passed or before any certificate plan was adopted? What was the soldiers' claim as just compensation?

Mr. SIMMONS. There were various claims of one kind and another. I do not remember there was any unanimous agreement, because obviously there could not be.

Mr. RAGON. In the process of that legislation, was not there a proposition of payment in cash submitted to the House?

Mr. SIMMONS. There was a proposition of payment in cash; there was a land-grant feature; there was an insurance feature; there was a question of bonds. There was all kinds of discussion in that period of several years between 1919 and 1924.

Mr. RAGON. I was wondering if there was any material difference between the amount finally adopted; that is, a dollar a day for domestic service and a dollar and a quarter a day for foreign service, and any other amount suggested as a cash payment.

Mr. SIMMONS. That I could not answer. There were different contentions on that.

Mr. VINSON. Mr. Chairman, in that connection, may I say the House had no opportunity to vote upon any proposition of paying it in cash. The only bill we had an opportunity to vote upon was one that came in under a suspension of the rules, which is this adjusted-compensation legislation; is not that correct?

Mr. SIMMONS. My recollection on that is in accord with yours. The fact remains, however, that all those various plans were discussed and considered by committees and decided by Congress.

Mr. HILL. You spoke of the 25 per cent being added because it was not paid in cash.

Mr. SIMMONS. Yes, sir.

Mr. HILL. I think the contention has been made here that this 25 per cent was rather compensation for what might be considered accrued interest up to the time of the adjustment, rather than because at that time the debt was not paid in cash.

Mr. SIMMONS. There again you have to go into the mental processes of the different people who advanced the proposal. From my understanding of it, it has always been considered that the 25 per cent was added because the Government at that time was not paying cash. Now, if you want to consider it as interest on five years deferred compensation, well and good; but it was all merged when that was done.

Mr. HADLEY. I would like to state, as far as I am concerned, I was on the committee at that time and my recollection is very distinct that the 25 per cent was added because we were not paying in cash. That was the theory on which the bill was framed.

Mr. SIMMONS. Take the case of a man who has a certificate for $1,000. When the certificate was issued, his adjusted service credit was not $1,000, but $397. Had the decision been to pay him cash, then he would have received not $1,000 but $397. The balance of $603 is made up of the 25 per cent for deferred payment and 4 per cent compound interest for 20 years. It follows, therefore, that the Government does not owe $1,000 on these certificates now, for included in the $1,000 certificate is 13 years, unaccrued interest and thirteen-twentieths of the deferred payment credit. A request for face value payment means payment now of the amount due in 1945 and means payment now of money not now owing to the man by the Government. No service man would want to pay a bill to anyone that he does not owe and, when they know the facts, they will not ask the Government to pay them money which is not due and owing.

I am advised that the present value of the certificate is about 55 cents on the dollar; or that for every dollar represented by the certificate as payable in 1945, 55 cents is now an accrued obligation of the Government; 45 cents is an unaccrued obligation and an unearned obligation. It necessarily follows that if the certificates are to be paid now, the only amount that could equitably be claimed would be 55 per cent of the 1945 value. I believe that to be a fair and just statement. Now I would like to get the particular attention of the committee to this: I would favor the amendment of the existing law so that, whenever any service man desired to surrender his certificate and accept payment, he should be paid its then present value. Then, whenever a man wants what the Government is actually obligated to pay him, whether it be now or at any time between now and 1945, he could get his money. Those who prefer to allow their money to accumulate may do so and also have their insurance protection. Personally, I believe such an amendment of the law would be fair to the men and the Government; but beyond that I do not believe the Congress should go.

Mr. BACHARACH. I want to call attention to the fact there is a difference as between what the Ways and Means Committee thought with reference to the adjusted service compenastion act, and what amount of money is coming to the men. At least I have always taken the view you have taken, that in the law we had established the fact of one single payment and, on the basis of one single payment, 55 per cent would be about correct; it may be around 57 per cent now.

Mr. SIMMONS. It might be slightly over that now.

Mr. BACHARACH. Yes, and the department has always claimed that having taken the policy, assuming you were going to pay in 20 installments, which is the way they had worked out your policy as you will see if you look it over, probably that policy would be worth less than 30 per cent. Is that correct.

General HINES. About.

Mr. BACHARACH. So there is a difference between the two viewpoints and that is the reason 50 per cent was paid last year, and I think at that time what we allowed them to borrow on their certificates was 52 per cent.

Mr. SIMMONS. Slightly over 51 per cent and, as of January 1, this year, slightly under 55 per cent.

Mr. BACHARACH. I just wanted to get that in the record.

Mr. SIMMONS. I am advised that the maturity value of these certificates is approximatdly $3,530,000,000 and that their present value, as of January 1, this year, was $1,880,000,000. That $1,880,000,000 was the Government's obligation as of January 1 last on these certificates; that is what the Government owes now. To pay the 1945 value now would mean not only the payment of the adjusted compensation promised when the act was passed, but the payment, in addition thereto, of $1,650,000,000 over and above every promise that the Government has made.

I do not believe the service men of America will want that money; they ask only for that which the Government has promised them. If the Patman bill should become a law, the holder of a $1,000 certificate would be paid about $550 now accrued thereon; he would be paid, in addition thereto, $450 of unaccrued and unearned interest—$450 more than the Government promised when the certificate was issued. Assume that the holder of a certificate for $1,000 was paid that amount under the Patman plan—he could reinvest that money at 4 per cent and, by allowing it to compound for 13 years, or until 1945, it would then be worth $1,665. That increase of $665 represents what it would cost the Government for the payment of each $1,000 certificate now, over and above the existing obligation. The question of the interest on these loans has been raised. There I do not agree with some of my colleagues who are opposed to this bill. The Government compounded the payments at a certain rate of interest and, in effect, is paying that interest to the service men now. If the service men borrow their money, taking from the Government a part of that on which the Government is computing interest, the interest rate running from the service men to the Government should be the same interest rate as runs from the Government to the service man. That would not be as low a rate of interest as some have advocated before the committee, but I think it would be a fair rate of interest, keeping the matter entirely within the rate of interest paid on the certificates.

Mr. BACHARACH. What would you say—I do not know whether you were here this morning when I propounded the same question to another witness, but assuming a man goes to a bank and borrows at the rate of 6 per cent and the Veterans' Bureau buys up that certificate and still charges the veteran 6 per cent?

Mr. SIMMONS. That, I think, is wrong. Whether he goes direct to the Government or goes through an intermediary bank to the Government, the final interest rate should be the same.

The statement has repeatedly been made in the press that Congress has given $2,000,000,000 to the banks and big business and, therefore, it should give $2,000,000,000 to the service men. We ought to tell the truth about that bill. Service men reading such a statement assume it is true, and it follows that they feel they have been discriminated against. The statement that Congress has given $2,000,000,000 to big business is so patently untrue that it ought not to be necessary to give consideration to it here. Congress authorized the loan of a maximum of $2,000,000,000 to banks, trust companies, insurance companies, Federal land banks, intermediate credit companies, and so forth, including direct loans of $200,000,000 to farmers; but not $1 was given to anyone, and anyone acquainted with that act knows it. That money is only loaned; interest is paid on it and the money will be repaid.

On April 1, 1932, under that authorization, the Reconstruction Finance Corporation had loaned less than $240,000,000 at 5½ per cent interest. Contrast that with the $1,200,000,000 loaned by the Government to the service men on the certificates at 4½ per cent and it becomes quite clear there has been no discrimination against the service men. The Reconstruction Finance Corporation is loaning money on security at 5½ per cent, which will be repaid; the Patman bill pays out money which will never be repaid to the Government. There is no comparison between the two proposals. The only effect of the reference to the Reconstruction Finance Corporation loans in this matter is to create a prejudice in the minds of the service men and to create a lack of confidence in the Government. The service men fought for this Government; they have confidence in it and no one should by a demagogic appeal cause them to question either the fairness or integrity of it.

Coupled with the statement of comparative loans to veterans and through the Reconstruction Finance Corporation is also the statement that last year the United States paid to or spent for the benefit of veterans over $1,000,000,000—a sum greater than the cost of running the Government for a year before the war. Every veteran who has a savings account or who has borrowed money from a bank, or who is protecting his wife and children with a life insurance policy, or a building and loan account, or who has a land bank loan or an intermediate credit loan or, in short, any veteran who has any financial need or responsibility in a community should know that the Reconstruction Finance Corporation is an agency for his protection. I am advised that the main service rendered to date by the Reconstruction Finance Corporation has been to protect savings banks and life insurance companies and that, out of 1,300 bank loans, 90 per cent went to banks in towns under 100,000 population and 76 per cent to banks in towns under 10,000 population. Surely that answers the charge that Wall Street is getting those loans.

At the present time, 852,000 veterans or their dependents are receiving monthly checks from the Government. Only the able-bodied veteran is not. Deny this bill and you ask the able-bodied veteran to remain on a parity with the 120,000,000 nonveteran citizenship of this country; pass it and you single out for special benefits the able-bodied veteran from among our whole people.

I recommend the committee report a bill, first, repealing the clause that requires the certificate to be held for two years before loans can be made on it, and placing all certificates on an equal basis for loan purposes; second, paying the face value of the certificate to those holders who are totally and permanently disabled; third, providing for the payment of the present value to any certificate holder who wishes to surrender it at any time between now and 1945; and, fourth, rejection of the Patman bill.

Mr. HILL. What was your last recommendation?

Mr. SIMMONS. That the law be so changed that any certificate holder could present it to the Veterans' Bureau at any time he saw fit between now and 1945 and receive its then present value; so that, we could end this constantly recurring question about the certificates; if I wanted to cash my certificate I could take it down at any time, get whatever it was then worth and the Government owed on it at that time; or, if the gentleman from Mississippi (Mr. Rankin) desired to hold his until 1945, he could hold it until 1945 and secure his money at that time compounded at 4 per cent interest, and have his insurance protection in addition to it.

Mr. DICKINSON. What do you think about the proposition of loaning to the ex-veterans, ex-service men, who obtained their certificates comparatively recently and are now not being allowed to have a loan because the two years has not run?

Mr. SIMMONS. I fear I did not make myself clear, because that was the first statement I proposed. I am favorable to it; I think it should be done.

Mr. DICKINSON. Is that included in your bill?

Mr. SIMMONS. Yes, sir. In my judgment, Mr. Dickinson, the obligation of the Government accrues not when the man asks for his certificate, but when the law was passed authorizing the issuance of the certificates and, if I have not applied until a later date, I ought to have the same loan rights from the Government on my certificate as the veteran who applied when the act became a law.

Mr. DICKINSON. The law is now being construed against that.

Mr. SIMMONS. I understand there is a specific provision of law which prohibits loaning on it until the certificate is two years old. I think that restriction ought to be removed.

Mr. DICKINSON. I think you are probably right on that.

Mr. SIMMONS. Yes, sir.

Mr. VINSON. In regard to the cashing in the certificates by a veteran who has not heretofore secured a loan on it, what would be its percentage of value?

Mr. SIMMONS. It is my understanding—and this is purely more or less informal information I have gotten at different times in talking with men of the bureau—that as of December 31, 1931, the certificates had a value of slightly under 55 per cent, which is arrived at by the process of taking one-twentieth for each year of the 25 per cent increase and compounding the balance, taking into consideration the insurance feature. But those tables are all worked out.

Mr. VINSON. That percentage must be reached keeping in mind the 50 per cent loan value statute?

Mr. SIMMONS. Yes, sir. At the time the 50 per cent loan feature was passed, the certificates, according to my understanding, had a value of between 51 and 52 per cent. In other words, when that act was passed Congress authorized the men to secure practically everything from their certificates that the Government owed on them at at that time.

Mr. VINSON. What was your position in regard to that 50 per cent loan act?

Mr. SIMMONS. I voted for it.

Mr. VINSON. Did you have any doubt or hesitancy at that time about going behind the contract made by the Congress with the veterans?

Mr. SIMMONS. No, sir; because at that time the Government had the obligation accrued but not then payable in that amount, and what Congress did in that loan act was to authorize the men to secure from the Government that which the Government then owed them on the certificates but which, under the terms of the law, was not then payable. The obligation of the Government was not increased by that amendment. This Patman proposal increases the obligation of the Government.

Mr. VINSON. I do not recall the exact percentage value—but I see gentlemen from the Veterans' Bureau here who can correct me—but my recollection was that at the time the 50 per cent loan bill was before Congress its value was a much smaller percentage than 50 per cent.

Mr. SIMMONS. My recollection is that Fletcher Hale, then a Member of Congress, since deceased, and I had two minutes between us for debate on that bill and he gave me those figures and I used the two minutes on the floor of the House in favor of that bill, and the figures showed the then value of the certificate was a little better than 51 per cent.

Mr. MCCORMACK. Do you know what adjusted compensation any of the other governments have paid their ex-service men?

Mr. SIMMONS. I do not know, except the statement has repeatedly been made and, so far as I know, I think correctly, that the United

States Government has been more liberal than any other Government in the world.

Mr. McCormack. I thought that statement was with reference to all of our legislation, but I never heard that statement made confining it primarily to adjusted compensation.

Mr. Simmons. That is a question I can not answer and I think it is really beside the question here now.

Mr. McCormack. That may be so, but some people may think differently about that.

Mr. Simmons. A fine thing about being American citizens is we can all think as we please.

Mr. McCormack. On the $1,200,000,000 loaned by the Government, how much of that, do you know, Congressman, is the result of a direct appropriation by the Government?

Mr. Simmons. That I can not give you, sir—a comparatively small part of it.

Mr. McCormack. Most of that comes from moneys that have been paid in to the Government by the veterans and from the sinking fund of $112,000,000 each year appropriated by the Government.

Mr. Simmons. It is my understanding that a large part of the initial loans was made from the sinking fund that had been set aside to retire these certificates in 1945; another part of it may be from funds in the hands of the Veterans' Administration. At the present time it comes from direct Treasury appropriations.

Mr. McCormack. Have you any opinion as to whether or not present conditions warrant—and by the use of "present conditions" and the use of the word "warrant," I mean also the gold reserve warrants—a reasonable expansion of the currency?

Mr. Simmons. The gentleman honors me by asking that question. I do not think anything I could say to the committee would add a great deal to the sum total of the committees' knowledge on that subject.

Mr. McCormack. Of course that would be pertinent to this inquiry.

Mr. Simmons. From my way of viewing it, it makes that a secondary question; in my judgment, if the Government owes this money now to these men, we ought to find some way to meet that obligation. My position is the Government does not owe it now.

Mr. McCormack. The interest started in 1925, did it not?

Mr. Simmons. When the certificates issued; yes, sir.

Mr. McCormack. It was for a debt contracted during the war?

Mr. Simmons. A disputed claim. Those of us who advocated it, considered it a debt.

Mr. McCormack. Do you concede now it was a debt?

Mr. Simmons. Personally, I felt that way about it then and feel that way now, but there were those who had the opposite view.

Mr. McCormack. The debt was contracted during the war, and the certificates were issued for a debt contracted during the war?

Mr. Simmons. Yes, sir.

Mr. McCormack. Then why should not the interest start from the time the debt was contracted?

Mr. Simmons. The gentleman is too good a lawyer, I think, to ask that question.

Mr. McCormack. You honor me.

Mr. SIMMONS. To make clear what I tried to say in my written statement, and possibly by talking we could better understand it, it is this: Some of us felt, as I did, that there should be an adjustment of the compensation to the men who served. I felt that then; I believe it now. There were those who disputed that claim from perfectly natural, proper, and legitimate reasoning. Now out of all of the controversy that lasted between 1919 and 1924, out of the various proposals of one kind and another, came a compromise settlement of that claim that resulted in the issuance of these certificates and, as a proposition of law and a matter of right, I do not believe we should attempt now to go behind that settlement and take advantage of the admission that was made by Congress on the ground that the Government owed the money, and then deny the obligations behind that settlement.

Mr. McCORMACK. Did not we go behind it in order to put through the loan bill?

Mr. SIMMONS. You mean the 50 per cent loan feature?

Mr. McCORMACK. Yes.

Mr. SIMMONS. I did not consider it so; if we did, we went beyond the terms of settlement in liberalizing the time of payment but we did not increase the Government's obligation as the Patman bill does.

Mr. McCORMACK. Have you any general opinion, without regard to the payment of the compensation certificates, as to whether or not present conditions warrant a reasonable expansion of the currency, eliminating the fact it is coupled with the payment of the compensation certificates?

Mr. SIMMONS. Let me repeat again the thing I said in the beginning, that if Congress is going to undertake an inflation of the currency or, to use your expression, an expansion of the currency, we ought to consider that problem on its merits. It ought to come from the proper committee of the House that has jurisdiction of that type of legislation and we ought to act on that without having involved in it the question of whether people are for or against cashing in these certificates, or the friendly feeling that the country feels toward its service men or that some people have against them.

Mr. McCORMACK. My question was have you any opinion on that?

Mr. SIMMONS. On the question of the expansion of the currency?

Mr. McCORMACK. Yes; or whether or not present conditions warrant and our gold reserve would justify a reasonable expansion of the currency. What is your personal opinion?

Mr. SIMMONS. That, as I said in the beginning and say now in my opinion is entirely beside the point, and I do not care to discuss it. If Congress is going to pass inflation legislation, let us pass it on its own merits and not as a question that is given either an impetus or has opposition that comes from the fact you tie it on to the claim of the service men.

Mr. VINSON. I want to ask a question as a matter of correction here. As I understood you, Mr. Simmons, you stated that at the time of the passage of the 50 per cent loan act you figured the amount due to the veteran was 51 or 52 per cent?

Mr. SIMMONS. Something like that; I have forgotten what the exact figure was.

Mr. VINSON. That computation was made upon the idea you had a 1-payment premium policy of insurance?

Mr. SIMMONS. Well that is what it is.

Mr. VINSON. Well, now, as a matter of fact, the printed certificate, the bonus certificate that was delivered to each man applying for it, has printed on that certificate a loan value each year, does it not?

Mr. SIMMONS. That is my recollection of what it is; yes, sir.

Mr. VINSON. Now under the law that existed at the time the bonus certificates were issued, and before the law was amended under the 50 per cent loan amendment, I will ask you to state if it is not a fact that at the time the 50 per cent loan amendment was before Congress the actual loan value upon those certificates was not but 22½ per cent?

Mr. SIMMONS. That is probably correct, but you are talking about one thing, the loan value fixed in the original certificates, and I am talking about the amount of the Government's present obligation on the certificates.

Mr. VINSON. Yes, but I was asking you how it was you went behind the contract in the 50 per cent loan proposition, changed that contract when it only called for 22½ per cent, and now hesitate to make an amendment to that law?

Mr. SIMMONS. I will state again, if I may be permitted to do so, that when we passed that bill last year my understanding then, and it is my understanding now, was that the obligation of the Government accrued at that time, but not then payable, was 51 to 52 per cent.

Mr. VINSON. That is in direct conflict with the printed contract.

Mr. SIMMONS. No. You are talking about the loan feature and I am talking about the obligation accrued by the Government was 51 to 52 per cent, just as I am told the accrued obligation now in total is 55 cents on the dollar. Now all we did last year was to enable those men to borrow that which the Government owed them at that time. We did not increase the Government's obligation as the Patman bill does.

Mr. VINSON. And you amended the law to do it.

Mr. SIMMONS. Yes, sir; and now I am suggesting to the committee that you amend that law to pay the accrued obligation on these certificates at any time. My objection to the Patman bill is to the payment of the money not now due and which, in the very nature of things, can not be due in all parts until 1945.

Mr. HILL. This certificate is in effect an insurance policy?

Mr. SIMMONS. It is so considered; yes, sir.

Mr. HILL. If a veteran holding one of those certificates should die, his estate collects the face value of the certificate?

Mr. SIMMONS. The face value of the certificate; yes, sir.

Mr. HILL. In calculating the present cash-surrender value under your recommendation, do you deduct anything for insurance protection?

Mr. SIMMONS. That is involved in it, yes, sir. I think that finally has to be considered. I did not discuss it, because in the total of the certificate it is relatively small; but that was entered into, Mr. Hill, at the time the certificates were issued and should be considered in computing the present value if my proposal is accepted.

(The committee thereupon adjourned until to-morrow, Wednesday, April 20, 1932, at 10 o'clock, a. m.)

PAYMENT OF ADJUSTED-COMPENSATION CERTIFICATES

WEDNESDAY, APRIL 20, 1932

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D. C.

The committee met at 10 o'clock a. m., Hon Charles R. Crisp (the acting chairman) presiding.

The ACTING CHAIRMAN. The committee will please come to order.

Owing to the death of Senator Harris, the Senate having arranged for a State funeral and invited the House to attend the services, which invitation the House has accepted, it will be necessary for me at least to leave here about 10.40 this morning. I have conferred with some of my colleagues on the committee and they feel, inasmuch as the House has accepted that invitation, the committee should adjourn at 10.40. The House meets at 10.50 and it will take a few minutes to go over. If there is no objection, we will adjourn this morning the session at 10.40.

Mr. HAWLEY. Mr. Chairman, there are a number of out-of-town witnesses who will be greatly inconvenienced if they have to remain over. I move, therefore, that the committee resume its session this afternoon at 2 o'clock.

Mr. VINSON. May I ask what business the House is taking up this afternoon?

The ACTING CHAIRMAN. I may state that under a resolution I offered yesterday, the House will immediately adjourn upon reassembling after the funeral. I did not ask that the House adjourn yesterday because of the death of Senator Harris, because I did not want to ask that the public business go over for two days. The House yesterday resumed its work and the resolution adopted provided that upon reassembling after attending the state funeral, as a further mark of respect, the House would adjourn.

Mr. BACHARACH. Mr. Chairman, may I make an inquiry of my colleague, Mr. Hawley? Looking over the calendar, I do not see any particular need to meet this afternoon.

Mr. HAWLEY. I may say that two gentlemen were at the desk a few moments ago asking to be heard to-day.

The ACTING CHAIRMAN. There is a Captain Durham and a Colonel Castle of New York who said they had been advised they would go on to-day and that it would greatly inconvenience them if they had to stay over.

General HINES. Mr. Chairman, if it would be a convenience to the committee and to these gentlemen, I would be glad to give way and have them make their statements now. I can present my testimony at the convenience of the committee.

Mr. BACHARACH. I think that would be a better way of handling this situation.

The Acting Chairman. If it is agreeable to the committee, I will accept the generous offer made by General Hines.

Mr. Hawley. In view of that suggestion, I will withdraw my proposal.

Mr. Chindblom. Mr. Chairman, may we ascertain just which gentlemen are here who must be heard this morning, so that the time may be divided between them?

The Acting Chairman. Colonel Castle and Mr. Durham. I will call Colonel Castle first.

STATEMENT OF COL. B. F. CASTLE, NEW YORK CITY, REPRESENTING THE VETERANS' COMMITTEE TO REDUCE COST OF PEACE

The Acting Chairman. Colonel Castle, you heard the statement I made to the committee. The committee will adjourn at 10.40. We are trying to accommodate you and Captain Durham and will you please, therefore, regulate the time accordingly between you?

Mr. Castle. Mr. Chairman and members of the committee, I want to express my deep appreciation of your courtesy in permitting me to appear to express as an individual veteran my opposition to the so-called Patman bill or to any other bill which provides for payment at this time of cash of the face value of the adjusted-service certificates, otherwise known as bonus certificates.

I would like to make it clear, gentlemen, that I am appearing here first as an individual veteran who has always believed as a matter of principle that military service was an inherent obligation of an able-bodied citizen within the statutory ages, and who has always felt that one who had the privilege of serving and who came through without any bodily wound or impairment of the faculties of any kind was indeed a very fortunate person; and that any principle which is set up as a part of the national economy or the national policy which invalidates a principle of that sort is indeed inherently unsound and dangerous and to my mind represents the very antithesis of democracy.

In other words, my own idea of democracy is that all citizens must serve in the time of a national emergency according to their respective abilities and according to the way they have been thrown into this service or that; and that to set up a class apart is quite contrary to the fundamental principle of democracy.

I believe we are steadily tending toward setting apart the able-bodied veteran as a preferred class and I personally as a veteran, and again I revert to the fact that I am speaking now for my own individual rights, resent the appearance before this committee or any other committee of the Government of a group of men or one man representing we will say 150,000 veterans of foreign wars, who says to you gentlemen, "We represent 4,000,000 veterans who want this cash bonus."

I appear before you to say, gentlemen, I do not want it. I do not believe in it. And I have very good reason to believe that the Veterans of Foreign Wars or any other organized body which has not got a 4,000,000 membership does not represent 4,000,000 ex-service men.

Mr. Vinson. Will the gentleman yield?

The Acting CHAIRMAN. Colonel Castle, under the rules of the committee you have the right to complete your statement without interruptions from the committee or have the privilege of yielding. Congressman Vinson desires to ask you a question. Are you willing to yield?

Mr. CASTLE. Yes, sir.

Mr. VINSON. Do you represent any organization?

Mr. CASTLE. I represent a committee of ex-service men, a few ex-service men. We are one of three or four committees.

Mr. VINSON. What organization do you represent?

Mr. CASTLE. For lack of a better name, we have called ourselves the veterans' committee for reducing the cost of peace.

Mr. VINSON. Have you any connection with the ex-service men's Antibonus League?

Mr. CASTLE. No, sir.

Mr. VINSON. You say you are representing a committee. Why do you resent the activities of men representing other committees or other organizations?

Mr. CASTLE. In this respect, sir. I understand from good authority that it has been represented that some of these organizations have stated that they represent 4,000,000 ex-service men and I say they do not represent me. They may represent 3,999,000.

Mr. VINSON. You represent your committee, do you not?

Mr. CASTLE. Yes, sir.

Mr. VINSON. That is all.

Mr. CASTLE. I believe there is a great body of unorganized veterans in the United States who, for one reason or another, have not organized themselves into a strong legislation-seeking body who, if they could be heard, would in no uncertain terms tell you gentlemen that they do not favor legislation of this kind.

It goes without saying that they and you and all the citizens are in favor of doing the utmost for any man who has been disabled or for his dependents. We can set that aside. But I am trying to talk to the point of able-bodied veterans.

As the time is limited and as I learned the day before yesterday or two or three days ago that I was going to have the privilege of appearing before you, I telegraphed to a few veterans out in St. Louis and Kansas City, asking them to wire me their opinion on this subject. I may say that these men who have wired me I regard as intelligent men and very conscientious men; and nearly all of them are men who have been regarded as hard workers in the Legion. If you will permit me, I will just read a couple of these telegrams to give you an idea of their contents.

This one is from St. Louis and is signed by Daniel Bartlett. He says:

> Oppose cash payment adjusted compensation certificates this time. Every dollar Government can spare for veterans' relief should be paid disabled veterans, their dependents, and widows and orphans. Every dollar paid able-bodied veterans now will be taken from those under war-caused handicap who need it. Writer was artillery lieutenant, Eighty-ninth Division, and chairman Legion commanders conference St. Louis.
>
> DANIEL BARTLETT.

That is dated yesterday, St. Louis.

Here is one from Kansas City signed by Robert W. Reed.

As past commander Irwin Kirkwood Post American Legion I am opposed to bonus payment at this time. Many others here join with me in this stand. Wiring Taylor—

I suppose he refers to Col. John Thomas Taylor—

calling attention to fact Legion of sixteenth Missouri district, mostly rural, indorse national commander's stand in meeting this week. Best wishes in splendid fight. Durham's book fine.

ROBERT W. REED.

That is from Kansas City, Mo., and dated April 20.

Here is one signed by A. B. Wyer, Kansas City.

I am at present commander largest Legion post in Kansas City. Personally am opposed to Congress passing any laws that will permit the unpaid balance of adjusted compensation certificates to be paid at this time.

A. B. WYER.

APRIL 19.

Here is one signed by George Fisk, from Kansas City:

Expressing my personal opinion only, I sincerely hope Congress during this session will fail to pass any legislation to permit the balance of the adjusted-compensation certificates to be paid. I am a past post commander.

GEORGE FISK.

Another from St. Louis, signed by Col. J. W. Skelly:

I regard the proposed payment in full of soldiers' bonus as a mistake both for the ultimate welfare of the soldier and the earlier recovery of prosperity.

This one is from St. Louis, signed by L. V. Freeman, chairman. I do not know of what he is the chairman.

American Legion executive committee, St. Louis County, consisting of delegates of all posts of county, moved no action be taken by them advocating immediate payment of adjusted compensation certificates but that elimination of interest on present loans be advocated.

This is a telegram signed by Ralph B. Innis, from Kansas City.

As an active legionnaire since armistice, with 15 months overseas service and present chairman of the city central executive committee of the Legion in Kansas City, it is my personal opinion that it would be a catastrophe for Congress to vote the payment of the balance of the adjusted compensation certificate at this time. Would suggest as a compromise that would in my opinion satisfy that Congress waive the interest and make it possible for all service men having adjusted service certificates to borrow thereon irrespective of time held.

RALPH B. INNIS.

Here is a telegram signed by William G. Wall, of Indianapolis, Ind., which I received today:

Payment now of adjusted service certificates will greatly retard country's economic recovery. Legionnaires insisting on this make great mistake. War service major, later lieutenant colonel, in France; also with British and French Armies.

WILLIAM G. WALL.

None of those gentlemen are personal friends of mine. I have met them, and I was very much impressed with their sincerity, and so far as I know they have been distinguished by their unselfish work for wounded veterans.

I thought that their expressions would interest you. The telegrams were in reply to my telegram asking for such an expression, but not indicating its character. In other words, I did not ask them to oppose this proposal. I asked them to wire what their opinion was.

I have been asked about this committee. We are unorganized, so to speak. We have not any background except that of having been in the service and except of having a common conviction that this thing is fundamentally wrong. We have not a great amount of membership dues to spend on propaganda. We have not been able, therefore, to have men in the Government go to the Middle West and make speeches and be splashed around on the front pages of the papers. But we are very sincere, and we feel that our position is a little bit strong, because we have not any ax to grind. We are trying to protect what we think is the reputation of the veteran in the eyes of his fellow citizens; that is, our reputations. What other veterans may do is their own business. We resent very much an impression being given to our fellow citizens that the able-bodied veteran is not mighty proud of his service, and that he is not very conscious of the fact that he is a lucky man to have come through unscathed.

I suppose that the average veteran is probably a man around 40 years of age. I am. In various times I have had to consider the question of paying an income tax. So I am here as a taxpayer in addition to appearing in my capacity as a veteran.

I feel for myself and other citizens that when 26 per cent of the national budget is being allocated to veteran relief, we want to know what that $1,076,000,000 is going for. I want to be sure that it is going to disabled men and their dependents. I do not believe that it can be justified in its entirety when I see that nonservice disabilities, disabilities that originated in civil life years after the war, apparently are a justification for a veteran receiving allowances of various kinds.

So I think it behooves most of us veterans to begin thinking about this thing, not only from the standpoint of our own affairs as taxpayers, but from the standpoint of the country. We represent only about 1 or 2 per cent, possibly, of the total population, and if 26 per cent of the national income is spent for 1 per cent or 2 per cent or 3 per cent of the population, there either must be a very good reason for it or else there is something rotten about it or something unfair about it, or something biased about it.

In discussing this matter very seriously with my friends and associates on these committees, gentlemen, we have come to the conclusion that the great body of the veterans' thought in this country is just as sound as a dollar and that in common with the other citizens of the United States there is the same old patriotic fervor there. We believe the veterans have been misled, badly led, and that they need a type of patriotic leadership—and I do not mean in their own organization.

I think if we went back over the records we would find that there have been a lot of self-appointed political leaders of the veterans who thought they would lead the veterans and promised to lead them into the lush fields of the Public Treasury.

Why was it that immediately after the Detroit convention a Member of Congress announced in the public press that he would immediately introduce a bill calling for the full payment of the certificates, right in the face of the vote of the majority of the American Legion? I do not understand it. I believe it is a matter of record—I am not prepared to give the figures—but I believe there were quite a number of bills introduced almost immediately after the Armistice, or very soon thereafter, by qualified Members of the Congress.

It seems to me that some very strong and courageous leadership is needed at this time. There is not a single doubt but what the American people, 100 per cent, are willing to be taxed any needful amount for the relief of the disabled and their dependents. We all know that. I have never heard and you have never heard, no one has ever heard any American citizen growl about that. But be careful of this able-bodied legislation—legislation for able-bodied veterans. There is lots of it on the books now that should be taken off the books and if it is not taken off the books, I am told by those who profess to know, actuaries, that it will cost $4,000,000,000 a year, say, in 1945.

That is an astounding figure, gentlemen, and we have got to stop, look, and listen. If history is any criterion—I do not pose as an expert on pension legislation, but I have read a good deal about it—if history is any criterion, the payment of this bonus at this time or within a year or two is only the beginning ot a sort of juggernaut that will roll the American national economy into a flat plate.

They tell us that beginning with next year every day out of five or six we will be working for Uncle Sam. That is with a Budget of $4,000,000,000. Now, if we have in 1945 a Budget that has one item of $4,000,000,000 for the veteran, I do not know whether we will have any time to work for anybody else but the Government or not.

Gentlemen, I feel that the World War brought about in itself a spiritual uplift among the American people. I do not believe there is anything on record that equals it. But there has been an effort made, which has been terrible—you know there is one question we will not allude to here, that is regarded as tearing down the very fabric of our morale, with its attendant rackets and racketeering, and I can not help but feel that some of the legislation for the able bodied is another reflex; it is a terrible thing to contemplate.

When you get organizations that have an obvious interest, and the interest is to increase their membership, ostensibly of course to do good with the proceeds of the memberships, there is always the temptation to do something for the fellow who does not need it in order to get him to join. Then you have got a dangerous situation.

I understand you have in the House here a Committee for Veterans' Legislation. It seems to me that if some manufacturer came down here and said, "We want a manufacturers' committee for manufacturers of tin plate to handle all the legislation in favor of tin plate duties," or something like that, we would all stand aghast.

I do not know the exact record, but I understand there have been very few bills in favor of the veterans turned down by this committee. We are working toward a very dangerous situation.

Gentlemen, you have been very kind to give me this opportunity. My associate, Mr. Durham, is very much better informed than I am and if you will permit me, I shall give way to him.

Mr. VINSON. I should like to ask you a question. I notice that several of your wires went to Missouri. Did you formerly live there, Colonel?

Mr. CASTLE. No, sir.

Mr. VINSON. In what business are you engaged?

Mr. CASTLE. I am at the present time the president of the American Women's Realty Corporation in New York.

Mr. VINSON. When was the committee of which you are a member formed?

Mr. CASTLE. I think it was formed about 18 months or 2 years ago, when I was in Cleveland.

Mr. VINSON. Are you a charter member of it?

Mr. CASTLE. Well, I do not know that we have any charter members, but I was asked to belong when it was first formed.

Mr. VINSON. Is it a nation-wide organization?

Mr. CASTLE. No, sir. We would like to make it so, but we have not had the sinews of war to make it so.

Mr. VINSON. Is there any selfish interest in the membership of that committee?

Mr. CASTLE. Absolutely none.

Mr. VINSON. You referred to other organizations as being organizations where there was self-interest?

Mr. CASTLE. Yes, sir.

Mr. VINSON. Did you not express to the committee a moment ago your interest as a taxpayer in this question of bonus legislation?

Mr. CASTLE. Yes, sir.

Mr. VINSON. I believe you stated you had no connection with the Ex-Service Men's Anti-Bonus League?

Mr. CASTLE. No, sir. I said this committee had no connection with it.

Mr. VINSON. Have you?

Mr. CASTLE. The Ex-Service Men's Anti-Bonus League is not in existence, but I was very active in it when it was organized.

Mr. VINSON. Then it was not a coincidence or an error that you are listed here on the calendar as a witness to-day, representing the Ex-Service Men's Anti-Bonus League?

Mr. CASTLE. It is an error, sir.

Mr. VINSON. Do you know how that error was made?

Mr. CASTLE. It seems very simple. Probably, having been a member of the Ex-Service Men's Anti-Bonus League, of which I am very proud, by the way, and inasmuch as this committee of ours is not nationally known, it probably would be very logical to put that organization down. I do not know how it happened. I am very proud of having belonged to the Ex-Service Men's Anti-Bonus League. It means I opposed and those men who were with me opposed the bonus in principle from the very beginning. But that is over the dam.

Mr. VINSON. You still take that same position?

Mr. CASTLE. Yes, sir. I stated so.

Mr. VINSON. You referred to an actuary who informed you that by 1945 expenditures for veterans, which would be mostly for World War veterans, would approximate $4,000,000,000. Did I understand you correctly?

Mr. CASTLE. I believe so, sir. I said that I had heard that an actuary had said it, but I did not know it.

Mr. VINSON. I wanted to get the name of that actuary.

Mr. CASTLE. I believe I could secure that for you, but I have not got the name here.

Mr. VINSON. In other words, some one told you that an actuary told them or made the statement that a situation would obtain?

Mr. CASTLE. Yes, sir.

Mr. VINSON. That is the basis of your statement as to the $4,000,000,000 expenditure for veterans in 1945?

Mr. CASTLE. Yes, sir.

Mr. VINSON. That is all.

Mr. SANDERS. Mr. Chairman, I should like to ask one question. What is your stand on eliminating the interest on the loans which have been made to the veterans on these certificates?

Mr. CASTLE. I think I am in favor of that, sir.

The ACTING CHAIRMAN. If there are no further questions, we thank you, Colonel Castle, for your presence here to-day.

We will call Major Durham.

STATEMENT OF MAJ. KNOWLTON DURHAM, NEW YORK CITY, REPRESENTING THE VETERANS' COMMITTEE TO REDUCE COST OF PEACE

Mr. DURHAM. Mr. Chairman and gentlemen, I appreciate this opportunity to speak to you this morning, but I know it will have to be very brief and if I may condense what I have to say in as few words as possible, I would be glad to answer any questions afterwards. I should like to say what I have on my mind first.

I have followed the reports of the hearings before this committee as they have been printed in the press and I think it is fair to say that all of the arguments for this measure can be classified in two groups. There is the argument that the Government owes a debt to the ex-service men that should be paid and that although the certificates on their face are not payable until 1945, nevertheless at this time of emergency it would be a desirable thing and a fair thing to the veterans to pay them now, to cash the certificates now.

The other group of arguments has reference to the means of raising the money to pay the certificates and those all have to do with this question of issuing additional currency, and into that question I do not intend to go this morning, but I think you will have the benefit of much better opinion on that than I could give you, although I have very definite opinions myself.

On the question of the debt, I would like to say just a word. I would like to direct the attention of the committee back to 1924 at the time the measure was being considered before this committee and the question came up whether it would be better to pay the veterans cash or to defer the payment and issue what might be called an endowment insurance policy. The result was the latter. The certificates were finally approved and the argument at that time, I recall very well, because I attended the meetings of the committee, was that it would be a much more desirable thing for the veteran himself and for his family to have the payment made to him at a time of his life when he was really going to need it, and it was figured that 20 years from that time of 1924 he would be in middle life, he might be in serious economic need at that time and then is when the payment should be made to him.

I recall the remarks of Representative Andrew, of Massachusetts, at that time. I can not quote them literally, but I recall he said that

9 out of 10 or 99 out of 100, as I recall it, of the veterans themselves and their widows and their families and dependents would be very glad, would be very happy, indeed, 10 years from that date that Congress had done what it did do, namely, issue the certificates and not make it possible to have the immediate cash payment, the theory being that the cash would be dissipated at a time when the veteran might not think that he would need it later on, whereas the certificate would be available in middle life when he really would need it. That view prevailed and that bill was passed.

I take it it is perfectly clear that if Congress at that time has approved a measure for cash payment, it would not have been upon the basis upon which it was finally adopted. You recall, the bill provided that the basis for the amount of the certificate was to start at a dollar a day for home service and a dollar and twenty-five cents for overseas service and compute the number of days of home service and the number of days of overseas service and then I think there was an addition of 25 per cent, if I am not mistaken. I may be, but that is my recollection. You got a maximum of say $625 and that was considered what they called his adjusted pay, the argument being to adjust his pay to what the average workman at home had had.

Then you remember we figured on an actuarial basis that a man of 30, say, having $625, could buy an endowment policy payable 20 years from that date, of a face value of some $1,500. So the certificate had the face value of $1,500.

To meet that payment you remember, gentlemen, you provided each year the Government was to appropriate over $100,000,000 into a sinking fund, and that fund was to draw interest so that at the end of 20 years this amount of three and a half billion dollars, or whatever it was, would be available to pay these certificates. Then there were provisions for loans based upon those same figures.

Now, to meet that payment in full to-day of $1,500—well, the money just is not there to meet it. In other words, you are increasing what was intended at that time as the payment of the debt. I think it increased from a dollar to $1.70, or something like that; it does not matter. But the point is, if you are going to consider this on the basis of a debt, then we have got to talk in the language of a lawyer and not in the language of just what is fair and what is reasonable.

That is a point that I would like to go into in greater detail, but in these very few moments, I obviously can not do it.

The Acting Chairman. Captain, let me state to you and to Colonel Castle that all witnesses who appear before the committee have the right to reasonably extend their remarks and insert in the record what they think is pertinent to the issue. That will be printed in the hearings.

Mr. Durham. I wrote out something yesterday and I will leave it here, with your permission. I do not suppose it will throw very much light on the subject, but I would like to leave it with the committee.

The Acting Chairman. It will be printed in the record.

(The statement referred to is printed at the conclusion of Mr. Durham's remarks.)

Mr. Sanders. Major, what do you think of the proposition of eliminating the interest on the loans that the veterans have made on their certificates?

Mr. Durham. Oh, I think that is bound to come.

Mr. Sanders. Do you favor that?

Mr. Durham. I do not favor anything about this bonus proposition. I never have. I was opposed to it eight years ago on the same ground that Colonel Castle mentioned. I am still opposed to it.

Mr. Sanders. Then you are against eliminating the interest on these loans?

Mr. Durham. I really have not considered that. I just took it for granted that the interest would be eliminated. I believe it will be.

Mr. Sanders. I want to know whether you favor it or not?

Mr. Durham. I would like to give the matter more consideration, but I think I should favor charging the veterans no greater interest than the Government has to pay for money. I think if the two offset each other, that would be a fair proposition.

May I make a correction Mr. Chairman? I do not represent the Ex-Service Anti Bonus League, as I notice I am listed on this calendar. That organization is really defunct. We went out of business finally after the Detroit convention of the American Legion and decided not to take any action this year. We felt it was unnecessary to continue that organization any longer.

Mr. Rainey. Captain, the $1 a day allowance for domestic service overseas and a dollar and twenty-five cents a day to those who went was for the purpose of equalizing their compensation?

Mr. Durham. Yes.

Mr. Rainey. And it was so understood?

Mr. Durham. Yes, sir.

Mr. Rainey. Have you made any investigation as to the average wage per annum in the year 1918?

Mr. Durham. Yes, I have, Mr. Rainey. I have had all those figures.

Mr. Rainey. Do you remember what it was?

Mr. Durham. I think it was about $1,200 a year.

Mr. Rainey. The average wage?

Mr. Durham. Yes; or $1,400.

Mr. Rainey. According to your book, the average annual earning of men and women in all industries in the year 1918, according to the National Bureau of Economic Research was $1,078.

That is correct, is it not?

Mr. Durham. I took that figure from their research. They made a very careful research, which is published.

Mr. Rainey. We paid the soldier $30 a month?

Mr. Durham. Yes. That is, of course, there was his food and clothing and maintenance, and so on, which amounted, it was figured, to about $2 a day.

Mr. Rainey. How much did that make per year?

Mr. Durham. $3 a day would be over a thousand dollars—$1,200.

Mr. Rainey. $1,245 a year?

Mr. Durham. Yes, sir.

Mr. Rainey. Did you figure in anything for what was paid his family? The soldier made an allotment.

Mr. Durham. The allotment was $15 a month and the Government matched that with another $15 a month.

Mr. RAINEY. So as to those who had families, you did not make that computation?

Mr. DURHAM. No, sir; I did not. I would like to say that that book was very hastily prepared. It is a subject that should be gone into very much deeper and I think the whole business of veterans' legislation ought to be made a subject of congressional investigation. I think a committee ought to go into the whole subject.

Mr. RAINEY. Do you know of any country except Australia and Canada which paid their soldiers more than we paid?

Mr. DURHAM. There were none. We paid our soldiers more than any other country except those two. In fact, in the gross sum we paid more than any other nation.

Mr. RAINEY. How much did England pay her soldiers per month?

Mr. DURHAM. I would have to refer to those figures.

Mr. RAINEY. Your book states $11.40.

Mr. DURHAM. Yes.

Mr. RAINEY. How much did Czechoslovakia pay? Your book states $1.45.

Mr. DURHAM. $1.45.

Mr. RAINEY. And how much did France pay?

Mr. DURHAM. $1.45.

Mr. RAINEY. That is per month. How much did Italy pay?

Mr. DURHAM. $1.75.

Mr. RAINEY. How much did Belgium pay?

Mr. DURHAM. $2.

Mr. RAINEY. And Germany?

Mr. DURHAM. $3. That was their monthly pay.

Mr. RAINEY. Canada paid $33.

Mr. DURHAM. Canada paid $33 and Australia $42.

Mr. RAINEY. And we paid $33 for overseas service?

Mr. DURHAM. I think it was that figure; yes.

Mr. RAINEY. So the only other country in the world that paid more than we was Australia, and she paid $42?

Mr. DURHAM. That is correct.

Mr. RAINEY. Do you know how much of a bonus the States have given to soldiers?

Mr. DURHAM. I have attempted to figure it, but it is very difficult. I have obtained certain figures that show——

General HINES. It is about $245,000,000.

Mr. RAINEY. General Hines states about $245,000,000 was paid by the various States.

Mr. DURHAM. Yes. Then the States also made appropriations for loans and various benefits that bring it up to a good deal more than that.

I figured that the postwar expenses to this date, including State expenditures, amount to about $6,000,000,000.

Mr. RAINEY. Including the State expenditures?

Mr. DURHAM. Yes. It can not be figured accurately, but that is close to the amount. I would like to mention in closing the fact that the total amount the Government has paid the Civil War veterans in the Union armies in 65 years is just a little over $7,000,000,000. So in a period of 13 years we have almost equaled the total expense for pension relief to Civil War veterans of the Union armies.

General HINES. It is about two-thirds thus far.

Mr. DURHAM. Without including the State expenditures.

General HINES. That is true. The Government expenditure is about two-thirds. The States will bring it up more than that.

Mr. DURHAM. I thank the committee for its courtesy.

(Mr. Durham submitted the following prepared statement:)

BILLIONS FOR VETERANS?

Recent press dispatches announce that the Ways and Means Committee of the House of Representatives will commence hearings on House bill No. 1, introduced by Representative Patman, of Texas, on April 11. Representative Rankin, of Mississippi, announced that advocates of the bill, which provides for full payment of the soldiers' bonus, expected to pass it over President Hoover's veto.

The argument for the bill, as summarized by Mr. Patman, is that the payment of some $2,000,000,000 to ex-service men could be made without unbalancing the Budget, without a bond issue, without additional taxes, and without increasing interest payments by the Government. The Government having reduced the national debt by some three and one half billions more than was required by law, it could now pay the certificates in full and still be in debt no more than Congress contemplated it should be under the schedule for retirement of the national debt. He claims that the gold reserve is sufficient to permit the issuance of $2,000,000,000 in United States notes, thereby avoiding payment of interest which would be involved in a bond issue. The Nation would really be greatly benefited because the final payment of the adjusted-service certificates would permit the practical abolition of a large Government bureau, thereby saving millions. Public welfare will be promoted; commodity values will rise; farmers will get better prices and therefore their increased purchasing power will put factories and labor at work. His argument further is that Congress having acknowledged a debt to the veteran, he is pressing to pay it off now instead of years later, to pay it now so that the veteran can spend it, thereby improving the commerce of the country.

Senator Thomas, another advocate of the bill, has claimed for it that it would accomplish the following concrete results: Advance prices of commodities, decrease the value of all debts, decrease the value of all interest, decrease the value of all taxes, decrease the value of all salaries, help the better class, prevent further bankruptcies and bank failures, put money in circulation, and make it possible for the people to pay their taxes.

It would appear obvious that the mere statement of these claims would make it apparent to anyone how utterly destructive of national credit this bill will be. As Clinton Gilbert pointed out in a recent Washington dispatch, the only way the country can decrease the value of all debts, decrease the value of all interest, decrease the value of all salaries, is by going off the gold standard. World War veterans to-day are largely wage earners. If the value of the salaries of all wage earners is less, even though they may continue to receive the same nominal amount of money, certainly they will not be able to purchase as much with their money as they did before. And the bonus of $500 is not going to buy $500 worth of food or clothing. In other words, Congress is going to hand the veterans a gold brick. Mr. Patman says that there is sufficient gold reserve now to support these notes. The fact of the matter is that any such measure would result in a panic in the Nation over the country's currency. People will hoard the gold and the Government will eventually have to decline to redeem its paper currency in gold. In other words, at that point the United States will be off the gold standard, and the dollar that we now have will purchase perhaps 75 cents, perhaps 50 cents worth of commodities.

The question now before us is: Are the veterans ready to be deceived by any such ridiculous arguments as those which are being put forth by these patriots, who in one breath talk about paying the debt the Nation owes the veterans and in the next admit that the debt is going to be paid in fiat money. Does anyone believe that any such plan is going to restore confidence to the people of this country? Is there any recorded instance in history where any such measure as is now proposed has resulted in business improvement? If it is seriously claimed that to distribute $400 to $500 to each ex-service man so that he may spend it in the shops of the country is going to improve business conditions, why not distribute a like amount to every man, woman, and child? Why limit it to veterans? If the form of payment made is going to be in any such currency as that suggested, the veterans are going to suffer irreparable injury and the country's credit is going to be seriously impaired. If this bill is passed, there is no possible way to avoid a two billion dollar bond issue, which would of course make it impossible for Congress to enact any tax bill which would balance the Budget.

An argument that is frequently heard in support of this bill is that Congress recognizes the debt which the Government of the United States owes the veteran, but that instead of paying him in cash it gave him a mere promise to pay at the end of twenty years. The veteran now needs that money in order to carry him over the period of economic distress and therefore he should be paid at once. Disregarding the fact that a payment at this time is going to destroy the Nation's credit, and assuming that $2,000,000,000 were available for distribution, it should be remembered how this debt was created. The so-called adjusted compensation bill which was passed over President Coolidge's veto in 1924 provided that each veteran of the war was to receive an adjusted service certificate, the amount of which was payable in a certain manner. For each day of home service the veteran was to receive $1 and for each day of oversea services $1.25. Instead of getting the dollar right away, however, he would wait until it had grown to about $2.50 a day. The Government would put $112,000,000 each year for 20 years into a sinking fund, contributing in all, $2,240,000,000. Compound interest on the fund accumulated during 20 years would raise the amount to $3,500,000,000. The soldiers would get an extra $1,125,000,000 and the arrangement would not cost the taxpayer any more. Each veteran was entitled to receive an adjusted compensation certificate which was a promise to pay in 1945 an amount equal to about double his bonus. In other words, a paid-up endowment insurance policy to mature in 20 years. The face value was the amount of insurance which a man of his age could buy with the sum credited to him as back service pay. For instance, a man 30 years old whose service at $1 or $1.25 a day extra, as the case may be, amounted to $625, which was the maximum, would be entitled to a certificate of the face amount of $1,577.50 payable in 1945.

The terms of this adjusted compensation act are usually quietly forgotten by those who want the certificates cashed in full. The veteran looks at his certificate and sees only its face amount. For example, $1,577.50; that is the amount due in 1945 but he wants it in 1932. It usually does not occur to him that to collect the full amount 13 years ahead of time would be to get from the Government a much larger sum than the law originally intended him to. Congressmen ought to know better.

As I have stated, the original face of the certificate was reached only by letting the $625, which was the maximum allowance to each man, earn interest for 20 years on an insurance basis figured out by actuaries. Obviously, if the Government pays the bonus in 1932 it does not have the principal on which to accumulate the interest for the remaining 13 years. The Government would then be paying the soldier a bonus, not of $1 a day, but more nearly $1.70. It may be argued that the veteran will be required to pay interest on his loan, but no one expects that this will ever be required of him. In other words, the payment of the bonus certificates at this time, whether in the form of a loan or an out-and-out cash payment, will result in a radical change of the law and will leave the field open for future pension legislation to take care of the veteran in his older years.

In 1924 there were many who then advocated immediate payment, but the prevailing opinion was that it would be much fairer to the veteran to provide a payment which would be useful to him in middle life or in old age than to give him cash which would be quickly spent, but now those who favor this bill must admit that the whole plan of the 1924 law is opposed to what they are now advocating.

There is at present a threatened deficit of more than $1,000,000,000. Congress the past few weeks has been working out one of the most drastic tax bills which has ever been drafted in the United States—a bill which is designed to raise this billion dollars. Every person in the country will have to contribute to the balancing of the Budget.

"The first stone in the foundation of stability and recovery both at home and abroad is the stability of the Government of the United States." So spoke President Hoover at the Detroit convention of the American Legion last summer inviting them to enlist in the fight to maintain that stability and to refrain from asking for the two billion dollar bonus payment, and the leaders of that convention were able to convince the delegates that the President was right. The convention went on record by a substantial vote as being opposed to the payment, but other veterans' organizations have come forward, particularly the Veterans of Foreign Wars, and its speakers and workers have been touring the country enlisting support for this measure, so that daily Members of Congress are bombarded with letters asking their support for this bill and urging it as a panacea to all the ills from which the country is suffering. There is more misinformation with respect to the whys and wherefores of this bill than almost anything else before the country to-day.

In considering it, several questions may well be asked and should be answered in order to arrive at the proper judgment. Is America treating its former soldiers fairly? Have they been neglected? Is the full payment of the bonus a debt long past due? Are those who suffered from wounds and sickness being taken care of?

A few comparisons will be interesting between what was done for the veterans of the Civil War and the veterans of the World War. In the Civil War 364,332 Union soldiers were killed in action and 277,401 were wounded. The number of legitimate pensioners could not possibly have exceeded 500,000 and probably were fewer than 300,000. Civil War pensions began at a low rate. One year after the war they amounted to $15,000,000. In 1872 they amounted to $30,000,000; in 1880, $56,000,000; in 1889, 86,000,000; at which time the pension commissioner remarked, "We have reached the apex of the mountain." In 1898, however, the pension had grown to three time as much as his "apex" and there were 745,000 veterans on the list, or nearly twice the total number of men who had been wounded. This was 33 years after the war ended. Urged on by the G. A. R., pension bills, both general and private, were passed at every session of Congress. By 1914 the cost had mounted to $175,000,000; by 1920, $203,000,000; and by 1923, almost 60 years after the war had ended, to the "peak" sum of $239,000,000. The peak number of veterans on the list was, in 1898, 745,000; but the number of pensions widows grew until 1912, at the peak of 304,000. In 1915 the total number of military pensioners reached the high record of 1,004,196, virtually all of whom were pensioned on account of the Civil War. The significance of these figures lies in the length of time after the war over which the burden to the Government is spread. The number of Civil War pensioners in 1930 was 261,692, and the cost to the Nation $125,000,000. The total cost of Civil War pensions up to that time was $7,370,000,000—$11,400 for every man killed or wounded.

After the Spanish War a new crop of veterans became applicants for Government pensions. The total war casualties of that war were 8,322, although the war lasted only six months, and there were only 250,000 enlisted men in the service, of whom only 30,000 got within sound of gunfire. Now, let us consider the number of pensioners:

1920	30, 000
1923	81, 000
1925	120, 000
1927	162, 000
1930	217, 000

or 21 out of every 25 who had been in the service. The cost to the Government increased as follows:

1920	$4, 600, 000
1923	17, 800, 000
1925	25, 000, 000
1927	57, 000, 000
1930	83, 000, 000

In 1920 the total number of veterans of all wars receiving pensions were 769,000 and they were receiving from Uncle Sam $509,000,000.

When we entered the World War it was intended that we do away forever with the pension system. Various acts were passed in 1917, at which the five most important were: (1) The provision that each enlisted soldier should have $15 deducted from his monthly pay; that the Government would match this sum with another $15 to be sent to his wife for her support, this $30 to be increased by additional amounts if there were children or dependents. (2) Life insurance was to be made available to all soldiers at peace time rates, the Government paying the added cost due to war hazards; these policies were from $1,000 to $10,000 at a premium of about $8 a thousand. (3) Whether or not he took out insurance, every soldier was to receive compensation for death or disability. Widows and orphans were to receive monthly allowances equal to what they had been receiving as wives and children. The war disabled were to be given compensation based on loss of earning power. (4) Complete medical care, hospitalization, artificial limbs, and such necessities were to be provided for all those disabled in the war. (5) Provision was made for rehabilitation of the disabled so that they might make a place for them in the civilian world.

The Secretary of the Treasury, William G. McAdoo, announced at the time of its passage, that this legislation was "intended to be a substitute for, and to make unnecessary, future pension laws to cover this war." The Government has fulfilled its part of its promise. Vocational training began in 1918 and was continued through 1926. Congress has to date authorized under eight general acts the sum of $113,000,000 for new hospital domiciliary and out-patient facilities, of which $97,000,000 have been appropriated. In addition to which it has authorized approximately $9,000,000 for new hospital construction at soldiers' homes and $14,000,000 for permanent improvements and extensions to veterans' hospitals. The operation and maintenance of government hospital facilities has reached a total cost of approximately $435,000,000. The disbursements for vocational rehabilitation has amounted to $645,000,000; for war-risk insurance, $1,457,000,000; for payments for disabled and death pensions, $1,970,000,000; and for disability allowances $70,000,000. Under the emergency officers' retirement act $35,000,000 have been disbursed; a total of over four and three quarter billion dollars, which does not include anything paid to the able bodied on accouut of their adjusted-compensation certificates. Adding $1,260,000,000 for such loans and $270,000,000 paid to veterans upon their discharge from the service (after allowing $450,000,000 received for insurance premiums) makes over five and three quarter billion dollars which has been applied to veterans' aid within 13 years after the war ended—over three-fourths of the entire amount which has been paid to Union veterans of the Civil War in the past 65 years.

Consider merely the care of the disabled. The United States is continually buying, building, and altering hospitals all over the country. For the past 10 years almost $150,000,000 has been appropriated to veterans' hospitals and homes. By the time the full program of construction has been completed there will be over 45,000 beds available in hospitals run by the Veterans' Administration. Compensation which was promised for disability is being paid to 322,000 veterans in amounts ranging from $8 to $250 a month, depending upon the degree and character of their disability. Sixty four thousand veterans' wives, 112,000 veterans' children, 6,500 parents of veterans are also receiving this compensation. Death compensation at the rate of $30 per month is being paid 22,000 widows, 33,000 children, and 84,000 parents. Altogether about 600,000 people are receiving death and disability compensation. Disability allowance (which is the term for payments to ex-service men whose disabilities or injuries are not related to their war-time service) is being paid to 353,000. War-risk insurance is now providing monthly allowances to 18,000 veterans, 23,000 widows, 2,500 children, 91,000 parents, and 27,000 sisters and brothers. True, the Government received insurance premiums, but payments crossed the line of premium income from all sources in March 1923 when about $400,000,000 had been paid out and the same amount had been received in premiums. By the end of May, 1927, $450,000,000 in premiums had been received, and the value of the term policies being paid upon was $1,300,000,000. The latest figure from the Veterans' Bureau is approximately $1,450,000,000.

Remember that all of the States of the Union did something for their soldiers. The figures are not easily ascertainable, but in 30 of the 48 States the total payments for benefits and relief, loans to veterans, and for hospitals is estimated to amount to at least $650,000,000, out of which it is fair to allow one-fifth for the veterans of other wars, leaving $520,000,000 to be added to the total of Federal expenditures, or a grand total of approximately six and one-third billion dollars for veteran relief. Approximately $1,000,000,000, or about one-quarter of the annual Budget, has become a fixed charge for the relief of war veterans.

Mr. Crowther. At this time I would like to put in the record a telegram from Moses G. Hubbard, New York State commander of the American Legion.

Mr. Rainey. Without objection it will be made a part of the record.

(The telegram referred to is as follows:)

NEW YORK, N. Y., *April 8, 1932.*

Hon. FRANK CROWTHER,
Washington, D. C.:

The American Legion department of New York and the vast majority of its 85,000 members and 800 posts refuse to adopt any selfish attitude inimical to best interests of fellow citizens as whole or to approve any demands or drain upon Treasury aggravating gravity of present industrial financial and economic crisis confronting our country. We therefore firmly oppose payment of adjusted-service certificates at this time and urge that you support our stand.

MOSES G. HUBBARD, Jr.,
New York State Commander American Legion.

Mr. RAINEY. The committee will adjourn until 10 o'clock to-morrow morning.

(Whereupon, the committee adjourned to meet again on Thursday, April 21, 1932, at 10 o'clock a. m.)

PAYMENT OF ADJUSTED-COMPENSATION CERTIFICATES

THURSDAY, APRIL 21, 1932

House of Representatives,
Committee on Ways and Means,
Washington, D. C.

The committee met at 10 o'clock a. m., Hon. Henry T. Rainey presiding.

Mr. Rainey. The committee will be in order. Gentlemen, General Dawes has been invited to appear and is present. We shall be glad to hear him at this time.

STATEMENT OF BRIG. GEN. CHARLES G. DAWES, PRESIDENT RECONSTRUCTION FINANCE CORPORATION

General Dawes. Mr. Chairman and gentlemen of the committee I was given to understand by Mr. Crisp, when he asked me to appear before your committee, that he desired to have a statement from me, as president of the Reconstruction Finance Corporation, as to the general scope of its work and the present state of its operations. This was desired for consideration not simply in connection with the particular legislation you are now considering but as bearing upon the general economic situation of the country.

The purpose of the President in urging the creation and of the Congress in enacting the law providing for the Reconstruction Finance Corporation, a nonpartisan body, was the relief of the people of the United States and the method of affording it, which Congress decided upon, was through loans adequately secured to be made by the Reconstruction Finance Corporation to 13 classes of corporations and to them only. The object of the President and Congress was not primarily the relief of these corporations themselves as such, but of millions of the people who have entrusted these particular classes of corporations with their funds, and who suffer if the power of these corporations to function normally is unduly impaired. It should be emphasized that the reason why these particular classes of corporations were named in the law was because the demands upon these corporations come chiefly from the American people.

In the banks, including savings banks and trust companies, are deposited most of the ready cash of the American people. The present deposits in these institutions amount to $46,261,000,000, and represent the bulk of the purchasing power now existing in our country and are the ready assets of millions of families. Nothing is more important to the masses of the American people than the preservation of the credit and the normal functioning of banks.

In the normal functioning of insurance companies our people are vitally interested, for there are about 70,000,000 insurance policies in force and likewise with building and loan associations with their many millions of families participating.

In the securities of railroad corporations, practically all classes of fiduciary institutions dealing directly with the savings of the people are interested, as well as great numbers of individual investors.

As to mortgage loan companies, credit unions, Federal land banks, joint-stock land banks, Federal intermediate credit banks, agricultural credit corporations, and livestock credit corporations, the same public interest exists.

In connection with all these loans the Reconstruction Finance Corporation considers them first upon the basis of adequate security, a duty which is imposed upon it by law, and then upon their beneficial effect in the interest of the general public. It passes upon each application for a loan which comes before it upon its individual merit and in its proper relation to the public interest.

The Reconstruction Finance Corporation has been functioning for a period of only about 11 weeks. It is carrying on its work with the utmost expedition consistent with proper methods of procedure. As yet it has used in its operations only about one-fifth of its resources; and chiefly on that account, time must elapse before the full beneficial effects of its operations can be properly appraised. But already the beneficial effect of its most important work thus far—its loans to banks and trust companies—is sufficiently evident to have alone justified Congress in the creation of the Corporation.

I will now state the aggregate of transactions to date by the Reconstruction Finance Corporation, with brief comment thereon:

BANKS AND TRUST COMPANIES

In the period from February 2, the first day of its operation, to April 19, inclusive, the Reconstruction Finance Corporation has authorized loans to 1,520 banks and trust companies in the United States in the amount of $243,248,769, of which amount $10,047,158 has already been repaid. The above-mentioned figures of loans authorized to banks and trust companies do not include 67 loans, aggregating $5,994,300, authorized in connection with the reorganization or liquidation of closed banks. Most of this latter amount was authorized to receivers of national banks, who, by the terms of the Reconstruction Finance Corporation act, are given authority to borrow and pledge their assets.

The banks and trust companies of the United States hold the ready money not only of the business and industrial enterprises of the Nation, but of the masses of our people as well. Their deposits in the 19,968 banks amounted, in the aggregate on December 31, 1931, as I have said, to $46,261,000,000.

On December 31, 1929, these aggregate deposits amounted to $55,289,000,000. In the last two years, therefore, due to the withdrawal of deposits and consequent liquidation of banking credits $9,028,000,000 of the purchasing power of the American people had been wiped out. This reduction of deposits, which was still continuing at an alarming rate when Congress passed the Reconstruction Finance Corporation act, could only be checked by the restoration of general confidence in American banks. At such a time then, on February 2, the corporation with the utmost expedition commenced its operations.

The evidence of the effectiveness of its work is found in the fact that in the 71 days which preceded February 2, 756 banks with $521,000,000 deposits, suspended in the United States, while in the 71 days from February 2, when the Reconstruction Finance Corporation started its operations, to April 12, there suspended in this country only 182 banks—less than one-fourth as many as in the preceding 71 days—having $79,744,000 deposits, an amount less than one-sixth as much as those in the preceding 71 days. In addition, during the latter 71 days, with the assistance in many cases of the Reconstruction Finance Corporation, 79 failed banks with $36,520,000 deposits have reopened. Thus the net failures represented only $43,224,000 or 8 per cent of the amount in the same period preceding. The general withdrawal of bank deposits is stopped and hoarded money to the extent of $250,000,000 has been returned to the banks during the period since the commencement of operations of the Reconstruction Finance Corporation. General confidence in our banking system has been restored, which is and always has been an indispensable condition of a succeeding general business and industrial recovery.

There has been comment to the effect that the Reconstruction Finance Corporation favors large banks as against small ones, but it is unjustified and beside the point. The number of depositors to be saved by sustaining a given bank is where the real interest of the public lies—not in the question of the size of the bank.

The important thing which the Reconstruction Finance Corporation endeavors to keep in mind is that the banks, large or small, as the trustees of the depositors of the public, shall be treated alike in the interest of the public without discrimination and without fear or favor.

As a matter of fact, however, the bulk of the bank loans in number and amount have gone to the small banks. The figures covering the period from February 2 to April 12 show that 69.2 per cent of the banks which have borrowed money from the Reconstruction Finance Corporation are located in towns of less than 5,000 population, and 84.6 per cent of the borrowing banks are located in towns of 25,000 population or less. Of the total amount of loans authorized to banks by the Reconstruction Finance Corporation, 23.9 per cent was to banks located in towns with less than 10,000 population, and 68.6 per cent (over two-thirds of the amount loaned) was in towns and cities of less than 200,000 population. Only 5.3 per cent of the money loaned was to banks located in cities of 1,000,000 population or over.

RAILROADS

The reason why Congress authorized loans by the Reconstruction Finance Corporation to railroads, as disclosed by the discussions in Congress, was not only for the protection of railroad corporations as the backbone of our transportation system and as employers of hundreds of thousands of men, but for the protection as well of the trustee institutions of this country, including insurance companies and savings banks, owning the securities of railroads, in which institutions and their normal functioning the great public has a direct interest. From February 2 to April 19 loans were authorized to 20 railroad companies, aggregating $77,515,549.

In the case of most of the loans by the Reconstruction Finance Corporation to the corporations eligible for borrowing, whether banks, trust companies, railroad companies, mortgage companies, insurance companies, or building and loan associations, the Reconstruction Finance Corporation, before it has decided to become a creditor itself, has been compelled to consider the attitude and views, cooperative or destructive, of the already existing creditors with independent contractual rights, and, if possible, come to sensible, businesslike and fair understandings with them. Many of these outstanding loans were held by creditors whose lack of cooperation would involve a loss and possible receivership on the part of the borrower, thus rendering less effective if it did not entirely prevent assistance from the Reconstruction Finance Corporation.

In the much-discussed loan to the Missouri Pacific Railroad Co., of the $17,100,000 loaned, $5,850,000 was used by the railroad company to pay one-half of a maturing secured loan held by a group of New York banks. Payment of this loan had been demanded and an extension refused. By a settlement with the banks, through the payment of $5,850,000, representing one-half of the amount then due them, the railroad company freed collateral worth, under normal conditions, $15,968,700, which collateral it could then offer the Reconstruction Finance Corporation. This collateral thus received by the railroad company from the banks substantially improved the margin of collateral to be held by the Reconstruction Finance Corporation to secure its aggregate loan of $17,100,000. The loan to the Missouri Pacific Railroad Co. was approved by the Interstate Commerce Commission, and, in the judgment of the Reconstruction Finance Corporation, is adequately secured. It was made upon what is regarded as a safe and reasonable business basis, not primarily for the benefit of the railroad company or the banks as such, but for the benefit of the thousands of investors in the bonds and securities of the railroad and in the general public interest.

BUILDING AND LOAN ASSOCIATIONS

At the close of business April 19, the corporation had approved advances to 98 building and loan associations, in the total amount $17,326,748.

These institutions gather their funds chiefly from the small savings of people of moderate means and occupy an important place in our financial structure.

INSURANCE COMPANIES

Loans aggregating $11,952,000 have been authorized to 28 insurance companies of various kinds located throughout the country.

Such advances to fiduciary institutions which, in many cases, are, in effect, depositories of public savings, relieve the necessity for the sale of intrinsically sound securities in a period of unduly depressed values, and permit such institutions promptly to meet the present and temporary abnormal demands upon them.

FEDERAL INTERMEDIATE CREDIT BANKS

The corporation agreed to take all or any part of the February 15, March 15, and April 15 issues of Federal intermediate credit bank debentures which remained unsold on those dates. The issues aggregated $68,025,000 and represent loans wholly to farmers.

All the debentures were sold in the open market, and it was unnecessary for the corporation to take over any of them.

In addition to the above, the corporation has authorized loans to joint-stock land banks, livestock credit corporations, agricultural credit corporations and mortgage loan companies in the aggregate number of 24, and in the aggregate amount of $14,400,435.

In summary, the corporation has authorized, in the brief period from February 2 to April 19, loans to 1,757 institutions, aggregating $370,437,802, of which $285,456,521 has been disbursed to the borrowing institutions. Repayments during this period aggregated $11,384,263. The corporation has 33 loan agencies distributed over the country for the purpose of receiving applications for loans and making recommendations to the board at Washington, and every section of the United States was represented in the loans that have been made.

Mr. RAINEY. General, the impression prevails among veterans and veterans' organizations, as it has developed in these hearings, that the Government is making large donations to banks and railroads and therefore donations ought to be made to these service men in accordance with the bills that have been introduced and which the committee is now considering. That is not true according to your statement?

General DAWES. The Reconstruction Finance Corporation makes loans on good security, which loans are to be paid back. It does not give money away.

Mr. RAINEY. Have you made any loans to insolvent banks and railroads—hopelessly insolvent banks and railroads?

General DAWES. We are authorized under the law to make loans to the receivers of insolvent banks for the purpose of meeting dividend requirements. We have not made loans to insolvent banks except to receivers as authorized by the law for the purpose of paying dividends to depositors. We have made some loans to banks who have closed since we made the loans.

We loan upon adequate security and to going banks. All our loans, whether to a bank or other corporation, and whether it becomes insolvent or not, are made upon adequate security, out of which it is expected that the loan will be paid in full and with interest. We make no unsecured loans.

Mr. RAINEY. Do you anticipate that the Reconstruction Finance Corporation will be operated at a loss to the Federal Government or at a profit?

General DAWES. That depends a good deal on whether the United States comes out; and, of course, the United States is coming out. Therefore, my expectation is that there will be no loss to the Government. Of course, in making the numbers of loans in different parts of the country, there will be losses somewhere; that depends upon our judgment as to what was adequate security at the time the loan was made. That is, our judgment may prove fallacious. We are going to make mistakes, but we are doing the best we can. However, in the long run, in my judgment this corporation will not incur capital losses, taking into consideration its expenses as well as its income from interest received.

I think it will take a long time to get all our money back, because, of course, we have had to take a lot of real-estate mortgages as security. But, in the long run, the principal of these loans should all be paid back, and perhaps more. I do not think there is any chance of any loss on the principal of the fund from the operations of the corporation, and I will be much surprised if a substantial amount in addition to the principal is not returned.

Mr. RAINEY. Have you disposed of any of the debentures provided for in the act?

General DAWES. The Reconstruction Finance Corporation has not offered any for sale. It has so far received its money——

Mr. RAINEY (interposing.) It is operating within the $500,000,000?

General DAWES. It is operating within the $500,000,000.

Mr. RAINEY. And you have not exhausted that, as I understand, by a considerable amount?

General DAWES. No; not yet.

Mr. RAINEY. And that is being repaid in part occasionally?

General DAWES. Yes.

Mr. RAINEY. General, it has been insisted that what the country needs at the present time is an inflation of its currency, that we can under the Patman bill print over $2,000,000,000 of money and put it in circulation. What effect will that have upon the finances of the country, in your judgment?

General DAWES. I have prepared a very brief statement of my ideas about that and, with the permission of the committee, I would be glad to read it.

Mr. RAINEY. We shall be very glad to have it.

General DAWES. The Patman bill provides for the payment at once of outstanding adjusted-service certificates at face value, less the amount of loans and accrued interest on these securities.

Funds for this would be provided by the issuance of legal tender, noninterest bearing, unsecured Treasury notes amounting to over $2,000,000,000. No provision is made for the redemption of notes or the maintenance of gold reserves. It would be in effect an issue of fiat currency. Such an issue of currency, in my judgment, would have a disastrous effect upon the country's currency system, upon the credit of the Federal Government, and upon the entire credit structure of our country. The claim is made that the issue of this currency would so augment our money supply as to relieve the existing pressure upon debtors, expand credits, and add to the purchasing power of the people. In my judgment the important and real effect would be the contrary. The relief of the debtor class, the increase of purchasing power of the people, the safe expansion of credit, and the return of prosperity all depend upon maintenance of confidence in the soundness of our currency and in the credit of our banks and of our Government.

In my judgment the devastating effects of a consequent loss of general confidence through the inflation of our currency will negative the possibility of real relief by any experiment with fiat money. One need but recall what happened to Germany through the inflation of the German mark currency in the few years ending in 1924. All the arguments which are now made for this proposed issue of fiat money were made by those who at first advocated the increase in German mark currency which finally prostrated the credit and business of that country by 1924 with untold suffering, privation and want on the part of all classes of the German people. Always, in such experiments, the idea at first is that we can go safely a little way in defiance of right economic principle and avoid disastrous penalties by stopping in time. This has proved a delusion. Inflation of a currency once started in a country seldom stops short of its complete economic ruin.

Confidence in the credit structure of our country and in the banks of the United States has now returned. In general, bank deposits have ceased to fall and bank failures have been reduced to the minimum. The effect of a lack of public confidence upon the money resources of the people, however, is illustrated by the fact that on December 31, 1929, there were 24,630 banks in the United States with aggregate deposits of $55,289,000,000, while on December 31, 1931, two years later, there were only 19,968 banks with $46,261,000,000 of deposits. In other words, the then existing lack of confidence has resulted in a decrease in the purchasing power of the people of the United States in these two years of $9,028,000,000; and it is significant that in these two years when deposits shrunk $9,028,000,000 there had been an addition to the amount of money in circulation in the country of over $900,000,000.

It has been confidence and not currency which we have lacked in this country. The inflation of our currency will destroy, in my judgment, the general confidence in the country which has now been reestablished. We already know what the consequences are of the destruction of confidence.

Mr. RAINEY. We had less money in circulation in 1929, with the high prices prevailing then, than we have now?

General DAWES. Yes, than we have now; about $900,000,000 less.

Mr. HAWLEY. General Dawes, suppose this issue of money is made, what effect would that have upon the operations of the Reconstruction Finance Corporation?

General DAWES. You mean this issue of fiat money?

Mr. HAWLEY. Suppose this issue of two and a half billion dollars in securities were authorized and made, what effect would that have upon the Reconstruction Finance Corporation?

General DAWES. Well, it would have the effect upon the operations of the Reconstruction Finance Corporation that it would have upon the operations of other business corporations, I suppose, in connection with its volume, and so forth. It would have no special repercussion on the work of the Reconstruction Finance Corporation that I know of as distinguished from other corporations. We would simply proceed with what resources we have to loan money in the way in which Congress has instructed us to do, where there is an emergency, the money is needed, and adequate security is offered.

Mr. HAWLEY. Would it impair your work in any way?

General DAWES. I do not think it would impair the work in any way; that is, the processes of our work.

Mr. HAWLEY. Would it affect the results you would expect to obtain?

General DAWES. Yes: as to the result of our work, I should think that this issue of currency would have a very profound effect.

In other words, if this country goes into the experiment of issuing fiat money, with the idea of increasing outstanding purchasing power, that issuance of the fiat money would undermine the credit of our currency and destroy confidence in the credit structure of the country. You will have invited the withdrawal of all the foreign deposits in the United States, which amount to hundreds of millions of dollars. You will have shaken confidence in the safety of our whole private and public credit structure. You will have shaken confidence in the banking credit situation. You will have shaken confidence in the credit of the United States Government itself. And when you do all that, look out for serious repercussion.

Yes; it would adversely affect the business of the Reconstruction Finance Corporation and the business of every other corporation in the United States, and every man, woman, and child in the United States. It is an invitation to start on that primrose path that Germany followed; and for a short time there everything seemed favorable, until the mark crashed. I tried to buy a newspaper one morning for 500,000 marks when I first arrived in Germany in February, 1924, when I went over with the Reparations Expert Commission. The newsboy would not take the money. He made me give him a million marks—for a morning paper. Nobody had any real money; nobody had any credit.

You start to undermine foundations—undermine your currency—and what will be the effect? Take the $2,000,000,000 of expansion of the purchasing power in the country which it is claimed would come from the issue of this $2,000,000,000 fiat currency. Compare that sum with the $9,028,000,000 of loss in purchasing power in this country in two years which came from a general loss of confidence and remember that a loss of confidence always comes from an impaired currency.

Mr. HAWLEY. General, have you examined the proposal submitted by Senator Owen?

General DAWES. No, I have not. I don't have time to do anything these days but attend to my own business. We are passing on 40 or 50 cases a day at the Reconstruction Finance Corporation. I only looked into this matter because you requested it.

Mr. HILL. General Dawes, as I understand the proposal made by Senator Owen, it is that the Government issue 4 per cent bonds, deposit these bonds with the Federal reserve system and upon the basis of those bonds, the Federal reserve system will cause to be issued Federal reserve bank notes to the amount necessary to pay off this bonus—about $2,400,000,000. The bonds are not to be put into circulation until the Federal reserve system or the Federal Reserve Board should decide that a contraction of the currency may be necessary in order to prevent undue expansion and then the bonds would be sold to take in the currency, have the currency canceled, making that issue elastic, rather than as suggested in your remarks, to make the expansion permanent, which would happen under the Patman plan. Have you studied that proposal?

General DAWES. Mr. Congressman, I make it a rule not to talk of things I do not know anything about. I have not looked into that bill and I am not going to try to give you any half-baked economic opinions on it. I would want to study it.

That is the trouble with the country at this time in connection with economic discussion—the half-baked opinions that are being handed out. It is the mixing of politics too into such business questions as these that cause trouble in the country.

I am going to stay on safe ground and talk about things I know which is a good example for public men to follow these days.

Mr. HILL. Is it your opinion, General, that there is no necessity for an expansion of the circulating currency, in order to restore confidence?

General DAWES. Not one fiat dollar of expansion is necessary. You have more money in the country as a basis for business and expansion of business and expansion of credits, than you had in 1929 when we had what we called prosperity—$900,000,000 more money. You have the firm foundation there on which to build and expand credit safely. The trouble is, lack of confidence—not currency.

Now, when confidence returns, then you get that activity in exchanges which we call prosperity. When confidence returns, you will get also the increased purchasing power incident to a natural and normal expansion of credits, through banking and business operations.

But when you inflate your currency which is the basis of credit and make it unsound, you destroy confidence, and the purchasing power which is represented by bank deposits decreases.

You talk about the benefit of a $2,000,000,000 expansion in our currency—I have just referred to a lack of confidence which wiped out $9,028,000,000 of purchasing power in this Nation in two years.

Look out! When you tamper with the foundations of the credit of our currency, look out.

Mr. HILL. General, is it not the very heart of the Federal reserve system to provide an elastic currency, so that currency may be expanded or contracted to meet the necessary economic conditions?

General DAWES. Yes; expansion or contraction in sound currency.

Mr. VINSON. General Dawes, is it a fact that the gold reserve that we have at this time would justify the expansion of the currency to the extent of $3,500,000,000?

General DAWES. I have not studied that question, but I will tell you this——

Mr. VINSON (interposing). Would the word of the Federal Reserve Board be a sufficient authority for such expansion?

General DAWES. I would say this: If you make this issue of fiat money, it can not but shake the confidence of the world in American credit, and that would mean, without any question, a loss of confidence in the United States on the part of the European cash creditors of the United States; the central banks, and the people of Europe who have altogether hundreds of millions of dollars on deposit in the United States. They would withdraw the bulk of these deposits. Then would come up the question among others of the effects of such withdrawals upon your gold reserve, for these withdrawals must be settled for in gold or its equivalent.

Mr. VINSON. But if the Federal Reserve Board were to say that it would not be an undue inflation to have an expansion of currency on the present gold reserve, of $3,500,000,000, would you say that would be sound?

General DAWES. I do not know what the Federal Reserve Board says. A normal expansion of the currency, if it is based on a gold redemption with adequate gold reserves of course, is legitimate.

In the notes that are provided for in this plan there is no provision for a gold reserve, there is no provision for a redemption. They are just greenbacks issued as greenbacks were issued at the time of the Civil War.

Mr. VINSON. Have you had an opportunity to give thought, General Dawes, to the plan submitted by Senator Thomas, of Oklahoma?

General DAWES. No, I have not, Congressman; I am sorry. But, as I said, we are pressed to death with work down in the Reconstruction Finance Corporation.

Mr. VINSON. In your designation of fiat money, you are referring to the currency that would be issued under the Patman bill.

General DAWES. Under the Patman bill. That is the only bill I have looked at.

Mr. VINSON. And you are not referring to the currency that would be issued under the Owen plan or the Thomas plan?

General DAWES. I have read neither of those bills. I came up here because I was invited, not because I wanted to come; although it has been a great pleasure.

Mr. VINSON. The pleasure is ours, General.

Mr. HILL. General, how are we to get this currency that we now have circulating? Apparently, from information that comes to us, there is not any money circulating through the country. How are you going to get it circulating?

General DAWES. We should never feel discouraged about the American people. Their reaction from this present underactivity is just as inevitable as was their reaction from overactivity which came in 1929.

It is a natural law which governs mass attitude and mass attitude changes. The mass attitude is changed right now in the United States, from a condition of pessimism to one of comparative hopefulness.

I am not talking about the speculators and overstrained business men that have a case of the jumps every time something unusual happens these days.

Consider the aggregate amounts involved every day in the normal agricultural, industrial, and commercial business of the country and compare them with the present picayunish amounts of the aggregate daily transactions on the New York Stock Exchange. Compare the amounts involved in the sale of stocks on the New York Stock Exchange in a week with the aggregate of the transactions of ordinary business as evidenced in the weekly bank clearings of the cities reported in the United States press. Yet the whole country is sitting up and daily discussing stock quotations made by a few buyers and sellers in small amounts on the New York Stock Exchange. As far as its present business is concerned as compared with the aggregate of the Nation's ordinary business the New York Stock Exchange is a peanut stand.

Mr. HILL. What has brought about this changed attitude?

General DAWES. Prosperity in this country is bound to return, just as surely as the sun rises in the morning, and it is not a question of what this individual thinks or that individual thinks. It is not because of what people think that they act in the mass. It is because of what they feel. You can not have a people like the American people down in the ditch that we have been in for a couple of years, without their climbing out of it. They are feeling better right now. If what has happened recently, in connection with business receiverships, and so forth, had happened three or four months ago, it would have scared everybody. Now it is taken as a matter of course.

I remember a cartoon of John McCutcheon's—I think it was after the panic of 1907—which illustrates how differences in mass attitude depend upon the feelings, or in other words how the attitude of the average man depends upon his feelings. The first picture was of a man and his wife at the breakfast table. The man is pictured with perspiration on his forehead, as he is reading his morning paper, saying, "My God, the country has gone to hell. Five banks have failed." John did not say exactly that, but it conveys his meaning. Then labeled, "Three months later," we have the same picture, of the same people, and as he reads his morning paper the husband says, "Why, my dear, things are getting much better; only 135 banks failed to-day."

There you are. It is mass attitude that counts. It is not what this man thinks or that man thinks. It is not what Wall Street thinks down there at present at least in the peanut business—not at all. It is how the great mass of the people, not think, but feel. And they are feeling better. You take it from me, we are approaching business recovery and that renewed activity in business exchanges that we call prosperity.

Now, prosperity never comes quickly. When the mass attitude suddenly changed, as it did in June, 1929—not October—June was the time when the consumption of electric power, the best index of mass business attitude, commenced to decrease—when the mass attitude changed from optimism to pessimism in June, 1929, the fact was quickly apparent. Nobody at least doubted it in October when the stock panic occurred. Thus when the change comes from pessimism to optimism, the change is just as sudden, but the effects of it are much slower to be felt. Business is a great, ponderous machine. You can stop a big machine quickly, but it takes a longer time to get it started. But the foundation for the recovery is the now changed mass attitude of the people of the United States, and that change is indicated by those figures relative to the banking situation in the United States which I read to you in connection with the operations of the Reconstruction Finance Corporation.

What was the reason that all over the United States, at about a given time, the mass attitude changed to one of confidence from one of fear and distrust? I may seem to have claimed too much credit for the Reconstruction Finance Corporation in this connection—though great credit is due to it—at least the Reconstruction Finance Corporation greatly helped toward that change. But that change would have been an inevitable change in time, because it is in accordance with fundamental laws of human nature and human reaction.

Mr. Hill. General, what destroys this confidence of the people generally?

General Dawes. Credit always grows out of proportion to the cash in which it is payable, until there comes a time when that disproportion is of such magnitude that it becomes generally evident. Then as people suddenly realize that there is not nearly enough money in existence to sustain the credits, which call for payment of money, they start collecting their notes and credits all at the same time. That is a panic and demonstrates an existing unsound relationship between the money in circulation and the amount of outstanding credits. Then occurs a rapid reduction of credits and purchasing power. While some other things like threatened war may destroy business confidence, a too great credit inflation eventually always destroys confidence.

The country has gone through a great deflation of unsound credits. As natural laws have brought about that deflation, those same natural laws will bring about a return of prosperity to this country, if we do not destroy confidence by impairing the soundness of our currency.

Mr. HILL. The volume of the currency, then, has nothing to do with the volume of credit; is that the idea?

General DAWES. I do not say that; but the volume of credit outstanding at any time depends on general confidence more than upon the volume of currency. Upon general confidence depends the preservation of our banking credit, which incidentally furnishes 95 per cent of the circulating medium of the country. Ninety-five per cent of our business is done by checks as compared with 5 per cent by currency. I may have that figure a little high. Is that so, Kemmerer?

Professor KEMMERER. I think it is nearer 90 per cent, General.

General DAWES. It is nearer 90 per cent; and 10 per cent in money.

Mr. TREADWAY. General, your criticism of the so-called Patman plan was based upon a careful study of its provisions?

General DAWES. Yes.

Mr. TREADWAY. You decline, and rightly, to express an opinion on something that you have not looked into?

General DAWES. Yes.

Mr. TREADWAY. Namely, the so-called Owen or Thomas plans.

General DAWES. Now, do not ask me to do that. I have got enough to do now.

Mr. TREADWAY. I want to ask you one other question. If the committee saw fit to ask you to study those plans——

General DAWES (interposing). Oh, hell!

Mr. TREADWAY. Would you consent to do that, and give us your judgment on them?

General DAWES. Why, I suppose I have got to, if you tell me to do it. But we are working on our board night and day. We pass on many cases a day.

Chairman Rainey referred to some of the political talk about the Reconstruction Finance Corporation and giving away money to big corporations and discriminating between large and small corporations, and so forth. It would be easy enough for us to form a little committee on the board to report out political buncombe and smut, but we are not in that line of business.

You want us to do a business job and we are going to do it, politics or no politics, and it does not make a damned bit of difference what anybody says about it. We will do our duty. We will make our mistakes, but we will do the best we can.

Mr. TREADWAY. The reason I asked that question was that it seemed to me you have so thoroughly analyzed the demerits of the

Patman bill that, speaking personally, I will be glad to know your reaction after a further study of the other two measures that are before the committee.

General DAWES. You can not pass on 1,700 loans in less than 11 weeks without doing a lot of work and when you have got important questions that come up in relation to these business loans—40 or 50 of them a day, sometimes—it takes up all of your time.

You passed that Reconstruction Finance Corporation law. I was unfortunate enough to be appointed to the board. For heaven's sake let me have time to do my work.

Mr. TREADWAY. I would not say "unfortunate." I would say it was very fortunate for the country.

Just one other question, Mr. Chairman. I rather take it, General, from the general drift of your testimony, that you do not favor any artificial method of expanding the circulating medium of the country, whether it is for this purpose or any other purpose.

General DAWES. Congressman, I have said all I have to say. Don't try to make me out as knowing more than I do. I want to study things that come before me. That is a damned good thing for a Congressman to do, sometimes. Study it yourself, instead of coming to me for it. Why don't you ask me about the Missouri Pacific case?

Mr. RAINEY. I will ask you about that, General. That has been criticized a good deal, and I would like to have your explanation of it.

General DAWES. I am glad to give it, and I will read two memoranda on the subject.

MEMORANDUM ON THE SECURITY BEHIND THE LOANS TO MISSOURI PACIFIC RAILROAD CO.

The Reconstruction Finance Corporation has loaned to the Missouri Pacific Railroad Co. $1,500,000 on February 13, 1932, and $2,800,000 on February 20, 1932, and under date of March 26 agreed to a further loan of $12,800,000. The first loan of $1,500,000 was for the purpose of covering in part interest maturities and principal installments of equipment trust obligations due February 1. The second loan of $2,800,000 was for the purpose of meeting in part interest requirements due March 1. The loan authorized on March 26 was to the extent of $5,800,000 for the purpose of discharging 50 per cent of bank loans due on April 1, to the extent of $2,150,000 for the payment of overdue vouchers, to the extent of $595,000 for maturing principal installments of equipment trust obligations, to the extent of $2,700,000 for interest accruals, to the extent of $1,005,000 for the payment of taxes, and the remaining $500,000 for advances to a subsidiary company for its interest requirements.

As collateral security against the two first loans the corporation holds $7,200,000 Missouri Pacific Railroad Co. first and refunding mortgage 5 per cent gold bonds, series I, due in 1981, and for the remaining $12,800,000, approved March 26, the corporation is offered $15,050,000 of the above bonds, 114,750 shares Texas & Pacific Railway Co. common stock, $1,000,000 Denver & Rio Grande Western Railroad Co. refunding and improvement 6's, $1,900,000 New Orleans, Texas & Mexico first mortgage 4½'s, also 1,600 shares of the capital stock of the Fort Worth Belt Railway Co.

The above first and refunding mortgage bonds are outstanding in the hands of the public in the amount of $224,040,500; $7,200,000 are pledged with the corporation under loans now outstanding, and $15,050,000 are offered as collateral under the loan approved March 26. There will remain an additional $7,750,000 pledged under bank loans. These bonds are secured by direct first lien on the company's railway properties and on certain securities of subsidiary and affiliated companies, subject only, as to certain parts of the railroad, to the prior lien of $50,950,000 in bonds and $23,727,600 in equipment trust obligations; the first and refunding mortgage bonds are also secured by a lien on the entire outstanding preferred stock of the Texas & Pacific Railway Co.

The interest accruals on obligations prior to the collateral securing the loans to Reconstruction Finance Corporation aggregate approximately $3,170,000 annually. The interest accruals on the first and refunding mortgage bonds outstanding with the public, and on the indebtedness of the company to the Reconstruction Finance Corporation secured by such bonds, and on the bank loans also secured by such bonds will together require approximately $12,650,000 annually. Therefore the total interest requirements of the company's outstanding indebtedness represented by first and refunding mortgage bonds, obligations of senior rank the obligations secured by the pledge of first and refunding mortgage bonds will together aggregate $15,820,000.

The average annual earnings of Missouri Pacific Railroad Co. over the 10 years ending December 31, 1931, were $20,968,000 available for interest. In the year 1931 the company earned $21,750,000 available for interest. In addition to the interest accruals on the bonds offered as collateral and on obligations secured by the pledge of such bonds, the company has outstanding various obligations of junior lien with interest requirements aggregating $5,300,000 annually, but the interest requirements of these obligations have no claim on the earning power of the company except after satisfaction of the requirements of the indebtedness to Reconstruction Finance Corporation and the bankers, and the requirements of the first and refunding mortgage bonds and obligations of senior lien. The valuation of the physical property of the company is reported at $454,000,000. Prior liens of various underlying bonds and equipment obligations aggregate $75,677,-000. Two hundred and twenty-four million dollars of the first and refunding mortgage bonds are in the hands of the public, and $30,000,000 will be pledged with the corporation or with the banks as security for notes. Therefore, the outstanding indebtedness of lien equal or senior to that of the collateral offered as security is $329,000,000, or approximately 73 per cent of the reported valuation. It will be noted that this valuation does not include the various security issues pledged under the first and refunding mortgage, such as the preferred capital stock of the Texas & Pacific Railway Co.

As noted above, Reconstruction Finance Corporation will have as collateral under its notes a total of $22,250,000 Missouri Pacific first and refunding mortgage 5 per cent bonds, made up of $7,200,000 already held and $15,050,000 to be pledged. The interest accruals on the 5 per cent bonds held as collateral would aggregate $1,112,500 annually; the interest accruals on the indebtedness of the company to the corporation, which will aggregate $17,100,000, will amount to $1,026,000 annually. Therefore, if the collateral should be reduced to possession the corporation's position would be even more favorable than on the basis of present rates of interest accruals, since the interest requirements on the notes represent only 92 per cent of the interest accruals of the pledged bonds. Applying this factor to the interest accruals noted earlier herein, it is evident that only $11,638,000 annually would be required to cover 92 per cent of the interest requirements on the first and refunding mortgage bonds as they would be outstanding if all the collateral held by this corporation and the banks were reduced to possession. Adding to this the requirements of senior obligations, it appears that approximately $14,800,000 annually would cover the interest requirements in the event of reduction to possession, as against which, as noted above, the company earned $21,750,000 in 1931 and $20,968,000 over the average of the 10 years ending December 31, 1931.

In addition to Missouri Pacific first and refunding mortgage bonds, the corporation is offered $1,000,000 Denver & Rio Grande Western refunding and improvement 6's, which are an issue of lesser importance, and $1,900,000 New Orleans, Texas & Mexico Railway Co.'s first mortgage 4½ per cent bonds. These latter bonds represent a first mortgage issue of one of Missouri Pacific's most important subsidiaries and for collateral purposes these latter bonds are entitled to a rating comparable to that applicable to the Missouri Pacific first and refunding issue. The common capital stock of the Texas & Pacific Railway Co. offered as collateral represents half of Missouri Pacific's holdings in this latter road and slightly over 29 per cent of the entire issue. The valuation of Texas & Pacific and its wholly owned subsidiaries on the basis of Interstate Commerce Commission valuations of 1916, plus additions and betterments to December 31, 1931, while not officially determined by the Interstate Commerce Commission, apparently will work out at slightly in excess of $100 per share for this common stock. Texas & Pacific has an excellent earning record, having shown average earnings of $8.58 per share on the common over the period 1924–1931, both inclusive, including earnings of $2.20 per share in 1931 and a high record of $17.57 in 1928. Agricultural development in west Texas and the growth of the oil industry in that area during recent years have added substantially to the earning power and future prospects of this road. In addition, Texas & Pacific Railway Co. is in the oil business itself as a result of the development of oil fields on tracts through which its right of way passes in east Texas. It has approximately 12 wells of its own, with large shut-down potential production, and prospective holdings not yet drilled.

The $5,850,000 of the loan which was for the purpose of repaying half of the bank loans released for pledge with the Reconstruction Finance Corporation $7,750,000 principal amount of Missouri Pacific first and refunding mortgage 5 per cent bonds and 114,750 shares Texas & Pacific Railway Co. common stock.

In average normal times the Missouri Pacific first and refunding mortgage 5 per cent bonds sold at around 95. Texas & Pacific Railway Co. common stock, with an asset value in excess of $100 per share, was worth on the average record of earnings at least $75 per share; it sold as high as 194 in 1928, 181 in 1929, and 145 in 1930. Figuring the Missouri Pacific bonds at 95, the amount released from the bank loan to pledge with the corporation as collateral would be worth $7,362,500 and the Texas & Pacific stock released from the bank loans for pledge would be worth $8,606,250 at 75.

Therefore, the loan of $5,850,000 for the purpose of paying one-half of the bank loans released, for pledge with this corporation, collateral having a value, in normal times, of at least $15,968,750, or two and three-fourths times the total amount advanced toward repayment of bank loans.

You will note that the collateral which the banks turned back to the railroad company, which they held on their $5,850,000 note and which the railroad company put up as a part of the collateral for the $17,100,000 it borrowed from the Reconstruction Finance Corporation, was $7,750,000 Missouri Pacific first and refunding 5 per cent mortgage bonds, Series I, 1981, and 114,750 shares of Texas & Pacific Railway Co. common stock. I asked the experts of our board the other day to find out as nearly as they could what the appraised value of this collateral was, based on current stock and bond quotations on the New York Stock Exchange, although the present, as everyone knows, is a time of deep depression in stock exchange valuations. They brought me a report based on market values as of the week ending last Saturday, April 16, 1932. The high price paid on the New York Stock Exchange, during the week ending Saturday, April 16, 1932, for such bonds was 37, which, applied to $7,750,000 bonds, indicates an appraised value of $2,867,500. The low price paid during the same week was 29, which on the same bonds indicates an appraised value of $2,247,500. There was no sale during that week of Texas & Pacific Railway common stock, but the asked price was 30, which, applied to 114,750 shares, indicates an appraised value of $3,442,500. The bid price on Texas & Pacific stock was 15, which on the same stock indicates an appraised value of $1,721,250.

Adding the high appraisal of the bonds at 37, and the stock at the asked price of 30, we have as the high appraisal of the value of the collateral during the week ending Saturday, April 16, 1932, $6,310,000. Adding the low appraisal of the bonds at 29 and the low appraisal of the stock at the bid price of 15, we have as the low exchange appraisal of the value of the collateral $3,968,750. The average of these two sums gives an appraised exchange value of the collateral during the week ending Saturday, April, 16, 1932, of $5,139,375.

Mr. VINSON. General Dawes, you gave the valuation of the securities as of a recent date. What date was it?

General DAWES. During the week ending Saturday, April 16.

Mr. VINSON. What was the date of the loan to the Missouri Pacific?

General DAWES. March 26, 1932.

Mr. VINSON. Will you state for the purpose of the record what was the valuation of the securities that were placed with you on the date of the loan?

General DAWES. On March 26, 1932, the combined valuation of the bonds at 42¾, which was the lowest sale that day, and the stock at the bid price of 18 was $5,378,625; the sum of the market value of the bonds at the highest sale price of 44¾ and the stock at the bid price of 30 was $6,910,625; the average of these two figures is $6,144,625.

I have here a memorandum on loans to the Missouri Pacific Railroad Co. which I would be glad to read [reading]:

Reconstruction Finance Corporation has loaned Missouri Pacific a total of $17,100,000, $5,850,000 of which was for the purpose of paying half of certain bank loans due April 1 and the balance for back vouchers, taxes, interest, equipment maturities, and similar purposes. As security the corporation holds $22,250,000 Missouri Pacific first and refunding mortgage bonds, 114,750 shares Texas & Pacific Railway Co. common stock, also $2,900,000 bonds and 1,600 shares of stock of some Missouri Pacific subsidiary and affiliated companies. Under average normal conditions of the past this collateral would have had a market value of nearly $33,000,000.

You see, the Missouri Pacific for 10 years before last year earned about $21,000,000 a year and even in 1931 it earned a net of over $20,000,000, which kept the price of these securities high.

Continuing with this memorandum:

Under average normal conditions of the past this collateral would have had a market value of nearly $33,000,000, since the Missouri Pacific bonds pledged are a high grade issue which for years sold at around 95, and Texas & Pacific Railway Co. has been an increasingly profitable road with an established growing earning power, the common having been worth on the average record of earnings at least $75 per share and selling at nearly $200 in recent years.

You see, these loans that we are making, are on liquidated values. That is one reason for my confidence of repayment of the money that has been loaned out in time with a fair rate of interest. The fact that the securities are sound enables us to more surely count on the value of the collateral than if we were loaning in a period of inflation [reading]:

The collateral released and made available to the corporation by the repayment of half of the bank loans would in itself have been worth about $16,000,000 in normal times—

That is a year or so ago, the security on this $5,850,000 would have been worth about $16,000,000 on the market—

And, since repayment of half of the bank loans by an advance of only $5,850,000, or 34 per cent of the total loans to the Missouri Pacific Railroad Co., released nearly half of the normal value of the collateral now held, repayment of these bank loans added a very substantial amount to the collateral available for the protection of the corporation. Without repayment of the bank loans and the release of the collateral the corporation would be in the position of holding a note of Missouri Pacific Railroad Co. for $11,250,000 secured by collateral having a value under average normal conditions of approximately $17,000,000, whereas a loan of $5,850,000 additional for repayment of half of the bank loans brought in additional collateral with a normal average valuation of $16,000,000.

The indebtedness of Missouri Pacific to Reconstruction Finance Corporation, together with all equal or underlying indebtedness, covers only 73 per cent of the reported physical valuation of the road, without including its important security holdings, such as the preferred stock of the Texas & Pacific Railway. The annual interest requirements of the indebtedness of the Missouri Pacific to the Reconstruction Finance Corporation, together with all interest on equal or underlying indebtedness, aggregates only 60 per cent of the average earnings over the 10 years ending December 31, 1931, and only 58½ per cent of the earnings in 1931.

The collateral taken by the Reconstruction Finance Corporation is ample under any analysis based on the average normal conditions of the past, or from the standpoint of property valuations; and on the same basis of analysis, which is the basis on which the corporation must necessarily determine values if it exists for the purpose of restoration of normal conditions, its margin of collateral is greatly improved by the repayment of these bank loans.

The Reconstruction Finance Corporation is endeavoring to do business on a proper basis as it sees it. Democrats and Republicans both joined in enacting the law, creating it, and it was a joint accomplishment. It was born of high patriotism and national idealism. Political differences should not involve this nonpartisan Reconstruction Finance Corporation.

If we make mistakes on the board wait until the country has commenced to get into a business recovery and then give us hell individually if you will. But we will have done our best.

Now, that does not mean that we do not invite discussion, and public discussion, of our transactions in connection with these large railroads loans. The Reconstruction Finance Corporation expects and welcomes it. But I depreciate the kind of talk that Congressman Rainey referred to at the beginning of this session, that the Reconstruction Finance Corporation is devoting its time and attention to large corporations and to large interests as distinguished from the interest of small institutions.

The work of the Reconstruction Finance Corporation is work for the people of the United States, for the credit of the United States, and to bring back normal business and living conditions. I never saw any people or any Government help themselves financially by giving money away. But with the Reconstruction Finance Corporation you are not giving money away. You are loaning it on adequate security.

Mr. WATSON. The policy of the Reconstruction Finance Corporation has been not to loan money to a corporation in order for them to pay dividends?

General DAWES. We have not made any such loans as that. I am speaking for myself. It is impossible for me to announce policies for the board. But I will say this, that we are considering each case as it comes up on its individual merits; in relation to the general situation, the emergency need, its special conditions, and primarily as to the adequacy of security. But a loan such as the one you mention would not seem to me to be a proper one for us to make.

Mr. WATSON. I understand that, but which is to the greatest interest of the public, for the railroads to borrow money to develop the railroads or to pay dividends?

General DAWES. That is a question which might arise in connection with applications that are made by certain roads to borrow money to make improvements and employ labor. It is practically impossible, except along the most general lines, for me, as a single member of the board, to talk in terms of policy.

Mr. WATSON. But the policy must be the foundation upon which you make your loans.

General DAWES. I am willing to say as far as I am concerned, as a single member of the board, I would not approve a loan to a railroad company for the sole purpose of paying dividends on stock.

Mr. WATSON. I agree with you.

Mr. HILL. General, the comment on this Missouri Pacific loan seems to revolve around the fact largely that half of the money was paid to the New York banks. What would have been the result of the Reconstruction Finance Corporation had it not made the loan? Would it have resulted in the bankers taking over the railroad?

General DAWES. I do not know.

Mr. HILL. From the standpoint of the public interest, would the public interest have been adversely affected if the group of New York bankers had continued to carry the loan or had forced payment of it or perhaps had taken over control of the Missouri Pacific? How would those different courses of action have affected the public interest?

General DAWES. Well, that is a hypothetical question.

Mr. HILL. Without any imputations against the Government or the corporation in actually extending this credit, I just wanted to get your idea as to what the advantage was to the public. From the public standpoint, what was the advantage in making this loan to the Missouri Pacific Railroad Co., where half of it went to a group in New York?

General DAWES. Well independent creditors all have contractual rights and powers. You take, for instance, the case of the other corporations with which we deal besides railroads, such as bank corporations and loan and building associations, for instance, that borrow money from the board. They often owe money to their correspondent banks, who have collateral, and to other existing creditors. When we are deciding whether we will become a creditor ourselves we do not want to agree to make the loan until all of the existing differences between the borrower and its other creditors are adjusted. Not until then can we make the loan on a safe business basis. And so far as the Reconstruction Finance Corporation is concerned, when this adjustment was made between the banks and the railroad for the renewal of $5,850,000, it meant a case to us which we could consider on the basis of adequate security and make the loan safely under the general purposes of our corporation.

Mr. RAGON. You knew at the time you made this loan what they were going to use it for, did you not—your board did?

General DAWES. Did what?

Mr. RAGON. They knew they were going to retire part of this bank loan?

General DAWES. Oh, yes. The terms were certified up to us by the railroad in their application for the loan.

Mr. Ragon. In other words, you make one of these concerns that applies for a loan lay its cards on the table, all of the conditions—in this instance, their physical equipment and their credit condition.

General Dawes. Yes.

Mr. Ragon. And then you use your business judgment as to whether or not you will make the loan?

General Dawes. Yes. And our business judgment is, of course, where there is a row among the creditors, or a row in the corporation that is trying to borrow the money, we want to know that is adjusted before we can safely make the loan and hope to do the situation any good.

Mr. Vinson. That $5,800,000 is part of the picture?

General Dawes. Yes, that is part of the picture.

Mr. Ragon. General, you have a uniform interest rate, have you?

General Dawes. Yes, sir.

Mr. Ragon. That you charge the Missouri Pacific Railroad, or a little bank in the country?

General Dawes. We charge 6 per cent on all railroad loans and the little bank in the country we charge 5½ per cent and the larger banks the same.

Mr. Ragon. Our experience with the War Finance Corporation was the Government made a little money out of its operations, did it not?

General Dawes. I think it did, but do not have exact information about it.

Mr. Ragon. That is what I am going to ask you: In your judgment as a business man, you think the Government of the United States will make money out of this, in place of losing it?

General Dawes. I think so; yes, sir.

Mr. Ragon. Whenever you help a bank, can you figure any institution that you can help in a community that would be more beneficial than helping a bank?

General Dawes. No, sir. I think that is our most important work.

Mr. Ragon. You not only help the directors of the bank, the stockholders of the bank, but the depositors of the bank, and the business of practically every man, whether he is a merchant, or laboring man, in that community?

General Dawes. Certainly.

Mr. Ragon. I want to say to you that before you went into operation there was hardly a day in my State of Arkansas that there was not a bank failure and, since that day, I do not think we have had a single failure. That is how effective it has been in Arkansas.

General Dawes. Another thing about the Reconstruction Finance Corporation, we do not send out our agents to solicit loans; we are not in the soliciting business. Hell; it's not necessary. They just come. [Laughter.] And, therefore, the cases which come up to us are based on necessity.

Anybody sitting on the board where I am sees things are getting better in this country, and we are in a damned sight better position to see it than people over there on the stock exchange, fooling at present with a peanut stand. We on the board get a cross section of the whole country.

Mr. Ragon. Under this same act, we provided $50,000,000 to be loaned to the farmers, and that it could be expanded by the bond issue provisions up to $200,000,000.

General DAWES. Say that just once more.

Mr. RAGON. I say under the act creating the Reconstruction Finance Corporation, we also provided for the advancement of $50,000,000 out of the Treasury to the farmers in the country and that was also, under the same terms we provided for reconstruction, subject to an expansion of $150,000,000.

General DAWES. You are referring to the portion of our $2,000,000,000?

Mr. RAGON. Yes, sir.

General DAWES. I see, yes.

Mr. RAGON. Now can you give us any information as to how much of that has been loaned?

General DAWES. No, I could not; you would have to get that from the Secretary of Agriculture. We do not have time, Congressman, to attend to anybody else's business than our own.

Mr. RAGON. I wonder if you know that money is going to the very poorest class of farmers we have in this country, men who are unable to get supplies from merchants, men who are unable to get any loans whatever from the bank—that the very poorest class of people in this country are the ones who are being aided.

General DAWES. Yes. I think the average loan is—what is it now, $450?

Mr. RAGON. They limited it to $400 and the average loan, I judge, is far less than $100. I think that is true.

Mr. HILL. About $139.

Mr. RAGON. Judge Hill says it is about $139. So, if that is all true, through the help to this great class of people that have been hit hard in this depression and also the help that is reflected down through the banks, and when you help the Missouri Pacific Railroad, you certainly help the laborers that work on the section, and everywhere else, do you not?

General DAWES. Yes.

Mr. RAGON. And if that is all true, then we benefit through this organization of yours?

General DAWES. Yes. If we do not help, it is not because we have not done our duty as Congress told us to do. It told us to make loans to the railroad companies, and I have not noticed in Congress, as a rule, anything but the most just comments upon us. We have to make big loans, because a railroad is a big corporation; an insurance company is a big corporation. I think on just the point you make, especially if you take the Wabash Line, there was about $5,000,000 of that money that was spent for overdue vouchers in the grocery stores, and the country stores, and the village establishments along there, and somebody along the line wrote to me about the increased employment they were getting because of the loan to the receivers of the Wabash.

Mr. RAGON. Here is a note that has just been sent up to me by a Congressman here, which states that in the State of North Carolina information comes to his desk this morning that under this law there has been advanced loans to over 30,000 farmers in the State of North Carolina.

General DAWES. Well, are you all through?

Mr. RAINEY. Are there any further questions? If not, we thank you, General Dawes.

General DAWES. Thank you, gentlemen.

Mr. WATSON. Mr. Chairman, I would like to read into the record a statement from the Willet C. Sanford Post No. 433 of the American Legion, Morrisville, Pa., in favor of the payment of the bonus.

Mr. RAINEY. Without objection, it will be put in the record.

(The paper above referred to is as follows:)

MORRISVILLE, PA., *April 20, 1932.*

Hon. HENRY W. WATSON,
House of Representatives, Washington, D. C.

DEAR MR. WATSON: At a recent meeting of this post the question of payment of the so-called soldiers' bonus was discussed and it was unanimously agreed by members assembled that the Government should make immediate payment of this debt.

I trust when this question comes up for action that you will give the matter your consideration and that you will stand with the veterans in the payment of this debt.

Thanking you, I remain,
Sincerely yours,

JOHN B. SUMNER, *Adjutant.*

Mr. RAINEY. Now we will call Professor Kemmerer, of Princeton University.

STATEMENT OF PROF. EDWIN WALTER KEMMERER, RESEARCH PROFESSOR OF INTERNATIONAL FINANCE, PRINCETON UNIVERSITY

Professor KEMMERER. Mr. Chairman and gentlemen, like General Dawes, I come here not at my own request, but at the request of the committee.

Mr. RAINEY. Professor, I presume you have already stated it for the record, but will you, for the benefit of the committee, state what position you occupy at Princeton?

Professor KEMMERER. I am research professor of international finance in Princeton University.

Mr. RAINEY. How long have you held that position?

Professor KEMMERER. I have been at Princeton since 1911–12 as professor; I have held this particular position only four years, but my last appointment was just a change of title.

Mr. RAINEY. Prior to that time?

Professor KEMMERER. Prior to that time I was professor at Cornell University.

Mr. RAINEY. On the same subject?

Professor KEMMERER. Yes. A good deal of my time in recent years has been put in as financial adviser, particularly as banking and currency adviser, to foreign countries. I have served some 12 different nations in that regard.

Mr. RAINEY. Will you name the countries?

Professor KEMMERER. I was currency expert to the Philippine Government from 1903 to 1906; I served as currency expert for Mexico in 1917; for Guatemala, in 1919. I was president of the American Commission of Financial Advisers to Colombia in 1923. One of its jobs was to get Colombia on the gold standard and establish a central bank, but we covered the whole field of national finance. I was currency and banking expert for the Dawes Commission in 1924; I was currency and banking expert for Guatemala in 1924.

Along with Gerard Vissering, the president of the Bank of the Netherlands, I was currency expert for the Union of South Africa in 1925, and also currency and banking expert and president of the American Commission of Fiancial Advisers to Chile in 1925; currency and banking expert and president of the American Commission of Financial Advisers to Poland in 1926; the same to Ecuador in 1927; the same to Bolivia in 1927. I was financial expert and counselor to the Republic of China in 1929. I was president of the American Commission of Financial Advisers to the Republic of Colombia in 1930, and president of the American Commission of Financial Advisers to Peru in 1931.

I think that covers the 12 countries. In a good share of these countries, the majority of them, the work involved, among other things, the establishment of the gold standard; the working out of a plan of legislation for its administration; the establishment and administration of a central bank, and the reorganization of the general banking system of the country.

Inasmuch as I was invited by the committee, I have prepared no long general statement, for I assumed the committee would have certain definite questions to ask me. I am very glad to testify on this bill, because I feel very deeply that the welfare of the United States, for years to come, is at stake. I will make a brief general statement and then will be glad either to develop the points on my own initiative, or to try to develop them in connection with any questions you may care to ask.

My interest in this subject and my knowledge of it, such as it is, is primarily from the standpoint of currency and banking. The Patman bill, or the Thomas bill, if enacted into law, would, in my judgment, not accomplish its alleged purposes of benefiting the American public through an orderly stimulation of business activity and through the conferring of a permanent benefit upon World War veterans in particular. On the contrary, it would probably do great harm to the American people and be detrimental to the permanent interests of the ex-service men.

The immediate effect would probably be deflationary, but the ultimate effect would almost certainly be strongly inflationary. We are suffering to-day not from a scarcity of money, but chiefly from a collapse of confidence. The amount of money in circulation in February of this year was about 19 per cent greater than at the boom period of three years ago. (See chart, Money in Circulation, p. 409.) Bank deposits of reporting member banks were only 17 per cent less; while the physical production of the country—I am not saying industrial production, but the physical production, covering agriculture, railroads, industry, and so forth—that is, in tons, bushels, yards, ton-miles, and so forth—the physical production was about 25 per cent less than three years before, according to the estimates of the New York Federal Reserve Bank. Wholesale prices were approximately 31 per cent less. We are doing something like 25 per cent less business physically than we did three years ago; we have about 19 per cent more money to do it with; we are doing it at a wholesale price level about 31 per cent less, and our bank deposits have declined only about a sixth.

The trouble is our money and our deposits are moving very slowly and this is true because the public has so greatly lost confidence.

I have figures here which I can give you in some detail, if you care about them, and I have some charts which I can submit on this subject. I would say that the great trouble is that we are suffering from shell shock, resulting largely from the collapse of the security market in 1929.

Mr. RAINEY. Is that to go in the record?

Professor KEMMERER. I will give the figures later, if you care to have them. This is just a general summary and I assumed probably those points would be developed. As I say, the country is suffering from shell shock resulting from the collapse of the speculative boom that preceded the autumn of 1929. Large amounts of money are hoarded and, what is almost infinitely more important, the average rate of turnover of our bank deposits and, likewise, of our money, has been cut down tremendously.

We do something like 90 per cent of our business in this country by means of bank deposits circulating through checks and only about 10 per cent by means of hand-to-hand money. In a normal year, we probably do in the United States by means of checks something in the neighborhood of a trillion dollars' worth of business. We did more than that in 1929 and somewhat less in 1930.

We have in the country, we will say, leaving out savings deposits in mutual savings banks, normally from forty to forty-five billion dollars' worth of deposits, of which something like twenty-four to twenty-six billion are demand deposits subject to check; and these demand deposits turn over on the average, in a normal year, probably in the neighborhood of 35 to 40 times. The average rate at which those deposits have turned over has been cut tremendously, since three years ago. The average rate of turnover in 1929 in 141 leading cities of the United States, as computed by the Federal reserve authorities, was 78, while for 1931 it was 41; in other words, for these cities which of course have a higher average rate than the country as a whole, it was nearly cut in half in three years' time. (See chart, Annual Rate of Turnover of Bank Deposits, p. 411.) That is the vital, the most important point in the whole situation. We have the money; we have the bank deposits; we are afraid to use them.

The most important need of the present is to revive confidence, particularly on the part of those industrial, commercial, and financial leaders upon whose initiative revival of industry chiefly depends. I believe the recovery from this world depression will have to come, the leadership will have to come, largely, from the United States. We are a young country; we are a large country; we are vigorous; we are buoyant; we have initiative and, in ordinary times, we grow faster than the rest of the world. The civilized world, leaving out of account the more backward countries such as India and China, normally, year in and year out, increase their physical production about 3 per cent a year. That is, including the United States. We in the United States increase ours normally about 4 per cent a year. And because of that vigor, that buoyancy, we are likely to take the lead, and the leadership will have to come to a great extent from the people who have been leaders in the past. I can imagine few things, however, that would do more to destroy confidence on the part of these people, upon whose initiative we must depend to lead us out of this slough of despond

I can imagine few things that would drive them down deeper, that would increase more their present fit of blues, than to adopt a measure of this kind.

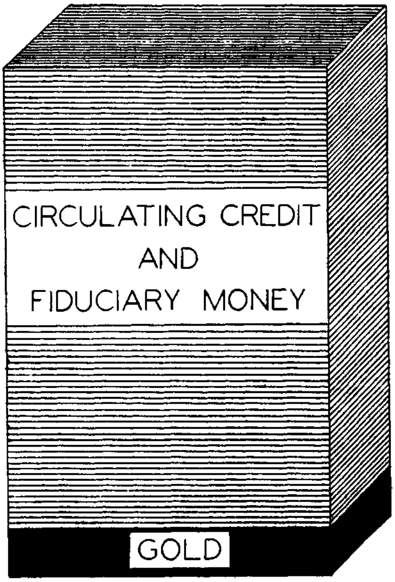
The immediate result of the passage of such a measure, or even of its anticipated passage, would be a blow to the little financial confidence that is left on the part of these people and also to the confidence abroad in America's gold standard. This would lead to a great increase in hoarding, as the breakdown of the gold standard in England last September did even in this country. It would lead to a great increase in hoarding, which, in this case, would probably be to a large extent and to an increasing extent not like the hoarding of recent months; it would be a hoarding of gold and of gold certificates, rather than of other forms of money; because the people would be fearful of the other forms of money, if they were expecting a breakdown of the gold standard. It would cause a heavy withdrawal of gold from the country by foreigners having liquid credits here, and by other foreigners who would obtain gold through the sale of their security holdings, dumping them on the market even at heavily sacrifice prices. It would temporarily still further reduce the rates of monetary and deposit turnover. All this would spell deflation. Gold would go out of the country; money in the country would be hoarded; people that had it would be afraid to use it, and you would have a temporary period of greater scarcity of money and of greater lack of confidence than you have now. And so that would defeat the immediate purposes of stimulating business.

I would expect, therefore, the immediate results of this measure to be deflationary and not inflationary. But that is the only immediate effect. Very soon the deflation would turn into a very strong inflation. The increased hoarding, the flight of gold and of capital and the general psychology of fear that such a measure would create would probably soon break down the gold standard through excessive withdrawals of gold and, when once that standard was broken down, increased paper money inflation would almost certainly follow, as it has in every such instance I know of in the past.

The public, anticipating paper money depreciation, would begin to move their money and their bank deposits more rapidly; they would tend to drop the thing that was going down, namely, inconvertible paper money and deposits payable in this money. This would mean paper money inflation and, in my judgment, it would very soon mean a return to the greenback experience of the years 1862 to 1879. In such a period of depreciating paper money the veterans would suffer losses compared with which their small bonus payments would be of little consequence.

Among the ways in which a breakdown in the gold standard and a resulting period of depreciated and depreciating paper money would affect unfavorably the World War veterans, one may mention the following: It would reduce the value of the dollar in which their bonus, their life insurance, and their pension would be payable; it would reduce the value of the dollar in which their bank deposits and any of their long-time investments, and their holdings in building and loan associations, would be payable; it would probably reduce, for a considerable period of time, the value, namely, the purchasing power, of their wages; because, during period of depreciating money and rising prices, wages nearly always lag behind prices and the cost of living on the upward movement. That was true during the Civil War period and immediately after the Civil War; it was true during the inflation period of 1896 to 1913; it was true during the World War period, and it is nearly always true. On a strong upward movement, wages do not advance as rapidly as the cost of living. In general, it is my judgment that the enactment at this time of either the Patman bill or the Thomas bill would be little less than a national calamity, and that the veteran class in general would be one of the classes that would suffer most from such a calamity.

I have prepared here, for illustration, a drawing, to show in a rough way the relationship between our gold monetary base and the volume of circulating deposit credit and fiduciary money which it supports.



$$P = \frac{MV + M'V'}{T}$$

Roughly speaking, $1 of gold in the United States supports $10 of deposit credit and fiduciary money, while each dollar of deposit credit in the United States in our 141 leading cities now turns over on an average something like 41 times a year, as compared with about 78 times, three years ago. From four to five billion dollars of gold in the United States support a deposit credit structure 10 times that amount, of which over half are check deposits and those check deposits circulate normally at an average annual rate of 55 to 65 times for our leading 141 cities, and probably in the neighborhood of 35 to 40 times for the country as a whole. In 1929 that little four to five billion dollars of gold was the basis of business amounting to over a trillion dollars.

Now, if you inflate, it is not this stuff up here [indicating] that goes out; it is not the credit structure that moves out. The thing that moves abroad and the thing that moves into your hoards is the small gold base down here [indicating]. Gold goes out of a country for the same reason and for no other that wheat, or corn, or automobiles, or anything else goes out; it goes out of a country when it is worth more outside than at home, by enough to pay the expenses of transportation and yield a profit.

If all that money is at a parity and you dump into circulation two and a half billion more on top of the four to five billions already in circulation, increasing the circulation roughly 40 to 50 per cent, you have increased your money in the country out of proportion to the physical volume of business and out of proportion to the monetary circulation in other gold-standard countries. If your paper money and your bank deposits are all interchangeable with gold on the gold basis, and you increase the supply of money, money gets cheaper because you have more of it in relation to goods and, as it gets cheaper, a dollar of it becomes worth less here than it is abroad, in other gold-standard countries. And, if you smash confidence in your money, your demand for money falls off; people want to drop the money whose value is going down and get something that is not going down. So, after the break in confidence has taken place and inflation really starts, your price level goes up; your dollar depreciates; the paper dollar can not go out; the silver dollar can not go out; the deposit dollar can not go out, and the only dollar that is worth more abroad than it is at home is the gold dollar, and so your outward movement and movement into hoards come out of that little four to five billion dollars gold base which supports the whole circulating credit structure. And any action which threatens to destroy that base, particularly in a time when the public is in such a situation of unstable confidence, when everybody is so scared, as at the present time, is almost certain to lead to disaster.

Mr. Chairman, that covers my general statement. I will be very glad to try to answer specific questions, or to support any of these statements.

Mr. RAINEY. How much is our gold reserve at the present time, approximately, Professor?

Professor KEMMERER. The monetary gold supply of the United States in Government vaults and in Federal reserve banks is about four and three-tenths billions.

Mr. RAINEY. How is that allocated with reference to the different kinds of currency we have?

Professor KEMMERER. We have $156,000,000 belonging to the United States Government which is the gold back of the greenbacks and of the small amount of the Treasury notes of 1890 still outstanding.

Mr. RAINEY. Stopping right there, what is the greenback issue, based on that gold?

Professor KEMMERER. About $347,000,000, of which $280,000,000 are now in circulation.

Mr. RAINEY. That is near enough; I just want it approximately.

Professor KEMMERER. But that is not all that that gold supports. The gold standard act of 1900 declares it to be the policy of the United States Government to maintain at parity with gold all of the different kinds of money in circulation; and that $156,000,000 is the gold reserve upon which we depend not only for the maintenance of the parity of the greenbacks, but for the maintenance of the parity of practically all of our silver certificates, our silver dollars, and all of our different kinds of money in circulation, except the Federal reserve notes and the gold certificates. I have the figures here as of

February 29 last. The amount of standard silver dollars in circulation on February 29 was $31,000,000; of silver certificates, $363,000,000; of Treasury notes of 1890, about $1,000,000—I am just giving you the round numbers—of subsidiary silver, $260,000,000; of greenbacks, $280,000,000; and of national-bank notes, $691,000,000. Now, that $156,000,000 is the main reserve the Government has to support all this fiduciary money; the rest of the gold is held primarily by or for the Federal reserve banks. Most of the gold that is held by the Federal reserve banks is back of the Federal reserve notes.

Mr. Rainey. Can that be impaired?

Professor Kemmerer. I think the situation is this: When the Federal reserve act was passed, and under the influence of Mr. Bryan, it was provided that the Federal reserve notes should be obligations of the United States Government. Whenever a Federal reserve note is issued, the Federal reserve bank has to deposit with the Federal reserve agent, who is an appointee of the Government, at least 100 per cent collateral against that note. Of that collateral, 40 per cent at least must be gold, all the collateral against the notes, including this gold, is turned over to the United States Government; as I understand it, title is in the United States Government; it belongs to the United States Government, and the Federal reserve note is an obligation of the United States Government.

The rest of the Federal reserve bank gold—namely, all except that which is turned over to the Federal reserve agent—belongs to the Federal reserve banks themselves. That which is in the Federal reserve banks is the reserve against deposits, and those deposits of the Federal reserve banks are the reserve money of this whole Nation, and that gold, all of that gold, belongs to the Federal reserve banks, which are quasi-public institutions; it does not belong to the Government.

Mr. Rainey. Can we charge against that deposit any additional issue of notes, such as is contemplated in the Patman bill?

Professor Kemmerer. I do not believe you can.

Mr. Rainey. Under the Constitution?

Professor Kemmerer. I do not believe you can. I am not a lawyer, however.

Mr. Rainey. How much deposit is maintained against the gold and silver certificates?

Professor Kemmerer. Against the gold certificates there is 100 per cent of gold.

Mr. Rainey. Is that also security for the silver certificates?

Professor Kemmerer. No. Against the silver certificate there is 100 per cent silver dollars, but the value of the silver in the silver dollar is about 23 cents, according to the price of silver lately, and nobody is going to redeem silver certificates in silver dollars. So, in my judgment, the silver back of the silver certificates is negligible, so far as having any effect on maintaining the value of the silver certificate is concerned, and the gold which we have must support the silver certificates as well.

Mr. Rainey. If we should issue over $2,000,000,000 worth of new money, against what gold fund or on what gold fund could that be based, if it could be based on any, under existing law?

Professor Kemmerer. You are getting into a legal field there, and I am not a lawyer; but I should say that the $156,000,000 gold reserve back of the greenbacks in the Treasury could be used. The question as to whether the gold that is back of the Federal reserve notes could be used against other Government obligations I can not answer. But I should be very doubtful if it could. It seems to me that the gold, like the other assets against these Federal reserve notes, is a trust fund, or pretty close to being a fund held in trust for the holders of the Federal reserve notes. But I am getting out of my depth here; that is a legal question, and I am not a lawyer.

Mr. RAINEY. In connection with your remarks, at this point can you insert the Federal acts upon which these two reserves are based?

Professor KEMMERER. The $156,000,000 is based on the gold standard act of March 14, 1900, and the other reserves are based upon the Federal reserve act of December 23, 1913, as amended to date.

Mr. RAINEY. Then, if we could charge this over $2,000,000,000 worth of new money against the security for the greenbacks, what would be the gold reserve there in back of those combined issues?

Professor KEMMERER. Well, it would be negligible, because if you take these figures I have given you for the greenbacks, the national-bank notes, except the 5 per cent redemption fund that is against them, the silver certificates, and the few Treasury notes of 1890 that are out, and whatever we need against subsidiary money, if we need any, and then add two billion and a half of Treasury notes on that, your poor little $156,000,000 would not be worth looking at.

Mr. RAINEY. And what effect would that have on the value of the outstanding greenbacks and probably the additional notes which are contemplated by this bill?

Professor KEMMERER. I think, Mr. Chairman, the question can be viewed better if we think of the supply of money as a whole in the country. While certain gold reserves are pledged against different kinds of money, respectively, part of the gold is pledged against this and part of the gold is pledged against that [indicating]; up to the present time, and generally since 1879, all of our various kinds of money have circulated at a parity. Now it is a question of the supply of all of our money as against the demand for all of this money. The minute you increase the supply of money out of proportion to the demand, as compared with other countries, money in general tends to depreciate, and, if all of the different kinds of money, as in the United States, are on a parity with each other, they will all tend to go down together. Then, if there is any particular kind that the public is more skeptical about than others, the public will rush in to redeem that in gold, and will hoard the gold; and anyone who has deposits payable in that kind of money begins to drop them and to take the gold out. The tendency is, then, if your gold goes out and you have not enough to maintain the parity of all paper money, for all kinds of money to go down more or less together unless some kind enjoys special legal protection, like the gold certificate for people who might like to hoard it.

Mr. RAINEY. Now, gold certificates having this special privilege, would they tend to depreciate in value, and the additional notes we are talking about—would they tend to depreciate in value together with the greenbacks in purchasing power?

Professor KEMMERER. I should suppose that the minute the public lost confidence in the currency they would want to hoard or export the kind that was presumably the safest, and that the concentration would be on gold and gold certificates. The question as to what would be the position of the gold certificates, if we should go off the gold standard, is a question that I understand the lawyers differ on somewhat. Some consider that the gold certificate is practically a warehouse receipt and believe that the gold certificate would be redeemable in gold at par no matter what happened to the rest of the currency; others think, despite the specific contract case of the Supreme Court (Bronson *v.* Rodes, December, 1868), that in case of an emergency of that kind there would be some interpretations that would even deny convertibility to the gold certificates. I do not know.

Mr. RAINEY. What is meant by "free gold"?

Professor KEMMERER. Free gold is not of so much consequence now, since the Glass-Steagall Act, which permits the use of United States Government obligations, with certain restrictions, directly as collateral for Federal reserve notes. The Federal reserve authorities describe the country's free gold at any given time as "the amount of gold held by the Federal reserve system that is above all legal requirements. It is gold held by the Federal reserve banks in excess, not only of the requirements of 40 per cent against Federal reserve notes and 35 per cent against deposits, but also in excess of the amount of gold required as collateral against Federal reserve notes."[1]

Mr. RAGON. I want to get clear in my mind now, Doctor Kemmerer, how much gold has the Treasury of the United States, or did it have in February?

Professor KEMMERER. Well, like all questions that seem very simple, when you get under it a little bit, it is somewhat complicated. The gold coin and bullion held in the Treasury of the United States on February 29, 1932, was $3,442,000,000. But, of course, we have got our gold certificates out in circulation against about half of that. You have $1,613,000,000 of gold certificates outside of the Treasury.

Mr. RAGON. That total sum there is three billion what?

Professor KEMMERER. $3,442,000,000.

Mr. RAGON. Now, you have $156,000,000 there set aside as a reserve for the greenbacks and silver certificates and the silver dollars, as I understood you a while ago.

Professor KEMMERER. Yes.

Mr. VINSON. For what?

Mr. RAGON. For that purpose.

Mr. VINSON. I do not think so, and we certainly do not want any mistake in this record.

Professor KEMMERER. The $156,000,000 is a gold reserve.

Mr. VINSON. For what purpose?

Professor KEMMERER. The $156,000,000 reserve is particularly against the greenbacks, but it is also the only gold reserve that the National Government holds against our silver money (except the 5 per cent redemption fund), and other kinds of money, except the gold certificates and the Federal reserve notes.

Mr. RAGON. Then you have a billion six hundred million and one hundred and fifty-six million?

Professor KEMMERER. Yes.

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[1] Federal Reserve Bulletin, November 1931, p. 604.

Mr. RAGON. Now, to what use is the remainder dedicated? Does it stand as a reserve for anything; if so, what?

Professor KEMMERER. You have $1,583,000,000 held for Federal reserve banks and agents.

Mr. RAGON. Well, that really belongs to the Federal reserve system.

Professor KEMMERER. Yes; but the legal title to that which is held against Federal reserve notes resides in the National Government, I believe.

Mr. RAGON. Now, what I want to know is how much money, gold bullion and coin, there is in the United States Treasury that is independent of the Federal reserve system?

Professor KEMMERER. Well, here are your total figures as of February 29. The total amount of gold in the United States Treasury, $3,442,000,000; amount held in trust against gold and silver certificates and Treasury notes, $1,613,000,000; reserve held against United States notes and Treasury notes of 1890, $156,000,000; held for Federal reserve banks and agents, $1,583,000,000. All other gold coin and bullion in the United States Treasury, in round numbers, is $89,000,000.

Mr. RAGON. The amount of gold held there for the benefit of the Federal reserve, is that the only gold in the Federal reserve system for the gold dollar?

Professor KEMMERER. No; the Federal reserve banks have some gold money.

Mr. RAGON. How much have they?

Professor KEMMERER. You would have to take the statements of the Federal reserve banks at a particular date. You had gold with the Federal reserve agents February 29, 1932, to the amount of $2,068,000,000. That, I suppose, is all against Federal reserve notes. Gold redemption fund with the United States Treasury was only $56,000,000. This makes the gold held exclusively against Federal reserve notes to be $2,125,000,000. The gold settlement fund with the Federal Reserve Board, that is, held against deposits and other libabilities, was $264,000,000; and the 12 Federal reserve banks held against deposits and other liabilities (exclusive of Federal reserve notes) $550,000,000, making a total gold holding against all such liabilities of $814,000,000.

Mr. VINSON. May I inquire from what the gentleman is reading?

Professor KEMMERER. Federal Reserve Bulletin, balance sheet of February 29, 1932, of the issue of March, 1932, the last which I have received. The total gold reserve in the Federal reserve system was $2,938,000,000.

Mr. RAGON. Now, how much of gold do you think has been hypothecated by the banks in addition to this 40 per cent that the law requires them to put up?

Professor KEMMERER. Well, I do not know. The gold is not hypothecated by the banks; it belongs to the Federal reserve banks when they issue Federal reserve notes against it as collateral.

Mr. RAGON. All right; now how much gold has been substituted for this commercial paper, would you judge—or do you know?

Professor KEMMERER. I can not give you the figures off hand. The total reserves of all the Federal reserve banks, the total reserve ratio against notes and deposits of the Federal reserve banks—and some of that is not gold, but the most of it is—was 68 per cent. The legal reserve requirement, the minimum, is 40 per cent against notes, and 35 per cent against deposits; but the banks never get down to that minimum. It would be a dangerous thing to do so under present conditions. It can be easily worked out, the exact figures, in answer to your question, but it would take time to do it.

Mr. RAGON. How much gold would you estimate, forgetting about the Glass-Steagall bill now, do we have of what we call free gold in this country?

Professor KEMMERER. The term "free gold" is a technical term that has had a special legal meaning under the Federal reserve act, the significance of which is now somewhat changed since the Glass-Steagall Act. We have no such thing as free gold in the United States, in the sense that we have gold that is not security for something, except as we have a little in our banks and in hand-to-hand circulation, and this $89,000,000 in the Treasury. Practically all of the gold is functioning as a basis for our credit structure. There is some gold coin in circulation; once in a while you will see some of it; there are a number of gold certificates, in fact quite a number of gold certificates, in circulation at the present time—something like $820,000,000. Probably a good share of them are in the commercial banks.

Mr. RAGON. The idea I had was the amount of gold above the volume that was required by law to be deposited for various purposes as a reserve fund. How much is that volume against legal requirements?

Professor KEMMERER. That could be easily figured out, but I can not give it off hand.

Mr. RAGON. It has been suggested here that we might reduce the gold reserve behind the gold certificates. What would you say about a proposition like that?

Professor KEMMERER. The gold certificates represent the gold coin in actual circulation: That is, it is a convenient form for circulation of gold coin. The circulation of gold coin, or the circulation of a certificate backed by 100 per cent of gold coin, is rather a luxury in these days. I think, as a long-run policy, a great deal can be said in favor of substituting Federal reserve notes for all other kinds of paper money. The only kinds of paper money that are in circulation in a good share of the countries in the world are the notes of the central banks, while we have a hodge-podge; we have greenbacks, some Treasury notes of 1890, silver certificates, gold certificates, Federal reserve bank notes, National bank notes, and Frederal reserve notes. When the Federal reserve act was passed, a good many people looked forward to the time when we would simplify our system and get rid of the greenbacks and all of these other kinds of paper money and have only one kind of paper money, namely, Federal reserve notes. I should hope that that would come about some time, but I am not certain that, in this present period of nervousness, public excitement, anxiety on the whole currency question, it would be an opportune time to do it. But I think that would be a policy that might wisely be adpoted in the future.

Mr. RAGON. Then, in your opinion, there would be no appreciable disadvantage to the release, at least from the backing of these gold certificates, of a part of the gold that is held in reserve for them?

Professor KEMMERER. You could not release it without retiring the certificates. Everyone who has a certificate has a right to the gold back of it; but, if you would gradually retire those certificates and put Federal reserve notes in their place, all well and good. I might mention here, though, that right there is one of the elements of strength in our Federal reserve system. In times of heavy pressure on the Federal reserve system for gold, such as the abnormal demands we had last fall when in about two months' time $700,000,000 of gold was exported from the country, the largest net exportation of gold from one country in such a brief period at any time in the world's history—at such a time, the Federal reserve authorities have a sort of a second line of defense up to a certain extent; that is, if they can gradually substitute in active circulation Federal reserve notes for gold certificates—most people do not pay any attention to the difference—they can gradually put in circulation a form of paper that has a legal reserve of 40 per cent, in place of one that has a legal reserve of 100 per cent, and thus quietly they can strenghten their gold position in times of emergency. It is a possible recourse in times of emergency, and, if you take that out, you are going to take up a good deal of slack that may be very useful in critical times.

Mr. LEWIS. Doctor Kemmerer, in your opening and very informative statement, you described the business of the country in normal times as about one trillion dollars, or one thousand billion dollars.

Professor KEMMERER. Yes, sir.

Mr. LEWIS. You stated that the physical elements, the physical quantity elements of that business had shrunk about 25 per cent?

Professor KEMMERER. Yes.

Mr. LEWIS. And the price characteristic of the business remaining had shrunk about 31 per cent.

Professor KEMMERER. Yes. I should perhaps make one qualification there; the prices that I have used in speaking of the price decline in order to bring the figures right down to date are the wholesale price index numbers of the Bureau of Labor Statistics. They do not include rents, wages, and that sort of thing. I could not get the general price level statistics including those things down to date. But, taking the latest figures we have available for the general price level, including everything, the one prepared by the Federal reserve banks from time to time, I should say that the decline was probably nearer 25 per cent than 31 per cent; because you know retail prices have not gone down proportionately to wholesale prices, nor rents, nor wages for the fellow who has a job. There are a great many zero wages.

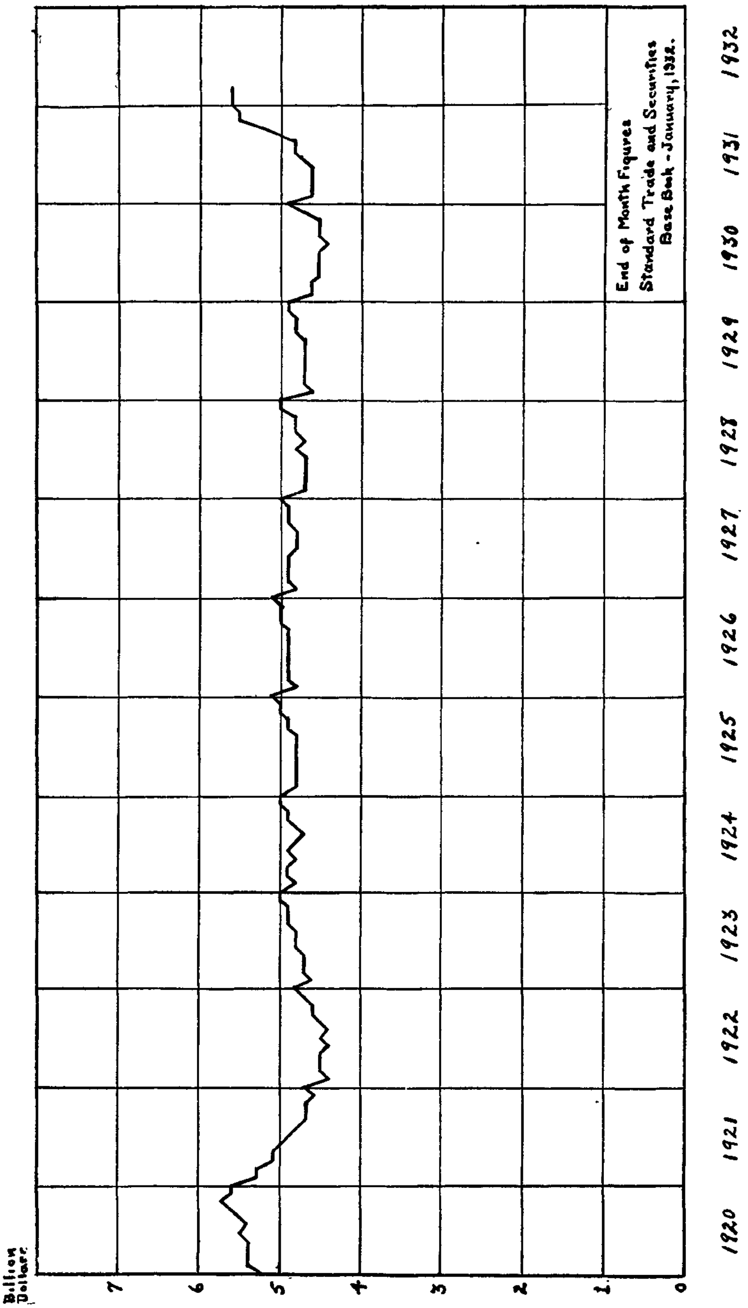
Mr. LEWIS. Then that trillion dollars worth of business has dropped to about two-thirds, to about six hundred and sixty-six billions of dollars.

Professor KEMMERER. Well, I would say the normal trillion dollars of physical volume has dropped about 25 per cent. Then, in addition to that, you have another 25 per cent which is represented by the decline in the price level.

Mr. LEWIS. During that period, did I correctly understand you to say that the currency had actually increased 19 per cent in quantity?

Professor KEMMERER. Yes. The currency has increased about 19 per cent from February 28, 1929, to February 29, 1932. Here is a chart which I have prepared, which I thought might be of interest, showing the money in circulation in the United States at the end of each year, since 1920.

MONEY IN CIRCULATION



You will notice [exhibiting chart] that you are up here now over five and a half billion, and that during this whole period of prosperity, from 1922 right along here down to 1929, in fact, down into 1930 [indicating], we were under the five billion level, except for one or two very brief periods. At the present time, the amount of money in circulation is something like 19 per cent greater than in the boom time of 1929, and even greater than the great boom time of 1920, when the wholesale price level was about twice as high as it is to-day.

Mr. Lewis. Then it would not seem to be true, in the situation through which we are passing, that increasing the quantity of the currency would increase prices?

Professor Kemmerer. Possibly, but not necessarily. I might illustrate my point in another way, which I think——

Mr. Lewis. I am speaking of the last two years.

Professor Kemmerer. You are all more or less familiar with the so-called quantity theory of money, which I think the great majority of economists accept, if it is taken cautiously and carefully, and not too mechanically.

Mr. Lewis. And as to special cases.

Professor Kemmerer. Well, as a fundamental principle; but you must not leave out the element of psychology. After all, we are not dealing with a purely mechanical world; we are dealing with a world of human beings. The quantity theory of money, expressed in its simplest terms, is that the average price level, which we will designate by P is equal to the amount of money in circulation (M) times the average velocity at which this money circulates (V) plus the amount of bank deposits subject to check (D) times the average rate at which those deposits circulate (R) divided by the number of transactions (T). The theory may be expressed then in the so-called "equation of exchange," $P=\frac{MV+DR}{T}$, The price level is equal to the amount of money, times its velocity of turnover, plus the amount of deposists subject to bank check, times their rate of turnover, divided by the number of business transactions involving prices. Now, if you have a situation like we have had recently, where you dump a lot more money into circulation at a time when business confidence is all shot to pieces and when the people are afraid to use the money and insist upon hoarding it, and when the people who have those billions of bank deposits subject to check are afraid, likewise, to use them, and when as a result the rate of deposit turnover (R) in over 151 leading cities, drops in three years' time from an average of 78 per year to 41, all your increases in M and D are absorbed and eaten up by your declines in V and R. If 90 per cent of the business of this country is done by means of deposits and if your rate of turnover has declined in the manner described you have an exceedingly serious situation.

Here is a chart I will be glad to put in evidence [exhibiting]: "Annual rate of turnover of bank deposits" in the United States for a total of 141 leading cities. You will see that in 1928 and 1929 the figures for the rate of deposit turnover in New York shot up enormously. We reached a figure in 1929 in New York as high as 133 (October), while just a year later it was 62, and in February of this year it was only 40. Taking the country as a whole, the average rate of turnover has just about been cut in half since 1929. For the 140 cities outside of New York, the average rate declined from 46 in October, 1929, to 27 in February of this year.

Mr. LEWIS. Turnover here, then, Professor, is a large coefficient?

Professor KEMMERER. Yes, sir.

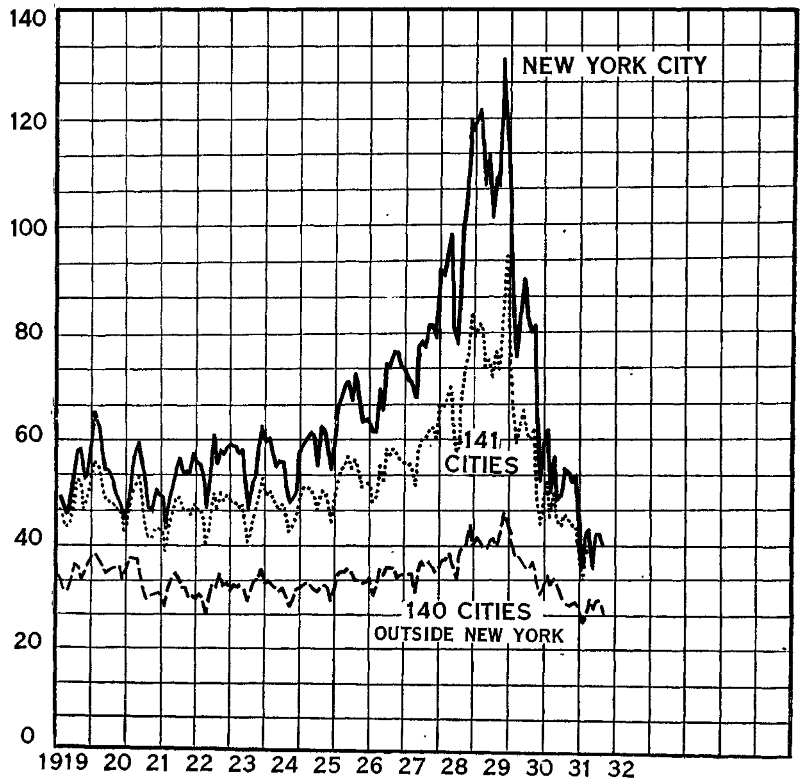
Mr. LEWIS. In the currency when properly functioning?

Professor KEMMERER. Yes, sir; but it is moving very slowly, likewise the deposits.

Mr. LEWIS. Now, the Government can control the amount of currency?

Professor KEMMERER. Yes, sir.

ANNUAL RATE OF TURNOVER OF BANK DEPOSITS



Mr. LEWIS. Do you know any way by which the Government can control the turnover or velocity of movement of these credits?

Professor KEMMERER. I do not. I know some ways that you can greatly stimulate them. If you propose extremely radical legislation like these bills and knock the confidence of the world and of America out of the American gold standard and drive the gold out of the country, you will probably get rates of turnover for your depreciated paper money and for your deposits payable in such money that are very high. People make haste to pass on to others money whose value they believe is fading away. In Germany after the war, when the mark was depreciating to about one-trillionth of its pre-war gold value, the rate of turnover rose to perfectly extravagant heights.

Mr. LEWIS. But that might be a run-on-the-bank turnover?

Professor KEMMERER. I have seen times when the rate of monetary turnover in other countries was considerably more than once a day; several times a day. General Dawes spoke of his experience when he was in Germany. I was in Germany with the Dawes committee and the first day I was there I went into the hotel to buy a cigar. I gave them a renten-mark which was worth 24 cents in American money, and they gave me a 12-cent cigar and I received as my change 500,000,000,000 marks for the other 12 cents. Now, shortly before that, when they were issuing this paper money so rapidly in Germany, the minute anyone got any money he rushed to the stores to buy; if you held it an hour, it would fade in your hands and, when you expected it was going to drop, you got rid of it, and you got rid of it for anything you could buy. You grab the thing you think is going up and you get rid of the thing you think is going to drop. One of the reasons now for our depressed situation is that the world has lost confidence and the whole world is trying to get hold of the one thing and the only thing that has been going up in value in the last two or three years, and that is gold and gold equivalents, gold certificates and gold deposits. So money has come to this country to put in gold; people have put their investments in gold deposits and other gold obligations, to get hold of the thing that is going up. If you get into a situation where you think your money is going down and it once starts going down, that money will go like this [indicating], and th erate of turnover will be multiplied manyfold. That will break down your gold standard currency and that is the thing which will cause the dangerous inflation of which I am speaking.

Mr. LEWIS. That is not a normal turnover.

Professor KEMMERER. Not a normal turnover at all; abnormal; but that is what you have in any period of threatened inflation. The minute the public expects it to happen, it begins to happen, and there is then actual inflation.

Mr. RAINEY. What ultimately became of those marks when you became a millionaire several times over by buying a cigar; what became of the depreciated marks?

Professor KEMMERER. They were ultimately redeemed in reten-marks at the rate of one trillion to one.

Mr. RAINEY. One trillion marks to one of gold money?

Professor KEMMERER. Yes.

Mr. VINSON. Do you know anybody who objects to taking national bank notes in exchange for commodities or services?

Professor KEMMERER. Not at the present time; no.

Mr. VINSON. Or at any time?

Professor KEMMERER. No; not since 1879.

Mr. VINSON. There is no question about the validity of a national bank note, is there, Doctor?

Professor KEMMERER. Well, from 1863 to 1879, when we were not on the gold standard, national bank notes were at a great discount in terms of gold.

Mr. VINSON. I am talking about the present day.

Professor KEMMERER. No; all our different kinds of money at the present time are at a parity.

Mr. VINSON. Now, on February 29, 1932, there was in circulation in this country, in the way of national bank notes currency approximating $732,377,223, was there not?

Professor KEMMERER. I suppose so; that sounds about right.

Mr. VINSON. Look at your statement.

Professor KEMMERER. The exact figure was $691,000,000.

Mr. VINSON. Now how much gold backs that currency?

Professor KEMMERER. There is no specific gold against those bank notes, except the 5 per cent redemption fund.

Mr. VINSON. What is used as the guaranty for the payment of those national-bank notes?

Professor KEMMERER. They are all the obligation of the United States Government which agrees to maintain all of its money at a parity with gold. The question of the value of money is a question of demand and supply and, as long as you keep your money limited to the changing demands of trade and do not issue it in such excess as to break down confidence in it, all well and good.

Mr. VINSON. Let us stay to this specific point, rather than a general discussion. What is the nature of that governmental promise that this money will be redeemed at 100 per cent?

Professor KEMMERER. It is the obligation of the United States Government under the gold standard act of 1900, which declares that "the dollar consisting of 25$\frac{8}{10}$ grains of gold nine-tenths fine * * * shall be the standard unit of value, and all forms of money issued or coined by the United States shall be maintained at a parity of value with this standard, and it shall be the duty of the Secretary of the Treasury to maintain such parity." These national-bank notes in addition are secured by other promises of the United States Government to pay.

Mr. VINSON. What is the nature of them, Doctor?

Professor KEMMERER. United States Government bonds.

Mr. VINSON. United States Government bonds?

Professor KEMMERER. Much the same as the promises back of those German notes that were issued that depreciated to a trillion to one—they were backed by the obligations of the German Government.

Mr. VINSON. Then would you say that this three-quarters of a billion dollars is not worth 100 cents on the dollar?

Professor KEMMERER. No.

Mr. VINSON. Now you referred to the Patman bill and the Thomas bill?

Professor KEMMERER. Yes.

Mr. VINSON. Have you studied the Owen plan?

Professor KEMMERER. No.

Mr. VINSON. You have not given any consideration to that at all?

Professor KEMMERER. Not at all; I have not seen it.

Mr. VINSON. Now referring to the Federal reserve notes, which on February 29, 1932, totaled $2,911,742,680, how much gold is back of that issue?

Professor KEMMERER. On February 29, 1932, the total gold held exclusively against Federal reserve notes was $2,125,000,000.

Mr. VINSON. In connection with that, I wanted to ask if this was your understanding of the law, with reference to Federal reserve notes, that Federal reserve notes are secured by the deposit with the

Federal reserve agent of a like amount of gold, or of gold and such discounted or purchased paper as is elligible under the terms of the Federal reserve act. Is that your understanding of the law?

Professor KEMMERER. Until the Glass-Steagall Act, since the enactment of which Federal reserve banks can hold United States bonds directly as collateral for Federal reserve notes, with certain restrictions.

Mr. VINSON. Well, that came in because the Reconstruction Finance Corporation found that was necessary to be done.

Professor KEMMERER. That came in because we got pretty thoroughly scared over the great flow of gold to France, and the hoarding in this country, and wisely determined to put ourselves in a stronger position to meet such threats in the future.

Mr. VINSON. Do not you think the use of Government bonds as a basis for this currency sort of put us a step or two closer to that position in Germany to which you referred?

Professor KEMMERER. Yes; I think it was a dangerous step as a long-run policy; but it may have been justified as an emergency measure, for a limited period of one year, under which the Federal reserve authorities have a discretion and do not have to issue notes unless they wish to.

Mr. VINSON. How much gold is behind the United States notes of which we have $346,000,000 plus in circulation?

Professor KEMMERER. Back of the United States notes is the credit of the United States Government, and a provision that those notes shall be strictly limited in amount. We have $156,000,000 in a gold reserve fund, which the Government has set aside as a reserve against all of our various kinds of Government money, but with particular reference to the greenbacks. But, mind you, the position I am taking here is not that the gold reserve is the thing that determines the parity of all of our currency; the position I am taking is this, that the value of money is a question of demand and supply, and, if you increase the money to an excessive quantity, it tends to depreciate. And when it tends to depreciate, no matter what kind of money you have, money is presented for gold and gold goes out of the country.

Mr. VINSON. Can you tell us where the currency of this country is to-day?

Professor KEMMERER. I have not much of it. [Laughter.] We really have no satisfactory figures for answering that question.

Mr. VINSON. How much of it is abroad?

Professor KEMMERER. The Federal reserve people have been publishing for each month lately the figures for the export of United States money to Europe and the figures for the import of United States money from Europe. At best these figures are very incomplete.

Mr. VINSON. Would you say Senator Thomas's statement is correct, that a half billion of the currency of this realm was in foreign lands?

Professor KEMMERER. I would not believe so.

Mr. VINSON. If that is not correct, I would like to have the accurate figures.

Professor KEMMERER. I would, too, but I do not know how to get them.

Mr. VINSON. Will you put them in the record?

Professor KEMMERER. I do not know them.

Mr. VINSON. You do not care to make an effort to get them?

Professor KEMMERER. I can give you the figures cited by the Federal reserve authorities for reported imports and exports of United States currency as regards shipments between the United States and Europe; but these figures are very incomplete, and I am acquainted with no similar figures for receipts of United States currency from other parts of the world and shipments to these other parts. I can not tell you how much is out of the country, and I have no method of estimating it.

(The committee thereupon took a recess until 2.30 o'clock p. m.)

AFTER RECESS

Upon the expiration of the recess, the hearing was resumed at 2.30 o'clock, p. m.

Mr. RAINEY (presiding). The committee will come to order.

STATEMENT OF PROF. E. W. KEMMERER—Continued

Mr. KEMMERER. Mr. Chairman, during the lunch hour I had an opportunity to look up one or two of the points that were mentioned this morning.

The question was raised in regard to the shipment of American currency abroad, and the receipts from abroad. The summary of that study in charts and full particulars by months are given in the Federal Reserve Bulletin of January, 1932. It is discussed under the subject, Shipments of American Currency to and from Europe. The statement says that they have figures only for Europe, and these are incomplete. They are based upon reports of certain selected New York banks. You do not generally know when the money goes out; a large part is taken out by American travelers; but when it comes back in substantial quantities you are likely to know it.

Of course, during the war and during the years immediately after the war, there was a good deal of American money that went abroad for hoarding purposes. Most of that has probably come back.

I will give you a summary of this statement, which is as follows: In 1923, there was a net loss, in round numbers, of $18,000,000; in 1924, a net gain of $47,000,000; in 1925, a net gain of $37,000,000; in 1926, a net gain of $24,000,000; in 1927, a net gain of $39,000,000; in 1928, a net gain of $36,000,000; in 1929, a net gain of $27,000,000; in 1930, a net gain of $26,000,000; and in 1931 there was a slight net loss, less than $1,000,000.

For practically all of those years, therefore, so far as we have figures, we had net inward movements of United States currency much larger than the outward movements, but that does not mean so very much, because we have much fuller records of inward movements than of outward movements and because these figures are limited to the movements between the United States and Europe.

Mr. VINSON. That is gold that you are referring to?

Mr. KEMMERER. No, this is United States money.

Mr. DICKINSON. What issue is that?

Mr. KEMMERER. The January number.

Mr. DICKINSON. Of what year?

Mr. KEMMERER. Of this year. It is on pages 7 to 9, inclusive.

If I may also refer back to the testimony this morning in regard to the gold in the country, we have, in the United States, roughly speaking—and I will have to give you just round numbers—something like 4.3 billions of gold, perhaps a little more or less. There is about $400,000,000 in gold out in circulation somewhere as gold coin. There is, roughly speaking, about $800,000,000 in gold certificates going around the country and in the till money of the banks of the country. There is $156,000,000 in our Government reserves. There is $2,125,000,000 of gold held exclusively against Federal reserve notes, and then there is, as the only gold reserve that is held against all of our forty or fifty billions of dollars of deposit money in the country about eight hundred million and odd dollars. That is the situation roughly at the end of February.

Ninety per cent, probably, of our business, as I said this morning, is done by deposits circulating through checks. There are something like forty-five to fifty-five billions of deposits in all of our reporting banks, of which about half—say, about twenty-five billion—are payable by check. These check deposits circulate at widely varying rates, probably averaging under normal conditions, for the entire country, between 35 and 40 times a year. The rates average higher, of course, for the 141 cities for which we have figures than for the country as a whole, the average rate for these cities having been 68 in 1928, 78 in 1929, 55 in 1930, and 41 in 1931. (See chart, p. 26.) As against those deposits, there is only the amount of gold left that is held by the Federal reserve banks, aside from that which is pledged for the Federal reserve notes.

Mr. VINSON. It would be about 2 per cent?

Mr. KEMMERER. Roughly speaking, I should say so, against the total deposits.

Now, there is some gold in active circulation, and some in the vaults of the commercial banks, although we do not know how much. Commercial banks do not keep much cash in hand ordinarily, because most of them can not count it as part of their legal reserve money, and if they are near a Federal reserve bank, they are pretty likely to stick closely to the legal reserve minimum.

Mr. LEWIS. Professor Kemmerer, in considering the probable effects of a great increase in the currency by act of Congress, of about two and one-half billion dollars, you expressed the opinion that the effect would be very unfavorable, very disastrous. How much difference would it make if the currency so issued were actually kept at par by an adequate amount of gold?

Perhaps I had better indicate my question in another way. In thinking of the disastrous effects you apprehend, would it make much difference whether we stayed on the gold standard or went off of it, if we issued $2,000,000,000 additional currency now?

Mr. KEMMERER. Well, I should say, first, that I think that if we issued $2,500,000,000 of currency now, it would be almost certain that we would go off of the gold standard. If we once go off the gold standard, we have all of the disadvantages, and all of the advantages, if you want to call them that—there are some—of having a nonmetallic paper-money currency standard. That is the kind that England has now. She did not want to have it, and resisted it very strongly, and most of her people want to get back to gold; but she has it now, and we would be in that situation. However, the minute you break from gold, it is very difficult to hold; that is, when you have been on the gold basis and are forced off of it, the power of your resistance is greatly weakened. If you issue $2,500,000,000 and then go off the gold basis, why not issue two billions more for the farmers, for this class and the other class? The pressure gets terrific, and unless we are ready to start in a deliberate way on a managed-currency scheme, where a Government committee would try to manage a paper-currency system, I do not think we want to break from gold, and I doubt very much if we are ready for any such system as that.

Mr. LEWIS. The single question presented by my question is, Will it leave us on the gold standard?

Mr. KEMMERER. Frankly, I do not believe it will.

Mr. LEWIS. Suppose that we pump two and one-half billions of new money into our currency and it is still found that our gold possessions are sufficient to sustain all the forms of our currency at par, would the ill effects that you are thinking of follow under those circumstances?

Mr. KEMMERER. If it should leave us on the gold standard, I doubt very much if it would accomplish very much, because I think it would be absorbed much as this billion that we have already put in circulation has been absorbed, in hoardings and in reduced rates of turnover. I think it would lead to some hoarding, to some movement of gold out of the country, but if it did not completely break down the gold standard, it would leave us much in the same position we are in now. It would accomplish very little; but if it resulted in putting into circulation two and one-half billion dollars of Treasury notes, we could not keep that long; those Treasury notes would be paid back to the banks, would be paid into the Federal reserve banks, and probably in a very short time would be paid out by the Federal reserve banks again and would take the place of an equivalent amount of Federal reserve notes which would be retired. Then you would have lost the advantages of elasticity of currency and of the Federal reserve's control of the paper money which constitutes the bulk of the paper money of the country. But, to me, that is largely academic, because I believe that the enactment of this bill would almost certainly break down the gold standard. I have not been afraid of the gold standard's being endangered until these bonus bills were introduced. I have been on record again and again as saying that our gold reserves were adequate and that we have the power to maintain the gold standard. I have not been one of the fearful one, but I am fearful of the results of these bonus proposals. I believe as honestly as anyone can believe anything that the result of this, through a break of confidence and a stampede for gold, flight of capital from the country, a hoarding of gold, withdrawals of gold by foreigners, and the general scare which it would throw into the business people of the country, would drive us off the gold standard.

Mr. HILL. Doctor, how many countries are now on the gold basis?

Mr. KEMMERER. How many countries are on the gold standard?

Mr. HILL. Yes.

Mr. KEMMERER. I am not certain that I can give you the complete list.

Mr. HILL. Comparatively few.

Mr. KEMMERER. Quite a good many, although the question as to whether a country is squarely on the gold standard or not is often difficult to determine. I should say that the following countries are either on the gold standard or very nearly so at the present time: The United States, France, Poland, Belgium, Holland, Switzerland, Italy, Czechoslovokai, Hungary, Yugoslavia, Rumania, the Union of South Africa, Peru, Cuba, Panama, and probably Germany—it is a question of definition. Then there are the Philippine Islands and a few other minor countries. I do not carry those things in mind, but there is a very substantial number.

Mr. HILL. What disadvantage was it to Great Britain in a commercial way, in the matter of international commerce, when it went off the gold basis?

Mr. KEMMERER. Great Britain has been off the gold basis, of course, only a few months, and it is too early to tell much about it. She expected that it would retard her imports and stimulate her exports, and that it would help to solve the unemployment problem, because real wages—namely, wages in terms of purchasing power—could be brought down and in that way England would be in a better position to meet the labor situation. She had been unable before to reduce wages in many lines when after the war she brought the gold value of her paper pound back to par, and, as a result, was suffering keenly from high labor costs in her competition with other countries for export trade.

But things have not worked out entirely as expected. For example, depreciation in the gold value of the pound was expected to retard imports. A decline in exchange generally does that, but just at the time that they were agitating this they were agitating high tariffs, and so, in anticipation of the higher tariffs, imports increased rapidly. They expected that suspension of the gold standard would stimulate exports. It did give some little stimulus in certain lines, but the world has been so depressed, and other countries have been so anxious to resist any dumping of commodities that might result from a depreciation of the currency in England—that is, a good many people believe that if you try to extend your exports by debasing your currency, you are punching below the belt—and so, through antidumping measures and other regulations, a great many countries have been resisting this extension of exports. For the quarter ending March 31, 1932, as compared with that for the same quarter in 1931, British imports declined 7.8 per cent, and British exports 10.6 per cent. Referring to British trade for the first quarter of 1932, the London Economist said in its issue of April 16, 1932:

> It will be seen that the combined effects of the "protective factors"—tariffs plus a depreciation of sterling, which gives, in relation to "gold" countries, a "shelter" of nearly 100 per cent in the case of "abnormal" imports and of nearly 50 per cent on goods covered by the 10 per cent tariff—have resulted, in conjunction with general world trade depression, in producing no very striking change, so far, in our visible balance of payments.

The exchange fluctuations have been large. In the last figures I saw, unemployment had increased, but I have not the figures for this last month. The price level has been fairly stable. It has been a little more stable in England since September than with us, but less stable than in Italy, which is also on the gold standard.

Mr. HILL. It has given them an advantage in their commerce with the United States, where we do not have these antidumping measures, has it not?

Mr. KEMMERER. I doubt if it has accomplished very much there, but I am not in position to say. It is too complicated a question. I should say as a general thing that to try to build up trade by depreciating your currency is one of the most dangerous and most vicious things you can do. A depreciating currency operates to stimulate exports and retard imports. It does that because prices at home and wages lag behind exchange rates when you have a depreciation, so that it does it at the expense of the laboring man and the domestic producer. On the other hand, it tends to retard imports, because your local money, as it goes down, buys less and less of foreign goods. Prices do not go up in the home country as fast as exchange goes up. Now, one result of that is, as you can see, that it is one of those cases where a thing reduces itself to an absurdity. Suppose that you keep depreciating the currency; if you depreciate it 20 per cent, and then stop there, in the course of a short time your prices and your wages come up and you stop any advantage. It is by continuing the depreciation that you gain, because then your exchange rate rises faster than your prices and wages rise. The only way, therefore, to accomplish anything permanently would be to have a continually depreciating currency. It does not make any appreciable difference what the size of your unit is, after it is once stabilized. Nobody ever advocated a continually depreciating currency.

That is one point. In the second place, if you do that, if you have a system that continually stimulates your exports and continually retards your imports; that is one of the finest ways in the world to get poor. If you continually export more than you import, if you continually give more and more of your home products for less and less of foreign products, you will, in time, be poverty stricken.

Some years ago we had an American commission on international exchange, which worked on this subject, in connection with the problem of silver-standard countries, especially Mexico and China. When the problem of stabilizing the currency of Mexico came up, it was advocated that one of the great advantages that Mexico had over us was that she had a silver currency which was continually depreciating. That commission devoted a large amount of time to the study of this problem and concluded that a continually depreciating currency tended to the exploitation of a country, tended to make any country give an increasing amount of its natural products for a decreasing amount of the products of the other countries, and would lead finally to economic exhaustion, if it were long continued.

Furthermore, this is a game that several countries can play. If there is to be a gain by depreciating your currency so as to stimulate exports and retard imports, then another country can do it, and still other countries, and then the country that depreciates the fastest is the country that gains the most, and the minute that you start playing that game, either others join you or they put up defenses against you by antidumping legislation or whatnot.

It is not the sort of thing that is sound permanent policy, in my judgment.

Mr. HILL. Roughly, probably 90 per cent of the countries of the world are not on a gold basis, but the United States is on a gold basis and we have to do business with those people in an international way. Are we affected adversely in our exports and also in the imports into this country from those countries not on a gold basis?

Mr. KEMMERER. I would say that much more than 10 per cent of the world is on a gold basis. Certainly when you take all of these countries that I mentioned, you have a large percentage.

Mr. LEWIS. How about the commerce of the world?

Mr. KEMMERER. The country that had the largest foreign trade in the world this last year was Great Britain, I believe, and we were second. Before that, a year before that, we were first. It has been sort of nip and tuck lately between us and Great Britain for first place. In 1931 our exports were the largest, Germany's second, and England's third. We are a country whose trade is largely domestic. Roughly speaking, something like 90 per cent of our total business is domestic. We are a great empire, with widely varied natural resources. We produce all kinds of things, and we are probably less dependent upon other countries than almost any country in the world.

Mr. HILL. If I follow you correctly, you are opposed to any action that would depreciate the dollar below its present level in terms of purchasing power?

Mr. KEMMERER. No; that is not correct.

Mr. HILL. Are you favorable to such action?

Mr. KEMMERER. I believe that our commodity price level from the summer of 1921 to October, 1929, was a fairly normal price level. It was one of the most stable price levels this country or any other country ever saw. For a period of the better part of nine years the extreme range of annual variation—I mean of the annual averages of the wholesale commodity index numbers in the United States—was only about 8½ per cent; and if you took the extreme monthly variations, you had only about 14 per cent. When you think of the fact that from 1873 to 1896 we had about a 40 per cent decline in the price level; that from 1896 to 1913 we had about a 50 per cent rise; that from 1913 to 1920 the price level was more than doubled, and that then, in 1920 and 1921, we dropped down something like 40 per cent, you will appreciate that when we got back in 1921 we moved along with one of the most stable price levels that this country has ever seen; and the interesting thing about that is this, that from 1896 to 1913 the wholesale commodity price level in the United States rose on an average of 2.42 per cent a year.

Mr. RAGON. What period was that?

Mr. KEMMERER. From 1896 to 1913. That was right after the breakdown of the bimetallic controversy and when the gold discoveries of South Africa began to pour their big supplies of yellow metal on the world's market. Largely as a result of that and with the improvement in the efficiency of our currency and banking systems, the price levels of all the gold standards of the world began to move up.

Mr. HILL. You mean the commodity price level?

Mr. KEMMERER. Yes.

Mr. HILL. And the relative value of gold decreased?

Mr. KEMMERER. Yes.

Mr. HILL. And when the commodity price levels were up, we had what we called good times, and when the commodity price levels were down, we had times such as we are going through now.

Mr. KEMMERER. I do not care to try to evaluate what is good and bad in rising and in falling prices; each benefits some classes in the community and hurts other classes. During those years, 1896 to 1913, I happened to belong, as I have since, to the academic profession, and when the price level keeps going up and the cost of living keeps going up and the wages of professors continue the same, we have hard times, and we had that problem during all of that period, as we had it most of the time from 1896 to 1920. When the cost of living keeps going up and up, and large numbers of people are on fixed salaries and other large numbers of people are living on pensions, when your insurance is being paid in decreasingly valuable dollars, when the universities, living largely on interest from endowments invested in bonds, get fixed quantities of dollars of continually decreasing purchasing power, you have many real hardships. There are certainly hardships on a rising price level, and there are also serious hardships on a falling price level. But I do not want to try to evaluate those disadvantages and advantages, but to say this, that from 1896 to 1913 the wholesale price level went up on an average of 2.42 per cent a year. Then the war came, and the world began to be economical in the use of gold; most of the world went off the gold standard, and gold became plentiful, and the price level in the United States more than doubled between 1913 and 1920. The purchasing power of gold was more than cut in half, and people complained on every side of the rising cost of living. Then we had the break in 1920. There was not enough gold to go around to maintain a price level over twice as high as that of 1913.

Mr. HILL. Who was doing the complaining? Was it the men who were trying to control the gold, or was it the men who were receiving the benefit of advanced commodity prices and the benefit of the highest wages in the history of the country?

Mr. KEMMERER. When you have a rising price level and a rising cost of living, people with fixed salaries and other forms of fixed income suffer, and they complain. When you have that situation, people who are living on pensions, who are living on life-insurance income or on any fixed income from securities suffer. The universities of the country had a hard time during those years, because their endowments were invested in bonds, and the bonds kept giving the same number of dollars and the dollars bought less and less.

Mr. HILL. But suppose you take approximately 100,000,000 people who were not on a fixed wage basis or who were not receiving their incomes from investment; how about that large mass of people?

Mr. KEMMERER. During most times of rapidly rising prices, the evidence is that the cost of living goes up faster than the average wage, and the laboring classes, though usually pretty fully employed, suffer from the fact that their expenses rise faster than their wages.

Mr. HILL. But the people were for the most part employed.

Mr. KEMMERER. There is much less unemployment ordinarily in a period of rising prices than in one of falling prices. I do not mean to say that one class is benefited by both events, but, when you have falling prices and deflation, then you have more unemployment. Then, the debtor class suffers and the creditor class benefits if it can collect. With rising prices, the creditor class suffers and the debtor class benefits. When you have falling prices, your people with fixed incomes are in pretty good shape, but the people without fixed incomes are likely to be unemployed and suffer. We all realize, I think, that a rising price level is generally a bad thing, and, likewise, a falling price level. The ideal whch we would like to realize is a stable monetary unit.

Mr. HILL. Do you not believe that the whole country would be in better economic condition if we could have a little cheaper money and a little better commodity price?

Mr. KEMMERER. I believe, as I started to say a minute ago, that our price level has gone down abnormally low, that we have carried this deflation business too far, and that we will be better off when we can get back to normal. I started to say when you questioned me that from 1896 to 1913 the price level moved up at an average rate of 2.4 per cent a year. If there had been no war, if no abnormal element had come into the situation and if the price level had continued to go up from 1913 to 1929 at just the rate it went up from 1896 to 1913, we would have had during the years 1921 to 1929 almost exactly the same average price level we actually had. There would only have been a 5 per cent difference. In other words, the level we had from 1921 to 1929, which was a fairly stable level, one of the most stable we ever had, was just about what we would have had had there been no war and had the upward movement starting from 1896 to 1913 continued at the same rate to 1929. I believe that that level of commodity prices prevailing from the summer of 1921 to the autumn of 1929 is a normal level, and that we have gone too far below it. We have gotten scared. We have had a terrific case of shell shock as a result of the collapse of 1929, and our deposit turnover has been reduced to absurdly low rates. I think that, as soon as we get over this scare, we will swing back much nearer the commodity price level of 1921 to 1929 than we are to-day.

Mr. HILL. How do you propose to alleviate that fear, that panicky frame of mind, and when?

Mr. KEMMERER. I wish I knew some method of doing that. It would be the greatest service anyone could render. But I feel certain of one thing, and that is that one way to prevent it—one sure way to retard recovery—is to adopt a measure of this kind.

Mr. HILL. Why do you say that?

Mr. KEMMERER. Because I believe it will break confidence. I believe it will result in breaking down the little confidence we have left and that the breaking down of that confidence will result in a breakdown of the gold standard, and the two things together will put us back for years.

Mr. HILL. How do you expect to cheapen the money and increase the commodity prices? That is what I would like to get an answer to.

Mr. KEMMERER. I pointed out that your rate of bank-deposit turnover in 141 leading cities of this country has been practically cut in half since three years ago. I have already put in the evidence a chart on annual rate of turnover of bank deposits, 1919–1932, showing what happened. Roughly speaking, in October, 1929, the average rate of deposit turnover for the banks in the 141 reporting cities was 94.2 per year.

Mr. HILL. You mean times?

Mr. KEMMERER. Yes. That was the annual rate for October, 1929. I pick the highest; that was during what we call the boom. The rate for December, 1931, was 39.3.

Now, as I said at the beginning, your deposits have declined only approximately 17 per cent. You are doing 25 per cent less physical business than you did three years ago. You are doing that business at a general price level 25 to 30 per cent lower than it was then. You are having from 19 to 20 per cent more money in circulation, and yet dare not circulate it. You have these enormous bank deposits, from forty to fifty billions, and the people are afraid to use them, and they do just about half the amount of money work that this volume of bank deposits should normally do, at least so far as the 141 reporting cities are concerned.

Mr. HILL. If money were cheaper and commodity prices higher, commodities would have more value and there would not be such an incentive to hoard the money. In other words, you would not be hoarding as much value by hoarding a dollar as you are to-day, at the present value of the dollar.

Mr. KEMMERER. If the public thought that we were going off the gold basis, as they would, in my judgment, if this bill were passed, or even threatened seriously, I think they would start hoarding gold. Our hoarding heretofore has been largely the hoarding of Federal reserve notes. They are United States Government obligations and are strong; but if we start this sort of thing, extending our public credit and throwing two billion and a half additional money in circulation, I think the public will be scared, will believe that we are going to go off the gold standard and that there will be a scramble for gold in the country and outside of the country, and that will break confidence and will reduce this rate of turnover temporarily.

Mr. HILL. Can you imagine our being in a worse situation than that existing now?

Mr. KEMMERER. I can. It is hard to; but I can.

Mr. HILL. Mr. Vinson asked you something about the basis for the issuance of national-bank notes which circulate at 100 cents on a dollar along with gold certificates and other money backed by gold reserves. So you believe that $2,500,000,000 additional in currency could be put in circulation through the Federal reserve banks without disturbing the financial situation that you have spoken of?

Mr. KEMMERER. I have serious doubts. If we are going to have any inflation; if we are going to try to give a stimulus to business activity, to deposit turnover, by an actual process of inflation; then it should be done in a careful and orderly way. It should be controlled inflation, a type of inflation which you can push out and, if you see it is causing danger, can pull back—a kind which you will have in your control. The danger of inflation is that it gets a momentum and runs away from you. The Federal reserve people are trying now to effect an orderly, controlled inflation. They started in trying to buy in the open market a short time ago $25,000,000 of Government securities a week. I understand they are going faster than that now and are buying about $100,000,000 a week. That is an orderly, controlled inflation in an effort to stimulate things. They have been trying it in the past; they have not succeeded very well. They reduced their discount rate to the lowest in history, but they did not accomplish starting this thing up. They have had large open-market operations. We have had this large increase in currency during recent years which I mentioned. We had a large supply of gold, and it has not accomplished the trick yet. But possibly a little more of this, possibly our present attempt at orderly inflation by the Federal reserve banks may; I am not sure. But, if you are going to inflate, it should be an orderly, controlled inflation by the Federal reserve authorities, and should not be effected by suddenly throwing into circulation two and one-half billions more of paper money.

Mr. HILL. If you should issue these Federal reserve notes to the extent of two and one-half billion dollars, we would be on the same gold basis that we are now.

Mr. KEMMERER. I am not thinking of issuing $2,500,000,000 of Federal reserve notes. Ninety per cent of the business of this country is done by means of deposits. I am thinking that if you had an orderly, controlled inflation it would take place to a considerable extent through buying securities and increasing deposits in the banks. It would be a deposit inflation, and when you increase your deposits you generally have to increase your Federal reserve notes also, and it would be partly in one and partly in the other.

Mr. HILL. What would be the maximum amount of inflation of the currency that you would recommend?

Mr. KEMMERER. I would not dare to make any recommendation. All I would dare to say is that I think that in the present depression we might try a certain amount of controlled inflation. A modest amount by the Federal reserve authorities may be worth considering, but I would do that with hesitation and with great care.

Mr. HILL. Have you any judgment as to what that amount should be?

Mr. KEMMERER. No; I have not.

Mr. HILL. I have not gotten very clearly—it may be my misfortune—just what your remedy is, if any, for restoring the confidence that is necessary to enable the credit in the commerce of the country to be brought back to what you consider normal conditions, as they existed between 1921 and 1929.

Mr. KEMMERER. Well, Congressman, I feel that I have not any panacea there. I wish I had. I think the Reconstruction Finance Corporation was a very wise forward step. I am inclined to think that, all things considered, the Glass-Steagall measure was a wise step. I think probably the present Federal reserve policy, in a cautious, careful inflation, is worth trying, but I think the greatest danger we are confronted with, one of the great dangers to-day, is the fear that the American public has of extreme radical legislation on currency matters at this time.

Mr. HILL. That did not bring about the present crisis.

Mr. KEMMERER. No; but it is helping to continue it.

Mr. HILL. The Federal reserve system has been at hand all these years, and has not alleviated the situation.

Mr. KEMMERER. I think the Federal reserve people, on the whole, have done a very good job. I do not know what we would have done during the war and during the postwar period without them.

Mr. HILL. I am talking about now. I grant you that they did do a good job, and that they can, but the system has not operated in this present crisis.

Mr. KEMMERER. It has not succeeded very well, but neither has the Bank of England nor the Bank of France, or any other central bank in the world. This has been the worst depression that probably the world has seen since Napoleonic times.

Mr. HILL. You stated to me a while ago the number of countries still on the gold basis. Can you give us the percentage of gold reserves in each of these countries that are still on the gold standard?

Mr. HILL. Are those reserves required by law?

Mr. KEMMERER. In some countries they are a legal requirement, and in others they are not; but those figures are published every month in the Federal Reserve Bulletin.

Mr. HILL. But they do not vary?

Mr. KEMMERER. Oh, yes; they vary every month.

Mr. HILL. I was talking about the legal requirements.

Mr. KEMMERER. In many countries there are no legal requirements.

Mr. HILL. Do you recall what gold reserve is back of the currency system of Belgium?

Mr. KEMMERER. I do not think there is a legal requirement in Belgium. I am not sure. There certainly is not for France.

Mr. HILL. What is the reserve?

Mr. KEMMERER. Whatever the banks decide to make it.

Mr. HILL. The fact is that there is not enough gold in the world to put all the countries on a gold basis if they wanted to go on it.

Mr. KEMMERER. I think there is enough to put them on and keep them on, at least all that have heretofore been on a gold basis. If you would put China on the gold basis suddenly, that might cause trouble at the beginning, but not permanently, if it were wisely managed. By and large, the world was on the gold standard before the war. There are a few countries that were on the gold standard in 1928 and 1929 that were not on the gold standard before the war, but not many. The world's supply of monetary gold from 1913 to the present time has increased faster than the world's physical production of basic commodities, very materially faster.

Mr. HILL. What is the total amount of monetary gold now?

Mr. KEMMERER. About eleven and three-tenths billions.

Mr. HILL. How much of that is in France and in the United States?

Mr. KEMMERER. We have about 35 per cent. France, I believe, has about 27 or 28 per cent.

Mr. HILL. Then there is about $3,000,000,000 to go around and to be divided among all the other countries that might want to go on the gold basis.

Mr. KEMMERER. Yes; about four billions; but a good deal of the gold that we have is the reserve money of other countries; that is, a large part of the world has been on the gold-exchange standard until lately, and many countries have kept their gold reserves on deposit in the United States and London, so that our gold here is not exclusively our reserves, but has been in part the reserves of many other countries.

Mr. HILL. Can you tell us how much currency there is in all the world?

Mr. KEMMERER. No.

Mr. HILL. Can you approximate it?

Mr. KEMMERER. No; it would be almost impossible, because you have paper money and silver money and copper money, and you have all degrees of depreciation. You have China and India, and it would be difficult to calculate it in terms of dollars.

Mr. HILL. As a matter of fact, the commerce of the world is not transacted on the gold basis, taking the entire commercial transactions.

Mr. KEMMERER. The great bulk of the commerce of the world was transacted on a gold basis before the war, and the great bulk of the commerce of the world was transacted on a gold basis in 1927 and 1928, and a very large percentage of it still is.

Mr. HILL. If we were to confine the commerce of the world to the gold basis, would we not greatly handicap or restrict that commerce?

Mr. KEMMERER. I do not think so. In 1928 and 1929 there were no important countries off the gold basis except Russia and China. About 2 to 3 per cent of the world's foreign trade is with China.

Mr. ALDRICH. Mr. Chairman.

Mr. RAINEY. Mr. Aldrich.

Mr. ALDRICH. Do you not think that with the legislation that we have already passed, the act creating the Reconstruction Finance Corporation and the Glass-Steagall bill, there is really a very excellent chance of our reestablishing the purchasing power of the country on a much more nearly normal basis in the near future?

Mr. KEMMERER. I certainly do. I believe that with that legislation, and with the large amount of liquidation that we have carried on, and if we could just stop attempts to accomplish miracles, drop the panaceas for a while, that confidence would return. People are ready for it. General Dawes said this morning that in many parts of the country they do have more confidence than a few months ago, and that in many parts they do not and many of our industrial and financial leaders are scared to death over the situation. One of the things that is scaring them the most is the prospect of legislation of this type, which they think is likely to break down the gold standard and to play havoc with the value of bonds, life-insurance investments and incomes, savings deposits, and all sorts of things. But I do not see any hope of getting a restoration of confidence such as would whip up this rate of turnover and bring things back to normal until we stop threatening the public with this kind of legislation.

Mr. ALDRICH. In other words, if Congress leaves the situation as it is for a while, and gives those in charge an opportunity to work out this legislation that we have already adopted, there is every hope that conditions will improve?

Mr. KEMMERER. If you do that, and adopt effective measures for balancing the Budget.

Mr. ALDRICH. Now, you said that in a normal year we do about a trillion dollars worth of business by checks in the United States, which represents a turnover of bank deposits running from forty to fifty billion dollars.

Mr. KEMMERER. Yes; but the checking deposits alone probably run normally only about twenty-five billion.

Mr. ALDRICH. What is the gold reserve back of that? You may have answered that question, but I am not sure.

Mr. KEMMERER. I do not believe that I did in so many words. Let me analyze it in this way, only in round numbers. We have in the United States, as I say, about four and three-tenths billions of gold reserves, of gold coin and monetary gold bullion for everything, upon which this trillion and more of check business has to rest, as well as all our paper money. Of that four and three-tenths billions, there is about four hundred million in gold coin out in circulation—namely, in the pockets of the people, the vaults of commercial banks, the tills of merchants, and in hoards. That is not serving effectively as a reserve. If people got scared, they would bury it deeper. Then there is about eight hundred million of gold certificates, likewise, in circulation. If people should get scared, they would probably hoard that. The Federal reserve authorities might try to draw that in, but if people got scared and began to hoard gold, that is what they would hoard. That is 1,200,000,000. Then there is about $156,000,000, in round numbers, in the Treasury against our greenbacks, and all our kinds of money that are guaranteed under the gold standard act of 1900. There is 2,900,000,000 of gold in the Federal reserve banks and with the Government for the Federal reserve banks. Two billion one hundred million of that is specifically pledged against the Federal reserve notes. It is part of the 100 per cent collateral against the Federal reserve notes. It is also counted as the legal reserve. That leaves about $800,000,000 in the Federal reserve's hands, which is the only free and unpledged gold which is the basis of this trillion dollars worth of check circulation that we have in a normal year. So that is only about eight hundred millions of gold that is actually in the Federal reserve banks against the reserve deposits there of all the member banks; and the deposits of the member banks in the reseve banks are the reserves for their deposits, and it is their deposits, circulating through checks, that constitute this trillion dollars of check business.

The minute you begin to scare people into thinking that you are going off the gold standard and that their paper money is not going to be worth dollar for dollar in gold, they begin to grab for gold. Foreigners who have money on deposit here will pull it out. They pulled out $700,000,000 in two months a short time ago. Foreigners that have investments in American securities will sell those at slaughter prices to get it out. They do not want to be paid in any depreciated paper, and the people that were panicky in hoarding Government notes will become more panicky in hoarding gold. It is not paper that goes out, or deposits; it is that little base of gold at the bottom of our credit structure [pointing to diagram given on page 8] that moves out, and when you have only a little over $4,000,000,000 of monetary gold in the country, and about twenty-five billions of check deposits, and twenty-five to thirty billions of other deposits, and you have the check deposits circulating at the rate of thirty to forty times a year, it is a very serious thing to adopt some measure that is going to cause a heavy outflow of the gold and extensive hoarding of the gold. I think that this Patman bill is one of the most dangerous bills ever proposed in the United States Congress.

Mr. ALDRICH. And, when people get panicky, they tend to draw out those fifty billions of deposits?

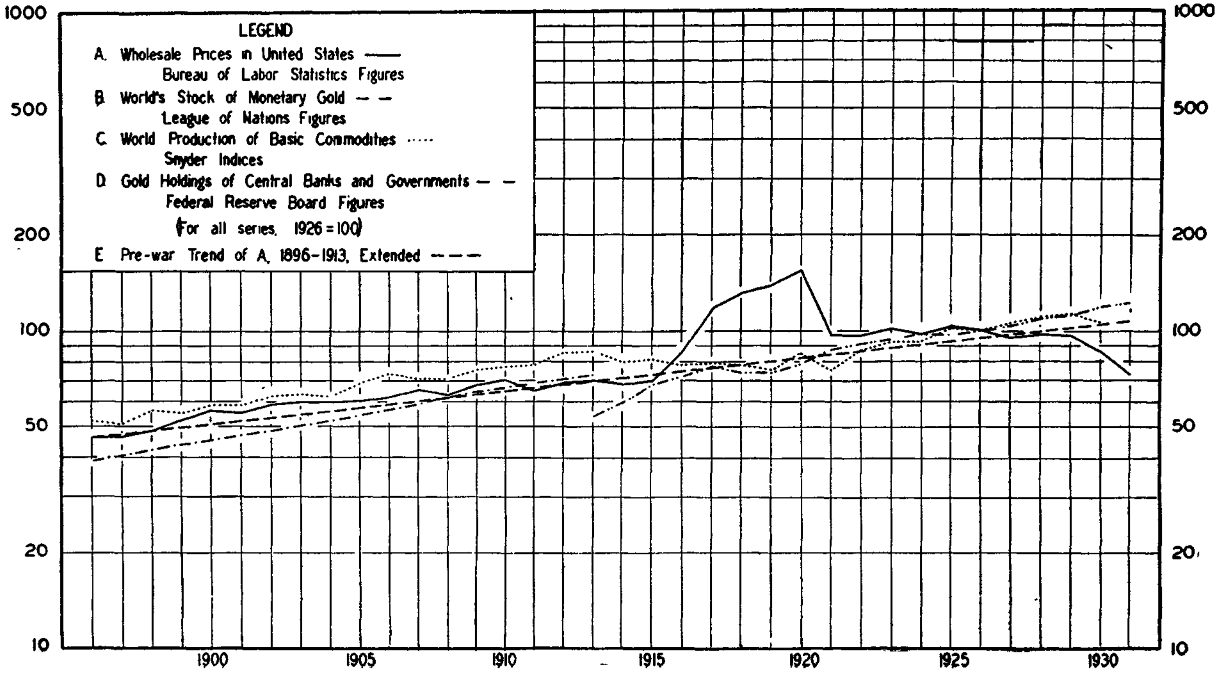
Mr. KEMMERER. Very quickly.

Mr. ALDRICH. And convert it into cash?

Mr. KEMMERER. Exactly.

Mr. ALDRICH. That would leave what reserves for the Patman plan?

MONETARY GOLD, PRODUCTION OF BASIC COMMODITIES AND WHOLESALE PRICES



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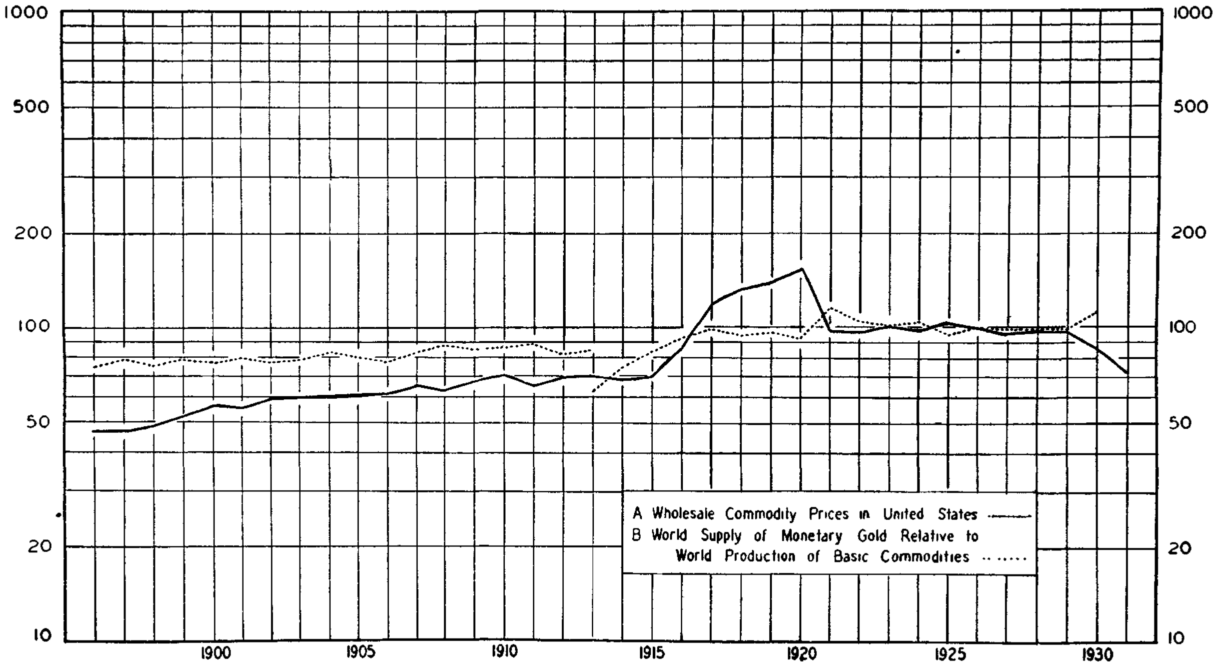
U. S. WHOLESALE PRICES AND WORLD SUPPLY OF MONETARY GOLD RELATIVE TO PRODUCTION OF BASIC COMMODITIES

(1926 = 100)



Mr. KEMMERER. I can not see where the Patman plan gets its reserves, because if this one billion two hundred million is out in circulation, and if the two billion one hundred million is collateral for the Federal reserve notes and one hundred fifty-six million is in the Government's greenback reserve, there is eight hundred and odd million that is free and that is all that we have against everything else. I just do not see where you get a gold reserve for these Patman bill notes. It seems to me that money held by the Federal reserve authorities as a pledge against the Federal reserve notes is a trust fund. It is part of 100 per cent against the notes. I do not believe you can use that. The one hundred and fifty-six millions in the Government's greenback reserve you could probably draw on, but that would not go very far.

Mr. ALDRICH. The question that Mr. Hill asked you, about the gold supply in the world, puts another question into my mind, and that is this: Do you think that the recent decline in the price level in this country is due to the world scarcity of gold?

Mr. KEMMERER. I do not. I have been looking into that question and studying it rather carefully. I have some very good friends, whose judgment I respect, that believe so, but it seems to me that there is no evidence to that effect; and, if I may, I would like to put into the eivdence a couple charts which I have put in another committee hearing—namely, that on H. R. 72 before the Committee on Coinage, Weights, and Measures.

Very briefly, these two charts tell this story: I have plotted here, as I said, the price level from 1896 to 1913, and then I have asked, suppose that that line had continued to advance at the same rate, where would it have gone from 1913 to 1929? I find it would have gone to just about the place it did go. Then I have taken the League of Nations figures for the supply of gold from 1896 to 1913, and our own Federal reserve figures for the gold in Government vaults and in central banks since that time, because they are on a monthly basis, and I have placed those on an index number basis, using 1926 as 100, and I have plotted the increase in the world's supply of monetary gold. Then I have taken Dr. Carl Snyder's figures, to find out what the movement has been in the world's physical production of basic commodities, because the question of the value of gold is a question of demand as well as of supply, and he has made careful studies of a large group of commodities to find out what is the physical production in tons, bushels, yards, etc., of the basic commodities of the world; iron and steel, coal, wheat, cotton, and what not, and has combined them. He finds a remarkable uniformity in the upward rate of about 3 per cent a year for the entire world, leaving out China and India and some of the more backward countries, and of 4 per cent a year for the United States.

Now, if you take those figures, which have been remarkably uniform—they fell off during the war somewhat, but they came back to about the 3 per cent basis after the war—it will give you the supply of basic commodities which would represent the demand for gold, and if you do that you will find that there was an increase in the supply of gold relative to the demand during that period. From 1921 to 1929 the supply and demand just about kept equal. From 1913 to 1931 the supply of monetary gold increased about 4.7 per cent per annum against a demand of about 3 per cent. There is no reason, however, why the supply of monetary gold should grow as fast as physical production, because we are making great economies in the use of gold. We are developing our check system; we introduced the Federal reserve system, and in doing so we introduced our legal reserve requirements against deposits to about one-fifth what they were before; an increasing number of people are doing business by check instead of by cash, and we are having enormous economies in the use of gold in other ways; so that the world's gold supply does not need to keep pace with the basic production. But it has more than kept pace during the period 1913 to 1931.

Here, finally, is the last chart in which I have taken the supply of monetary gold in the world for each year, the index number, and divided it by the index number of the same year for the production of basic commodities, which gives me the monetary gold relative to the production of basic commodities. You will see that the relative supply of monetary gold has more than kept pace right along up until 1929. There was a big drop, of course, in business after 1929, but gold production kept going up. In 1930 there was a larger production than in 1929, and 1931 is larger than 1930. The year 1931 gives us the largest gold production in South Africa that that country ever saw, and the fact that gold becomes more valuable as prices go down is stimulating gold production everywhere.

So I do not think that there is any evidence that the world is suffering from a permanent scarcity of gold. It is another thing to say whether we may be facing such a scarcity in the future. Some people think that in 5 to 10 years we may. But that is an entirely different question. I am skeptical about that, but I do not think that there is any evidence that we have suffered from a permanent scarcity of gold up to the present time.

Mr. Sanders. In your opinion, how much new currency could the Government of the United States issue without going off the gold standard or impairing its credit?

Mr. Kemmerer. I do not know. We had a big exportation of gold last year. We had something like five and one-half billions of monetary gold in the country a short time ago, and now we are down to about four billion three hundred million. When you consider that that little four billion is the basis of a fiduciary money and deposit currency circulation mormally running up to something like a trillion dollars a year, you will realize that, if you issue more paper, the tendency will be to drive gold out and destroy that base. I think the only possible thing to do, if you are going to inflate, is to feel your way, as the Federal reserve people are doing, and, if you see that you are breaking confidence or unduly driving gold out of the country or into hoarding, stop inflating. Deliberate inflation is at best a dangerous procedure, and, if it is done at all, it should be done only by skillful hands, with extreme caution and under continuously effective control.

Mr. Sanders. How are we going to feel our way? That is what we are trying to do here.

Mr. Kemmerer. I think it is possible for the Federal reserve authorities, when they are buying securities, to see what is happening, to see to what extent the banks are paying up their indebtedness to the Federal reserve banks, to what extent they are lending, and to what extent they are discontinuing their liquidation policy. They can see what is happening to the discount rate, to the gold movements, whether the gold is starting out in considerable quantities, whether the exchange rates are turning against us. They can watch the hoarding figures. If you have a deliberative board, like the Federal Reserve Board, with the cooperation of the banks and the Federal reserve authorities in general, and with the statistical information that they have—and we have the finest collection of statistical material in the world on these financial subjects—you can inflate with vastly more safety than if you suddenly throw into circulation an enormous quantity of paper money.

Mr. SANDERS. Pardon me, but just to boil it down, you are against issuing any more new currency?

Mr. KEMMERER. I am against——

Mr. SANDERS. Just answer that yes or no, please.

Mr. KEMMERER. I would not say that I am against issuing any more new currency.

Mr. SANDERS. Are you for it?

Mr. KEMMERER. No; I am not for this measure.

Mr. SANDERS. I am asking you a direct question. Would you issue any more new currency or not?

Mr. KEMMERER. I would not have the Government issue it.

Mr. SANDERS. You read the Patman bill, did you?

Mr. KEMMERER. Yes.

Mr. SANDERS. Who sent it to you and when did you read it?

Mr. KEMMERER. I could not say. I have at least four or five copies.

Mr. SANDERS. You have been sent four or five copies, but you did not know when you read it and who sent it to you? Did you read the Thomas bill?

Mr. KEMMERER. Yes.

Mr. SANDERS. When did you get that?

Mr. KEMMERER. Several weeks ago.

Mr. SANDERS. Did you get four or five copies of that?

Mr. KEMMERER. No.

Mr. SANDERS. Have you studied it?

Mr. KEMMERER. I have read it. I am sure two copies were sent me by one of the Representatives here, Mr. Davenport.

Mr. SANDERS. You do not think, considering this bill, that the soldiers ought to be paid by this bill?

Mr. KEMMERER. Not at this time.

Mr. SANDERS. What do you think about eliminating the interest that the Government is charging them on the loans made on their certificates?

Mr. KEMMERER. I am not in favor of that.

Mr. SANDERS. You are not in favor of eliminating that. You spoke about hoarding. How are you going to stop hoarding.?

Mr. KEMMERER. By the methods I have mentioned, first by stopping this sort of agitation which is breaking confidence.

Mr. SANDERS. What measures do you have in mind as encouraging hoarding?

Mr. KEMMERER. I think the agitation of either one of these bills at the present time is holding confidence down and retarding recovery. I think if either one of these bills should be passed, there would be a great increase in hoarding.

Mr. SANDERS. Do you not think that the hoarding began before either one of these bills was introduced or before Congress convened?

Mr. KEMMERER. Yes, and they were hoarding money after Great Britain went off the gold standard; and when they began the discussion in Europe, and particularly in France, to the effect that we were likely to go off the gold standard, there was a great amount of gold that went out of the country. The people in this country began to be fearful as to what had happened, and we had the German situation, and the Austrian situation, and the tremendous shock of the breakdown in Great Britain.

Mr. SANDERS. What do you think Congress ought to do to help that condition?

Mr. KEMMERER. I think Congress should go ahead in a vigorous way and balance the Budget by cutting expenditures and putting up a rational tax system.

Mr. SANDERS. You refer to cutting expenditures. Do you favor reducing the salaries of all of the Federal employees, and, if so, to what extent?

Mr. KEMMERER. I am wondering if I am not getting out of my field.

Mr. SANDERS. This is on finance.

Mr. KEMMERER. I am here to give testimony on currency and banking, which is my field, and this other field I have not made a study of.

Mr. SANDERS. I do not want to embarrass you, but you referred to cutting expenditures, and that is a matter before Congress, and a financial matter, and you are a financial expert.

Mr. KEMMERER. I am in general sympathy with the plan that the President of the United States has proposed in regard to salary matters, in regard to the 5-day week, and the furlough.

Mr. SANDERS. You are in favor of the President's plan?

Mr. KEMMERER. Yes.

Mr. SANDERS. You mean the furlough plan?

Mr. KEMMERER. Yes.

Mr. SANDERS. You are not in favor of reducing salaries a certain per cent?

Mr. KEMMERER. No; not by a uniform percentage.

Mr. SANDERS. Now, Doctor, how long have you been at Princeton?

Mr. KEMMERER. Since 1911 and 1912.

Mr. SANDERS. Have you visited any foreign countries since that time?

Mr. KEMMERER. Yes; I have spent a good deal of time in foreign countries.

Mr. SANDERS. You went to South America, did you not?

Mr. KEMMERER. Yes.

Mr. SANDERS. Did the university send you down there or somebody else?

Mr. KEMMERER. In most cases I was employed by the foreign governments themselves.

Mr. SANDERS. How many visits have you made to South America?

Mr. KEMMERER. Well, that is a matter of counting up. I have been president of American financial commissions to Colombia twice, to Chile once, and have gone back the second time for a brief time; I have been president of American financial commissions to Ecuador, Bolivia, and Peru. I went down to Peru as a representative of the Federal Reserve bank of New York to attend the recent conference of central banks, and I spent six or seven months in South America in 1922 on my own hook, on sabbatical leave studying financial problems.

Mr. SANDERS. I am talking about the times when you did not go on your own hook. Did any American banker, corporation or individual ever pay your expenses to any of these foreign countries; and if so, to what country and who paid it?

Mr. KEMMERER. The only case in which I have done any financial advisory work in Latin America or any other foreign country that was not directly for the foreign governments themselves were this Federal reserve trip last winter and my second trip to Guatemala, which was in 1924. I have gone to Guatemala in 1919 as financial advisor to the Guatemalan Government and worked out a plan of currency and banking reform.

Mr. SANDERS. I am not trying to embarrass you. Here is what I want to know. I want to know, in answer to my question, who sent you and who paid your expenses, and why you went.

Mr. KEMMERER. I am answering that question. I went in 1919 for the Guatemalan Government, employed by the Government entirely. There were one or two revolutions after that. I worked out this plan of currency and banking reform in 1919. The question came up again a few years later and the International Railways of Central America and General Mac Roberts of the Corn Exchange Bank were very much interested in financial reconstruction in Guatemala, for the Railways had large interests in Central America; so they approached me and asked if I would be willing to go down in their behalf and again work out a plan of financial reconstruction. I said to them that I was down in 1919 as the representative of the Guatemalan Government and, having been there in that way, I had considerable confidential information, and it would not be proper for me to undertake this work on behalf of private interests, unless the Guatemalan Government itself wanted me to, that, if the Guatemalan Government wanted me to go down, I would be willing to go, with the distinct understanding that I would be a friend of the court and would make no recommendations that I did not believe were entirely in the interests of the Guatemalan Government.

Mr. SANDERS. I do not care about these details. Who sent you to South America?

Mr. KEMMERER. In every case, the governments down there. I went to Colombia as an employee of the Colombian Government. I went to Ecuador as an employee of the Ecuadorean Government. I went to Chile as an employee of the Chilean Government, and I went to Peru as an employee of the Peruvian Government. In every case I went down as the employee of the government itself. The same with China and with Poland, with the Philippines and with the Union of South Africa. In Germany, when I was currency expert to the Dawes Committee, I was employed by the reparation commission.

Mr. SANDERS. You never have visited any country after having been employed by anybody in the United States, any person, firm, or corporation or anybody else of the United States?

Mr. KEMMERER. Only those that I mentioned, that I went for, the Federal Reserve Bank in 1931 and this group in 1924.

Mr. VINSON. What group was that?

Mr. KEMMERER. The leader in the group was The International Railways of Central America. Minor C. Keith was the president of the International Railways.

Mr. VINSON. Why did you mention a group of bankers?

Mr. KEMMERER. There were some bankers interested in the International Railways. There was a group of them.

Mr. VINSON. What group was that?

Mr. KEMMERER. General McRoberts, of the Corn Exchange Bank, was quite interested, and I think he was the key man. What the others were, I do not know.

Mr. VINSON. Right along in that connection, did you make a report upon the Bolivian financial situation?

Mr. KEMMERER. Yes.

Mr. VINSON. Was that before or after the floating of the Bolivian bonds in this country?

Mr. KEMMERER. It was after one of them had been floated, and another had been practically decided upon. I had nothing to do with these flotations. We made a report to the Bolivian Government on the question of public credit policy, along with the other reports that we made, and that report was made in 1927.

Mr. VINSON. There was an issue made after you made that report?

Mr. KEMMERER. Yes.

Mr. VINSON. And there has been a default on those Bolivian bonds?

Mr. KEMMERER. Yes.

Mr. VINSON. When were you in Chile?

Mr. KEMMERER. In 1925.

Mr. VINSON. You were not down there just before they went off the gold standard.

Mr. KEMMERER. No. We drafted a plan by which they went on the gold standard.

Mr. DICKINSON. Professor, it has been suggested time and again that our trouble in the United States is due to want of confidence. Would you in a brief way state what in your judgment brought about this want of confidence, or scare, as some call it?

Mr. KEMMERER. I will be very glad to. I had something here——

Mr. DICKINSON. I did not want to call for a long answer.

Mr. KEMMERER. This is not long; I just want to pick out a section here, if I may.

In 1928 and 1929, during this period in which our commodity price level was fairly stable, as I said, we had one of the wildest speculative booms this country ever saw. The prices of 404 stocks compiled by the Standard Statistics Co., increased 308 per cent between 1921 and September, 1929. The number of stock shares sold on the New York Stock Exchange rose from 171,000,000 in 1921 to 1,125,000,000 in 1929. Just think of it—from 171,000,000 to 1,125,000,000, representing an increase in eight years of 558 per cent—and, as you know, we had similar speculative booms, in real estate, in Florida and many other parts of the country.

Then came the collapse.

Mr. DICKINSON. That ended in the stock crash of October, 1929.

Mr. KEMMERER. Yes. The prices of securities and real estate fell in a little over two years from heights that now seem to all of us to have been fantastic to depths that within a few years I hope and believe will be considered equally fantastic, and, although commodity prices did not advance with the prices of securities during the boom, when the break came they were dragged down along with the tobogganing security prices. Between the highs of 1929 and the lows of January, 1932, the Dow-Jones average for 30 active industrial stocks declined 81 per cent; that for 20 leading railroads declined 83 per cent. From the high of 1929, in July, to February of this year, the level of wholesale commodity prices of the United States fell off 31 per cent, and we are now 5 per cent below the level of 1913. This tremendous slump in stock prices, after the whole country had been in this speculative field, and millions and millions had been active in it, gave us a case of shell shock from which we simply have not recovered and that was augmented and stimulated by the foreign situation.

Mr. DICKINSON. Our condition, then, is due in a degree, as I understand you, to this abnormal rise in prices of stocks and the resultant crash or fall of the prices?

Mr. KEMMERER. I think to a very substantial extent.

Mr. DICKINSON. I agree with you on that.

Let me ask you this: What constitutes, in your judgment, the wealth of the country?

Mr. KEMMERER. The term "wealth" is one of those terms that economists have been struggling to define satisfactorily for a great many years, but the wealth of a country consists generally of the value of its lands, its physical products, its manufactured goods, its houses, and so on. I learned when I was beginning my work in economics a definition that perhaps is not entirely accurate, but, roughly speaking, is workable: Wealth is any exchangeable thing for the possession of which we are willing to undergo a sacrifice.

Mr. DICKINSON. And the products of a country.

Mr. KEMMERER. Yes, anything exchangeable that is scarce and that people want.

Mr. DICKINSON. That we need, in the way of necessities and comforts.

Mr. KEMMERER. Anything that is scarce, that people want, and that you can exchange.

Mr. DICKINSON. Suppose that new mines of gold were discovered in the world to the extent of doubling the amount of gold in the world; would that be, in your judgment, a misfortune or helpful?

Mr. KEMMERER. A misfortune.

Mr. DICKINSON. That is all.

Mr. RAGON. You spoke of conditions in England at the time they went off the gold basis. Did they inflate their currency any over there? I have heard that they did not.

Mr. KEMMERER. Of course, they have lost a lot of the gold they had, but what happened, in a word, was that they had previously deflated tremendously to get back to the gold standard at the pre-war gold parity. The value of a pound was down to $3.25 or so after the war, and they deflated until they got it back to the parity of $4.8665. Really the deflation of prices and wages was never fully completed, although the exchange value of the pound with New York was brought back to parity in 1925. Meanwhile, while prices of goods in England kept coming down as they deflated and while the prices of the goods England was selling in foreign markets had to come down to meet foreign competition, wages stayed up, and England accomplished almost nothing in deflating wages, so that she was losing her competitive power in the foreign markets, and that is one of the things that forced the breakdown of the gold standard in England in September last. Since then they have maintained the price level fairly stable, but the exchange has been jumping around a great deal.

Mr. RAGON. They have more money in circulation now than they did under the gold basis, have they not?

Mr. KEMMERER. I do not know. I have not seen the recent monetary circulation figures for England, but what has happened is that they have maintained the price level at slightly above what it was in September, 1931, while ours has gone down somewhat. Their prices have been slightly more stable since then than ours, but not so stable as those of Italy, which is also on the gold standard.

Mr. RAGON. Are you talking about money or commodity prices?

Mr. KEMMERER. Wholesale commodity prices.

Mr. RAGON. You said a while ago that you thought the effect of the Glass-Steagall bill might be good. I understand that the committee on Banking and Currency this morning reported out a bill requiring the Federal Reserve Board to stabilize the price level on the basis of 1926 prices. What do you think of a move like that?

Mr. KEMMERER. I believe that stability of prices is highly desirable, and I believe that the best hope that we have for the establishment and the maintenance of a reasonably stable price level in the years immediately ahead is through wise international cooperation and the maintenance of the gold standard, and that our central banks must cooperate in doing that to an increasing extent. I think they have been trying to develop machinery for that. I think our Federal reserve people are interested in that, but I think that if we pass that legislation trying to require that we will not accomplish any more than we will accomplish in an administrative way as long as we are alive to the situation, and by such legislation we would be quite likely to put up hopes that could not be realized and which would give rise to unjust criticism.

Mr. RAGON. Under the terms of the Glass-Steagall bill, do you know how much expansion of the currency could be had?

Mr. KEMMERER. I have not figured that out. Of course, you could reduce your gold reserves down to 40 per cent against notes by an expansion of Federal reserve notes against United States Government securities, but I have not figured out just what that would be. There is quite a substantial possibility of expansion, either of the notes or deposits. If you have an expansion, it would probably take place in both notes and deposits, because when one goes up, the other usually also goes up.

Mr. RAGON. In your judgment, will the terms of the Glass-Steagall bill provide for an expansion sufficient to meet any reasonable requirements?

Mr. KEMMERER. Yes.

Mr. RAGON. And the only thing that would prevent that expansion would be the failure of the Federal Reserve Board to act? I am not talking about the wisdom of their action; I am saying that if they wanted to, could they bring it about?

Mr. KEMMERER. If they wanted to, there is considerable possibility for expansion.

Mr. RAGON. They have the authority, as I understand the Glass-Steagall bill, to make a decided expansion under its terms.

Mr. KEMMERER. Yes, sir.

Mr. VINSON. Assuming that this new legislation would call for the issuance of new currency, and further assumng that the Secretary of the Treasury would O. K. that legislation, what would be your view on that?

Mr. KEMMERER. Just what I have been giving.

Mr. VINSON. It would not affect your view?

Mr. KEMMERER. No.

Mr. RAGON. I believe you stated you had not read the Owen bill?

Mr. KEMMERER. No, I have not.

Mr. RAGON. There is no bill, but it is a proposal of his. Would you object to getting his statement on that and giving us your reaction in a brief, and sending it on to the committee?

Mr. KEMMERER. I will be glad to serve in any way that I can.

Mr. RAINEY. Are there any further questions?

If not, we thank you, Doctor, for your contribution to the subject.

The committee will stand adjourned until 10 o'clock tomorrow morning.

Mr. HAWLEY. Mr. Chairman, I suggest that Doctor Kemmerer include in his remarks such charts as he deems it advisable to make clearer what he has presented to the committee.

Mr. RAINEY. Without objection, that may be done.

(Thereupon, at 4 o'clock p. m., an adjournment was taken until Friday morning, April 22, 1932, at 10 o'clock.)

PAYMENT OF ADJUSTED-COMPENSATION CERTIFICATES

FRIDAY, APRIL 22, 1932

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D. C.

The committee met at 10 o'clock a. m., Hon. Heartsill Ragon presiding.

Mr. RAGON. The committee will be in order.

There were two or three witnesses whom we did not hear and who were on our calendar yesterday. We will proceed in the order in which they appeared on the calendar. The first one is Hon. Clarence Lea of California.

STATEMENT OF HON. CLARENCE F. LEA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. LEA. Mr. Chairman and gentlemen of the committee, I appear in support of H. R. 11300, introduced by me on the 12th day of this month. This bill, if enacted into law, would give every holder of an adjusted-service certificate the option to cash it at any time at its then present cash value.

I am opposed to the payment of the full face value of these certificates at this time. I am in favor of paying what we actually owe the veterans.

Many statements have been addressed to you gentlemen and to the country, with the idea of exciting fears of what would happen if we pay these certificates or if we do this or do that. I prefer rather to address you on the merits of what ought to be done, in justice to the veterans of this country and in justice to those who must bear the burdens of what is done.

The original bonus plan was not an allowance of what might be called a legal claim against the United States. It was founded upon what Congress conceived to be an equity.

Congress determined that additional compensation should justly be paid the veterans and passed the bonus act which established a legal binding claim in their favor according to its terms. That act converted the bonus claim to a binding legal obligation against the Government and that obligation is exactly what Congress made it. In 1930 we revised that act and provided a loan provision that permitted each holder of a certificate to borrow fifty per cent of its face value. Now, the Patman bill is before you gentlemen. The Patman bill, in substance, proposes a revision of the terms of the original adjusted compensation certificates. The proposed changes in the terms of payment are very important.

Proposals are made that we change the time of payment and also the amount of the payments but the simple result is this:

The changes proposed in the Patman bill would be to cause the United States to assume a burden of $1,353,000,000 in excess of what the Government now owes on these adjusted-service certificates. Under the terms of these certificates nothing is due thereon at this time. The simple, practical question presented to this committee is whether or not you will refuse to make any changes in the terms of payment; will you pay the amount the Government owes on these certificates, or will you pay the face value which is $1,353,000,000 in excess of what the Government owes.

That $1,353,000,000 would constitute an average charge against the United States of over $350 per capita in favor of each of 3,500,000 certificate holders.

Now, in order that we may approach this question to determine its merits if possible, in the simplest way I have the power to present it, I want to call your attention to these facts: The average certificate calls for $1,000 payable 20 years after its date. Most of the certificates were dated January 1, 1925, and are therefore payable January 1, 1945.

Of course, there is a great variation in the face value of the certificates depending on the length of service of their holders.

The face value of each certificate was made up of three items. The first item was a per diem allowance in favor of the holder, which in the average case amounted to $400. The second item was a 25 per cent allowance to compensate the holder for the delay in payment. When we take those two items together, we have the total original credit in favor of the average holder of $500; $400 per diem allowance and $100 as the additional 25 per cent credit. So the total adjusted service credit to the average man was $500.

Then, in addition to the total original credit, is the third item which is an interest charge over a period of 20 years. We agreed to pay that original credit plus interest at four per cent compounded annually for 20 years. This interest credit on the average certificate for $1,000 amounts to $500.

Therefore, the face value of an average adjusted service certificate is for $1,000. Of that amount the original per diem is $400, or 40 per cent of the face value; the additional 25 per cent allowance is $100, or 10 per cent of the face value; and the total interest to accrue for the 20-year period is $500, or 50 per cent of the face value of an adjusted service certificate. These same ratios apply to a certificate regardless of the amount of its face value.

Of course, there is a charge for insurance that was deducted as an offset against the total credit due the holder. I am purposely omitting a discussion of the insurance feature this morning, although it has a value of several hundred million dollars to the certificate holders.

Mr. Hill. May I ask you what was that deduction for the insurance protection? Do you have that in mind?

Mr. Lea. I can not give you the amount. Of course, the Veterans' Administration can give you the exact figure.

Now it is proposed that we change the time of payment.

Mr. Chindblom. May I interrupt you for just a moment before you leave that subject?

Mr. LEA. Yes.

Mr. CHINDBLOM. Are you sure there was a deduction in the amount of the certificates because of the amount of the insurance?

Mr. LEA. Certainly.

Mr. CHINDBLOM. Or was not the cost of insurance included in the annual appropriations to be made by Congress?

Mr. LEA. The insurance was charged against the certificate holders. Four per cent compounded interest would duplicate the amount on which the interest was figured in less than 18 years, while here the original credit is not duplicated until 20 years, because of this insurance charge.

At this point I desire to place in the record a brief statistical table showing what items are included in an adjusted service certificate and the amount of each and applying that table to the total face value of all certificates. I use the average certificate, which is for $1,000, for illustration.

Items included in adjusted-service certificate are inaccurate in detail, but substantially correct:

	Percentage of certificates	Amount
1. Per diem allowance	40	$400
2. 25 per cent for deferred payment	10	100
3. Interest for 20 years	50	500
4. Insurance liability		
Total face value of certificates:		
1. Per diem allowance	40	1,400,000,000
2. 25 per cent for deferred payment	10	350,000,000
3. Interest for 20 years	50	1,750,000,000
4. Insurance liability		

Now most of these certificates have run seven years. There is to-day seven years' accrued interest in favor of the holder of this certificate. There are still 13 years of unaccrued interest, interest that is not owed, interest to pay the veteran from this time until the maturity of the certificate as a compensation to him for the delay in the payment, and for the use of his money.

Let us see what this means. Thirteen years of unaccrued interest amounts of $1,353,000,000, the amount which I mentioned before. The total amount of the original per diem allowance was about $1,400,000,000. Thus, the amount of unaccrued interest included in the face value of these certificates, and which it is now proposed to pay, lacks only $47,000,000 of being as great as the original per diem bonus credit.

In other words, the proposal here under the Patman bill is to make a new charge against the Government, against the people of the United States, that substantially equals the total original bonus charge against the country.

In connection with this subject, we can not ignore the appeal the proposed payment of this vast sum has to the service men of this country. I have no criticism of our service men. On the contrary, every American should appreciate them and be willing to do them justice. They are just like the rest of us. No wonder we have a strong propaganda. It is easy to convince men of the justice of claims of which they would become the beneficiaries. Many of these holders have been told that the Government owes them the face value of these certificates. If we concede that premise, that the Government owes the full face value of these certificates at this time, then it is the duty of the Government to pay the full face value, if it is going to pay anything.

We can see the strength of the propaganda movement, with 3,500,000 men scattered to the remotest sections of the United States who would receive an average of more than $350 each in excess of what is now owed them, if the Patman bill should pass in the form in which it is presented.

What that sum amounts to may be visualized to a degree if we realize that if we paid a dollar for every minute since Christ was born, the total sum would be only a little over $1,000,000,000 or $300,000,000 less than what we are now asked to pay in addition to what we owe under the terms of the adjusted-service certificates.

These certificates as they were originally written provide for payment only on two conditions; one is the death of the holder and the other is the expiration of the period of 20 years. The bonus act provides—

> The amount of the face value of the certificate * * * shall be payable * * * to the veteran 20 years after the date of the certificate or upon the death of the veteran prior to the expiration of such 20-year period.

The Patman proposition is to add another condition as to when they shall be paid and that is now instead of 13 years from now. That difference in the time of payment increases the obligation $1,353,000,000.

The bill I present to you proposes to pay the present value of these certificates instead of their face value. The face value of these certificates will be their actual value 13 years from now. Let us reduce my proposal as made in H. R. 11300 to concrete terms. Suppose we take three typical certificates: one for $1,500, one for $1,000, and one for $500.

The present cash value under the bill that I present to you of the $1,500 certificate would be $934.83; of the $1,000 certificate the present cash value would be $623.22 and of the $500 certificate $311.61.

The computation on which I base these figures was furnished me by the Veterans' Administration and includes the original 25 per cent allowance as part of the original single advance payment premium. Instead of computing the present value, on the basis of distributing the 25 per cent credit over 20 years, under this plan it would be applied immediately and bear interest in favor of the holder from the date of its original allowance, January 1, 1925. The reserve value of a cerrificate under the original bonus act was based on an annual level net premium for 20 years instead of a single advance premium basis.

In connection with that subject, the question naturally arises, as to what would be the status of the man who has received the full 50 per cent that he can borrow up to the present time? Well, the present cash values above the loan values would be as follows: On the $1,500 certificate, $184.83; on the $1,000, $123.22 and on the $500 certificate, $61.61.

Mr. BACHARACH. Will the gentleman yield?

Mr. LEA. Yes.

Mr. BACHARACH. You understand you do not have to yield, unless you would like to answer the question I have in mind.

Mr. LEA. I shall be glad to answer it.

Mr. BACHARACH. What I have in my mind is this. You say that $183 or $123 or whatever the amounts are would be payable; do you mean now or at the expiration of the 20-year period?

Mr. LEA. Now, at this moment.

Mr. BACHARACH. That is, on the single payment plan?

Mr. LEA. Yes. If we give credit on the single payment plan, the value January 31, 1932, above the total amount of the loan on a $1,000 certificate, would be $123.22.

Mr. VINSON. Would that be computing the interest at 4½ per cent compounded semiannually?

Mr. LEA. Yes; against the service man; but the interest charge against the holder for borrowed money is 4½ per cent compounded annually. If you reduce that interest to 4 per cent, you would enlarge his credit, of course; and personally, I think that would be the right thing to do.

Mr. BACHARACH. May I ask you another question, Mr. Lea, on the same subject? My colleague, Mr. Treadway, did not quite gather the thought and probably I did not make myself clear to him. If we were to pay these men off to-day, they would get $184 or whatever the amount would be, as you have indicated. That is all that would be coming to them under their present policy.

Mr. LEA. Yes; provided they have borrowed the full amount of their available loan.

Mr. BACHARACH. Yes.

Mr. TREADWAY. Let me see if I understand you. These amounts that you are quoting are in addition to the present-day loan values?

Mr. LEA. Yes. The last figures that I quoted are in addition to the full amount that could be loaned under the law as it stands to-day.

Mr. TREADWAY. In other words, assume that the veteran on a $1,000 policy has borrowed 50 per cent, or say roughly $500.

Mr. LEA. Yes.

Mr. TREADWAY. Then as to the other $500—its cash value to-day according to your computation would be $123, or thereabouts?

Mr. LEA. Yes.

Mr. TREADWAY. And your bill, in plain words, is to make the payment on the present-day cash value the value of the policy to-day reduced by the amount that he has borrowed under the present provisions of the law.

Mr. LEA. Yes.

Mr. TREADWAY. Is that correct?

Mr. LEA. That is right.

Mr. BACHARACH. Will my colleague yield?

Mr. TREADWAY. Certainly, but I do not want to interrupt Mr. Lea's statement.

Mr. LEA. I shall be glad to permit the gentleman to ask his colleague a question.

Mr. BACHARACH. This thought strikes me, that if the veteran had a life-insurance policy, exactly the same as the Government has given him, all he could get would be the amount that you have stated.

Mr. LEA. That is true.

Mr. BACHARACH. The surrender value, as my colleague says.

Mr. Hadley. May I get at this in another way, Mr. Lea? What I understood you to be saying when you were interrupted was in effect this: That the veteran who had borrowed the full limit of his borrowing capacity under the law would have balances that you have mentioned which would represent the balance of the principal and accrued interest due at this time?

Mr. Lea. Yes. You can appreciate that situation if you will remember that on the average certificate the original credit was 40 per cent of its face value. Then the 25 per cent additional credit adds 10 per cent to the face value, so that the total original credit was 50 per cent of the face value of the certificate, and the accrued interest since that time gives the other 50 per cent of the face value of the certificate.

Mr. Treadway. Just one more question and I promise not to interrupt you again. I apologize for breaking in upon your statement in this way.

Mr. Lea. That is all right.

Mr. Treadway. Have you any estimate, or have you asked for any estimate, of the aggregate amount to make the present-day payment under your plan?

Mr. Lea. I have, and I will get to that in a moment, if you do not mind.

Mr. Treadway. I thank you.

Mr. Lea. Now, the practical question is presented as to the advisability of such a settlement, or the question of justice to the holder of one of these certificates. A man has borrowed the total amount of his original credit. That is what the Government has paid him already; all of his original service credit plus the 25 per cent was turned over to the service man when he borrowed his 50 per cent of the face value. All that remains of the value in that policy is the insurance plus the compound interest.

This man has received his money. He has received his total bonus allowance, but we still have not paid him the interest that has accrued up to this time. Our proposition is to pay these men every cent we owe them whenever they want it, and reduce Government interest charges to 4 per cent.

Instead of paying the ex-service man cash, the Government promised to pay him the amount due him with interest, 20 years after date. The interest accumulation was also to pay the cost of the insurance in favor of the certificate holder. In other words, all of the face value of the certificate above the original 50 per cent is a fund to be produced out of the earnings of the holders' own funds. If the holder draws down those funds, he can not thereafter expect the fund to accumulate. He can not expect the Government to pay him interest on an obligation to the extent it has already been liquidated.

If a man has received this original bonus allowance, to that extent he has had his cake. As the old trite saying goes, he can not eat his cake and still have it.

I pay a man to whom I owe money, and he gives me a receipted bill for the payment; later on he comes back and again demands payment. I show the receipted bill; that is the best defense in the world against the repayment of that sum. No man can claim injustice because I refuse to pay that amount the second time.

No one can say I have been unjust to my creditor when I have already paid him what would otherwise be due. There is no injustice in charging a loan against the holder of a certificate.

Now, the total face value of these certificates is $3,513,000,000.

The present cash value is $2,160,000,000. That makes a face value in excess of the cash value of $1,353,000,000, the amount that I have already referred to.

Now, that $2,160,000,000 is not the total amount required out of the Treasury of the United States to pay this debt. According to the figures presented by the bureau, to settle these certificates at their face value to-day requires $2,422,000,000. To settle them to-day on the plan I present would require $1,054,000,000 or a difference of $1,368,000,000.

Now, as to the amount due the veterans to-day. Under the Patman plan, $2,160,000,000 would be paid the veterans. To settle in full on the plan I propose would require $773,000,000, or a difference of $1,388,000,000.

Mr. HADLEY. That is, Mr. Lea, if every veteran took his money.

Mr. LEA. Yes.

Mr. HADLEY. But you have an optional provision in your bill?

Mr. LEA. Yes. It is purely optional. The veteran, of course, is not compelled to take his money, but every veteran now or at any time before maturity would have the privilege of cashing his certificate for its full then present value at any time he wants to do so.

The statement I have just made does not fully define the burden the Government would assume for settlement under the Patman bill.

In the first place, if we pay these certificates to-day at their cash value, the cost to the United States will be just as great as it would to pay their face value at the time of their maturity. One dollar to-day is just as valuable as $2 18 years from now at 4 per cent interest, compounded annually.

So to-day if we are to pay this unaccrued interest, we must first borrow the money from somebody with which to pay the veterans who are now our creditors. We do not relieve the Government of any existing interest charge. We do not relieve ourselves from the payment of any interest for the future. Let no man be so childish as to make that argument. We assume the same and additional interest obligations to another set of creditors instead of the veterans. In other words, we pay double interest. We pay the interest to the veterans before it has accrued; and we borrow the money from purchasers of Government bonds, to whom we must pay interest until these bonds are paid. So we pay double interest, unaccrued interest of $1,353,000,000 and an additional interest of $1,353,000,000 thereon for 18 years. Now, what does that mean? That means that if we adopt the Patman bill, we do not settle for these certificates at the face value of $3,513,000,000. No. But we will settle with these certificate holders and bond holders, 18 years from now, at a cost to the United States of $4,850,000,000. That is the sum the Patman bill means, and not $3,500,000,000.

We can not escape the interest. In other words, a dollar to-day is worth $2 18 years from now at 4 per cent compounded interest. The present value of these certificates is exactly the face value 13 years from now. So it will ultimately cost the Government the full face value to pay these certificates at the price I propose, because if we pay the certificates at their actual value, we must nevertheless pay interest on the money we must borrow for that purpose. The ultimate charge to the United States under the plan I propose would be $3,500,000,000. That is the minimum amount for which we can pay these certificates. We must borrow the money and we will owe an equivalent amount for more than 18 years to come. There is no other practicable way of paying these certificates.

Suppose a veteran is paid in cash to-day and he goes across the street and deposits the money in a bank. January 1, 1945, 13 years from now, he will receive what he deposited and compound interest for 13 years. Then that veteran would have as much as if he had held his certificates until that time and collected its face value. So the present cash value is the equivalent of the full face value of these certificates when paid at maturity.

So the question you are called upon to decide, is whether the final cost to the United States is going to be the full face value or $1,353,000,000 in excess of that amount.

Now, H. R. 11300 would authorize payment of all we owe. It simply proposes to transfer or change our creditors. Enact this bill and you would not increase the debt of the United States. It will not cost the United States any more to pay the actual value of these certificates to-day, or to give the holder the option of his money to-day, if he wants it, than it will to pay their face value 13 years from now. That will not increase the debt of the United States. We would pay the veterans what we owe them and assume an equal debt to the purchasers of our bonds from whom we secure the money.

We release the holders of these certificates as our creditors and substitute other creditors. It is the same as it was on the matter of the loan two years ago. We gave the holders of these certificates the right to borrow 50 per cent. It was the decent right thing to do and I have not the slightest sympathy with the irresponsible condemnation that went over the country on account of that. It was unjustified. So, to-day, in my judgment, it would be better to give each holder of a certificate the right to cash it at its actual value if he wants to do so.

I stood here in 1924 and urged this committee to pay the bonus in cash then. In 1920 I was for the cash payment of the bonus—I was for paying them every cent we owed them. They were not entirely volunteer creditors of the United States. They did not have much to say about how these certificates were written. They accepted what Congress gave them, which, of course, is the legal status of the matter to-day.

The charge for these certificates against the Federal Government can rightly be placed among the long time obligations of the United States. It is not a temporary obligation. It does not belong to the current budget.

One of these certificates is just as much a bond of the United States as is a Liberty bond. The payment of these certificates belongs to the long time obligations of the United States and not to the current or short time obligations.

Suppose that I buy a $1,000 United States bond. I go over to the Treasury and pay $1,000 for it. It calls for the payment of 4 per cent per annum for 25 years. There are 25 coupons attached to that bond each for $40. Those coupons call for $1,000 of interest.

I keep that bond. On the face of it, the United States has agreed to pay me $2,000 and I only gave $1,000 for it. I keep it three years and then I go over to the Treasury of the United States and I say, "Here I have a bond for $2,000; I want the cash for its face value." The Treasurer might laugh at me, or he might more kindly explain to me that if I would read my coupons I would understand that those coupons do not become a charge against the Treasury until they mature. He might tell me he would pay $120 for three years interest or at the end of the 25 years he would pay the face value of $2,000.

So here this certificate is composed of the original credit plus the interest for 20 years and the face value is not due until that time has elapsed.

If I go to-day to try to cash an adjusted-service certificate at its face value, 13 years in advance of its maturity, I am in exactly the same position as if I went to the Treasury and asked for the payment of the face value of interest coupons before their maturity.

Several reasons have been suggested why these certificates should now be paid at their face value. The first and the most convincing one to the man unfamiliar with the facts is that we should pay them because we owe them now. Of course, that would be a good reason, if true. But I have already gone over that argument and I believe I have answered it.

The next suggestion as to why we should pay the face value of these certificates is because the holders need the money.

Of course, so far as the legal phase of the situation is concerned nobody can ever justify a demand for the payment of money because the man who is to receive it needs the money; that is, as a legal proposition. But I think it is perfectly right and proper that the Congress of the United States, in considering the claim of these service men, should not be controlled entirely by what is "nominated in the bond." Rather let us meet it from the practical standpoint of equity.

Now, are we going to justify the present payment as a debt or as relief to the needy? Those are entirely separate grounds of demand and payment. On which shall we rest what action we take in this matter?

The United States has provided for the separate care of the disabled. At the present time somethng like 600,000 disabled men are drawing compensation.

So, on this question of whether or not we shall pay on the ground of relief to the needy, we need not confuse it with the question of caring for the disabled man. Other provisions are made for them.

Many, very many indeed, of the ex service men are in distress. There is no doubt about that. But unfortunately, those who are so acutely suffering from our intense economic depression are in the same condition as millions of people in this country. Fortunately a large percentage of those who would be beneficiaries of the Patman bill are in favorable circumstances. Our ex service men as a class are no worse off than the rest of our people. Indeed their ages place them in the most productive years of life. If we are going to administer relief on the ground of need, are we not going to discriminate between those who are in need and those who are not. If we are going to adopt a policy of Federal relief to the distressed in this country, shall there be any distinction, shall there be any discrimination? When Uncle Sam goes out as a Good Samaritan to take care of the unemployed and the unfortunate in this country, would it not be better that he administer his relief without discrimination as to class, occupation, religion, race, or politics?

The service men of our country would not have Uncle Sam go out and visit one home where there is a widowed mother, where there are under-nurtured children who are not supplied with the necessities of life, and refuse relief there, and yet go to a neighboring home where the man may have been in the service of his country, but who is in good health and in favorable condition, and give relief to him and deny it to that widow and those children.

Should we not give relief? I question in my own mind whether the United States has done its full duty in the months of distress that are immediately behind us. Facing the future, the obligation may rest upon the United States to go and join the States and communities in a cooperative plan to aid the distressed in this country. I am not going to be so tight in holding my fingers around our dollars against the relief cry of poverty and distress. I do not believe in that. God has never given us any better purpose for which to spend our money than for the relief of misfortune, poverty, and distress. The Treasury of the United States, so far as I am concerned, in the hour of necessity, can open in a sensible plan of cooperation with the States and communities of the United States.

But when we do that, let it be for all in equal distress and not single out one particular class and make its members the beneficiaries of that benevolent undertaking.

The matter of inflation is urged upon us. The necessity for inflation is given as a reason why these certificates should be paid at their face value now.

It is urged we issue new money without borrowing or incurring interest with which to pay the total face value of these certificates. It is urged that method will result in paying these certificates without a burden to the taxpayers and produce a beneficial inflation of our currency that is now needed.

I do not regard the question as properly involved in this problem. For the purposes of argument, I am willing to assume the necessity of inflation. I do not know enough about inflation to give you any enlightenment on the question. But I know this, inflation is poison; deflation is poison; to the economic life of the country. They are misfortunes. If we are going to have necessary inflation, however, I take it as fundamental that it must be a controlled inflation.

Sometimes the condition of a patient becomes so critical that it is necessary to administer strychnine. When strychnine is administered it must be under the advice and supervision of a skilled physician who understands the peril of the operation. So, if we are going to engage in inflation, the question is big enough and important enough to be handled separately and not be confused with this bonus issue. It must be a conrolled inflation.

We must remember this, that when we voluntarily enter upon a program of inflation or deflation by law, we change the value of every man's property. We decrease or increase the value of every man's dollars.

Suppose we could induce our ex-service men and the country to believe that we had found a method of paying debts by printing money without its placing any burden on the people of our country. What would be the moral effect of resorting to the use of such methods? Suppose we pay $2,000,000,000 to our ex-service men and they could believe that vast sum of money represented no burden on the people of their country. Suppose we likewise print money and pay or give it to other classes of our people, would they appreciate it? Would they appreciate a benefit that did not represent a burden on the part of the country? On the contrary, would it not be demoralizing? Could not the service men consistently come back eight years from now and say, "it is true you paid us $2,000,000,000, but that money didn't cost you anything. It was a help to us; why not give us some more in the same way? All claimants and creditors of the country might be drawn into the same march toward financial destruction. When once embarked upon such a policy, who can tell us where the resisting power is to stop it? Can any man conceive that such a plan promises well for the future of our country?

It should be apparent to all that, if any, the only intentional inflation that can be justly tolerated is a controlled inflation exercised only for paying debts for the benefit of the whole country.

But that is not the main answer to this suggestion of inflation. Fundamentally I think the complete answer to this demand for inflation is that if we have the power to print money and pay obligations without burdens to the taxpayers, that power should be used to pay the debts of the United States. It is not necessary to give away money in order to inflate our currency. If this committee adopts the idea of inflation, that by any means we can pay debts without burdens, then why did you write that tax bill, a tax bill that places a burden on business and on labor and on employment in the United States? We thought we were doing a hard but necessary thing contributing to the recovery of the United States, but if that can be done by inflation, then your tax bill is inexcusable. Call it back and print currency to pay the expenses of the Government.

Moses provided manna for the Israelites, but the American taxpayer has never learned any way of securing his bread except by the sweat of his brow. If this committee will devise a plan by which our Government can pay its debts without burdening our people, it will dim the glory of Moses.

If we must have inflation, let it not be by gifts or by creating or paying obligations in excess of those we have assumed. Let it rather be to pay the debts of the United States, or to administer relief in this country if necessary, and then give it to all equally.

Now, another argument as to why the face value should be paid is that we can never pay the service man what his services were worth. I think that is true. I do not pretend that we are ever going to pay the man who gave his life, or who in the trenches in France or elsewhere suffered a permanent disability, or reward a man for his battle hazard or peril or sacrifice. We can not fully pay, if we could do that I could not resist the argument. I would indeed be willing to pay the face value now or to open the Treasury to the payment of $4,800,000,000.

But our problem is not so simple as that. If the only thing involved were the bonus, why it would be what General Dawes spoke of here yesterday morning as a peanut affair. It we could remove the obligation of the United States to the service man by passing this bonus bill, if we could relieve our Treasury, if we could relieve our own hearts or consciences by doing that, it would be the simplest of problem? But that is not the problem. We have the disabled, the widows and the orphans. Already we have embarked upon the policy of paying for the disabled, even where that disability has no connection with the service. A man may be run over by an automobile and we give him a pension of $40 a month for the rest of his life; The United States was in no way responsible for his injury. It was an accident that may be suffered by anyone in civilian life. Yet, in 20 years, we give that man $9,000 on that pension, for an injury not connected with the service. Paying a new bonus will not relieve us of paying that pension; paying a bonus will not discharge our duty to dependent relatives, parents, widows, and orphans.

There will be men who are holders of these certificates to-day who will in years to come receive from $10,000 to $30,000 each in compensation or pensions for disabilities. Paying a new bonus will not relieve our people of that duty.

So, we do not discharge our duty to the service man by paying this certificate.

Now, a contention is made that we should allow 6 per cent on these certificates instead of 4.

On May 19, 1924, the day the bonus act passed, the United States bonds 3½'s were selling for 99.30, almost at par. United States 4's were selling at 100 plus—slightly plus. In other words, the day the bonus act was passed, it cost the United States 4 per cent to obtain money on its long time obligations to meet the debt it assumed in agreeing to pay the adjusted-service certificates.

The highest interest that the United States has authorized in 20 years on its long-term obligations is 4¼ per cent. To-day the average price that we are paying on our long-time obligations is practically 4 per cent. The average price that we are paying on all the securities of the United States, including the short-time obligations, is 3.65 per cent.

In other words, on the day these certificates were authorized the United States had to pay 4 per cent to get the money to assume the obligation of these certificates.

Was that certificate a benefit to the service man or would it have been better to pay in cash? There can be debate about that. Form the standpoint of the holder, the answer depends on his circumstances. If he is able to hold the certificate to maturity, it is better than cash. If not able to hold it, the cash would be better. Purely from the standpoint of the Government, a cash payment is as good, if not better, than the delayed payment, assuming, of course, that the certificate is taken up at its actual cash value. In many respects it may be argued that the certificate was worth more than cash. But, anyway, that was a matter of debate, and Congress agreed to the certificate plan and to pay the service man 4 per cent on the money due him until paid. The Government could have borrowed the money for that rate of interest.

Where would there have been any justification for the United States paying 6 per cent when the market was open for 4 per cent interest? There would have been no justification in 1924 for an adjusted-service certificate that called for 6 per cent when the market was open to the United States at 4 per cent.

Mr. HILL. Mr. Lea, may I interrupt you there?

Mr. LEA. Yes, sir.

Mr. HILL. While the Government might get the money at 4 per cent, could the veteran get it at 4 per cent?

Mr. LEA. He could not; I assume he could not. While I preferred that he be paid in cash, yet 4 per cent was the most that the Government had to pay.

Mr. BACHARACH. Will my colleague yield?

Mr. HILL. Yes.

Mr. BACHARACH. My recollection about this—and I am not quite clear, and I am asking, as all of us are, for information about these important things—is that in each district they are permitted to charge 2 per cent more than the rate of interest in the district. I know we charge something more.

Mr. VINSON. That is the rate they are permitted to charge the veteran on a private loan—2 per cent more than the rate of interest in the District.

Mr. BACHARACH. It is allowable to add 2 per cent, if I am correct; and that is the thing that I object to about the present bill—the present rate. After all, there is about $81,000,000 to-day for which the boys are paying 6 per cent, whereas if they go down here to the Veterans' Administration they can borrow at 4½.

Mr. LEA. Of course, I think charging a man 6 per cent after the certificate has passed into the hands of the Government is indefensible. There is no justification for charging these men 6 per cent for what they borrow, even though the loan did originate in the bank. The law requiring that should be changed.

Mr. VINSON. But if you take a 4 per cent interest rate to arrive at the ultimate amount, you are taking the rate at which the Government can borrow the money, not what it is worth to the veteran.

Mr. LEA. That is true.

Mr. VINSON. In other words, if you take the service credit plus 25 per cent, that is the basic amount. Now, to arrive at the value in 1945, should you take the interest rate for which the Government would get money or the interest rate at which the veteran would get the money?

Mr. LEA. Well, of course it is a question of the Government's obligation. It was giving a value based on the insurance scheme, and it gave as much as was, I presume, given by any insurance company. It was the usual and business way of fixing the interest on Government obligations.

Mr. VINSON. But of course you understand that the Government has been getting, and is getting to-day, money for a lesser rate than 4 per cent.

Mr. LEA. It has. The average on all securities is 3.65 per cent, but the average on the long-time securities is 4 per cent. The certificate is a long time obligation.

Now, that is all I have to say. I would like to place in the record memoranda furnished me by the Veterans' Administration explanatory of this bill, and giving the statistics as to what it would cost, and so forth.

Mr. RAGON (presiding). Without objection, that will be done.

(The matter referred to is as follows:)

MEMORANDUM ON H. R. 11300

Adjusted-service certificates are issued in the form of paid-up 20-year endowment insurance for such an amount as the adjusted-service credit plus 25 per cent will purchase when applied as a net single premium at the then age of the veteran in accordance with the American Experience Table of Mortality and interest at 4 per cent.

The net single premium referred to above is the amount required at the beginning of the 20-year period, which placed at interest at 4 per cent compounded annually will provide for the payment of the face amount of the certificate at the end of 20 years if the veteran is then living or at his prior death. The paid-up endowment reserve at the end of any certificate year is the amount necessary at that time to provide for the payment of the face amount at the end of the original 20-year period if the veteran is then living or at his death provided such death occurs between the date as of which the reserve is determined and the end of the original 20-year period. This paid-up endowment reserve is the same as the net single premium required to purchase an endowment insurance of the same amount as the certificate, at the attained age of the veteran for a period equal to the unexpired portion of the original 20-year period.

For example, in the case of a certificate issued January 1, 1925, at age 33, the paid-up reserve at the end of the seventh certificate year (January 1, 1932), is the same as the net single premium required to purchase an endowment insurance at age 40, for the same amount, having a period of 13 years to run before maturity.

Approximately 70 per cent of all certificates issued to date bear an effective date of January 1, 1925, the average age of the veterans being at that time 33 years. The net single premium (which includes the 25 per cent increase) required to purchase a paid-up 20-year endowment insurance at age 33 for $1,000 is $497.41. The paid-up reserve on this 20-year endowment insurance at the end of the seventh year is $623.28 which is the same amount as the net single premium required for a 13-year paid-up endowment insurance for $1,000 purchased at age 40.

Estimated amount required as of March 31, 1932

Total present value of outstanding certificates	$2, 160, 000, 000. 00
Total outstanding indebtedness	1, 386, 828, 621. 21
Total amount due veterans	773, 171, 378. 79
Amount to be reimbursed to United States Government life insurance fund	362, 444, 138. 93
Amount to be reimbursed to banks	60, 000, 000. 00
Total amount to be paid from adjusted service certificate fund	1, 195, 615, 517. 72
Less unexpended balance available in fund Mar. 31, 1932	141, 521, 157. 45
Additional appropriation required	1, 054, 094, 360. 27

APRIL 15, 1932.

From: Assistant administrator.
To: The solicitor.
Subject: H. R. 11300, a bill to provide for the payment to veterans of the present value of their adjusted-service certificates.

The attached proposed bill will on the average fix a cash surrender value of approximately $623 for a certificate of $1,000 and in the average case on which the full amount has been borrowed there would remain due the veteran in the neighborhood of $100, which is about $80 in excess of the present value on the basis of only granting that portion of the additional 25 per cent credit which is provided because of deferred payment as has been earned by the passage of time.

This bill would fix the approximate present value of outstanding adjusted-service certificates at $2,160,000,000 as against $1,879,000,000 on the basis of only paying that portion of the additional credit granted because of deferred payment which has been earned by the passage of time.

HAROLD W. BREINING.

H. R. 1—Estimated amount required as of January 31, 1932

Face value of outstanding certificates	$3, 513, 175, 864. 00
Total outstanding indebtedness	1, 351, 226, 561. 91
Total amount due veterans	2, 161, 949, 302. 09
Amount to be reimbursed to United States Government life-insurance fund	356, 532, 493. 77
Amount to be reimbursed to banks	75, 000, 000. 00
Total amount to be paid from adjusted-service certificate fund	2, 593, 481, 795. 86
Add interest to be remitted on adjusted-service certificates fund indebtedness	12, 671, 575. 46
	2, 606, 153, 371. 32
Less unexpended balance available in fund Jan. 31, 1932	183, 327, 357. 16
Additional appropriation required	2, 422, 826, 014. 16

Mr. BACHARACH. Mr. Lea, may I ask you one more question?

Mr. LEA. Yes.

Mr. BACHARACH. I do not want to bother you, because I think you have made a fine statement to-day.

Mr. LEA. Thank you.

Mr. BACHARACH. I am very much interested in the matter, in so far as I am personally concerned. But this has occurred to me, especially in view of Mr. Vinson's statement about the rate of interest: As a matter of fact, the reason the Government can borrow cheaper than the individual is the fact that they know that a Government obligation is something that is going to be met absolutely on the day it is called for, when it is due. The individual may or may not pay. He may ask for an extension. The rate of interest may change.

Mr. LEA. That is undoubtedly true. The cheap rate that the Government gets is due to the absolute security of the investment. Now, the veteran, as a creditor of the Government, is not in any different situation from any of the rest of us with reference to that. His credit is not any better than the credit of the rest of us. It is just the same. But nobody could expect the Government for the 6 per cent when the open market is 4. Congress made its choice in 1924. It was a time payment at 4 per cent or cash, and the time payment plan was adopted. I want to call your attention to this. Last Sunday's New York Times had an article headed, "Cease Profiteering in Aid to Veterans," and it quotes Mr. Stevens:

"Mr. Stevens pointed out that the Government had borrowed money for the payment of loans by the Veterans' Bureau at from 1 to 2½ per cent, and was charging veterans 4½ per cent, making about 2½ per cent profit. Profiteering by the Government at the expense of the veterans," Mr. Stevens declared, "must stop, and this present period of depression is the proper time to stop it."

That referred to the short-time loans. It was not a fair criticism. Poor old Uncle Sam needs a friend sometimes. He needs disinterested affection, and he needs the confidence of the country. Was it fair to charge against our Government that it was profiteering because it happened to make a temporary loan at a cent and a half when all these long-time obligations are costing the Government approximately 4 per cent? Why not be fair to our Government once in a while? Give it credit. Do not create the impression among the men who served our country that they are treated unjustly and unfairly, when it is not so. That ought not to be done.

Mr. HADLEY. Mr. Lea, if I understand correctly your deductions under your plan, it would require to settle with everybody, provided everybody took it, $773,000,000?

Mr. LEA. Yes; that would be the total obligation to the veterans on these certificates. It would cost the Government $1,054,000,000 to wipe the slate clean to pay the holders and other obligations already incurred.

Mr. HADLEY. Have you made any estimate as to the probable amount that would be deferred under option; as to the probable number of veterans and the amount involved that would not be required in cash?

Mr. LEA. I did not attempt to go into that. I have acted on the assumption you would ask the representatives of the Veterans' Administration to give you the authoritative information on that point.

Mr. HADLEY. Another question, then: Assuming that your plan was being considered, you have not discussed the method of payment. The Patman bill and the other bills have suggested a plan of payment. Have you any suggestion to make about the method of payment?

Mr. LEA. Roughly speaking, I assume that three or four hundred million dollars would cash the certificates that would be presented immediately. My own judgment is that that money will have to be raised as heretofore. As I stated this charge belongs to the long-time obligations of the United States, and could not be regarded as a part of the current expenses of this year. We simply transfer our creditors. So I think that money should be raised by issuing securities of the United States, and that we should pay in money that is worth a 100 cents on the dollar.

Mr. VINSON. In any event, you are just using a different form of obligation?

Mr. LEA. That is all.

Mr. VINSON. The adjusted-service certificate is just as much an obligation of the Government as a bond?

Mr. LEA. Absolutely. They stand on a par.

Mr. HILL. Mr. Lea, is there any difference in the effect on the bond market or the credit of the United States Government, in floating its obligations, by doing so in the form of a bond or in the form of an adjusted-service certificate?

Mr. LEA. I do not pretend to have any expert knowledge on that subject. I think there will be no substantial or material injury to the creidt or the finances of the United States by immediate cash payment at the actual present cash value of the certificates. But I do not approach the question from that viewpoint. I do not like the idea of taking the position that to do what is right by the veterans, would inflict a great injury upon the country. I do not oppose payment of the face value on the ground of expediency, or that the time is inopportune, but because the demand for the payment of the vast sum of unaccrued interest is unwarranted. It is not a proper claim against the Government. I approach the problem from the standpoint of what we ought to do, and then, if it costs us something to do what we ought to do for the veterans, I am nevertheless in favor of doing it. I think it is indefensible for us to now pay $1,353,000,000 in excess of what we owe the veterans.

I favor reducing that interest charged against them to 4 per cent, and wiping out the 6 per cent interest charge on all certificates held by the Government.

Mr. HILL. I would like to ask you a question or two on your bill. Your statement was, as I got it, that with a $500 single premium payment, which is about the average——

Mr. LEA. Credit, yes; on the average certificate.

Mr. HILL. A veteran who had borrowed to the limit of his certificate——

Mr. LEA. $500.

Mr. HILL. That is the limit of the borrowing privilege of the certificate?

Mr. LEA. Yes.

Hr. HILL (continuing). Would, on the cash surrender value now, have about $123 coming to him?

Mr. LEA. Yes; he would.

Mr. HILL. And that would be less 4½ per cent accrued, I take it, that he owes the Government on the money borrowed?

Mr. LEA. That is true. That is in excess value after the offsets are deducted. It is over 62 per cent of the face value of his certificate, and of course its value would be somewhat enlarged if we would reduce the interest charge on loans to 4 per cent.

Mr. HILL. Now, in issuing these adjusted service certificates—which are, in effect, an insurance policy——

Mr. LEA. Yes.

Mr. HILL. The age of the veteran at the time he made application for a certificate was not taken into consideration in determining the matured value of the certificate, was it?

Mr. LEA. Yes. There is a slight variation in the face value of the certificate due to the difference in the ages of the men who hold the certificates.

Mr. HILL. That is, the younger man, of course, would have a higher matured value on his certificate?

Mr. LEA. Slightly.

Mr. BACHARACH. Will my colleague yield?

Mr. HILL. Yes.

Mr. BACHARACH. I rather think he is in error. It may be I am wrong. My impression was that we gave every soldier a dollar a day for home service and a dollar and a quarter a day if he went overseas.

Mr. LEA. Yes; we did.

Mr. BACHARACH. And I do not think the age had a thing to do with it.

Mr. LEA. No; the age did not have anything to do with that. I did not make myself plain.

Mr. HILL. I was talking about the matured value of the certificate.

Mr. BACHARACH. I am just guessing at that, as I say.

Mr. LEA. I misled you. Your statement is correct as to what happened. But when we estimate the face value of the certificate, it costs more to insure a man at 40 than it does at 30; so you have a slight variation in the face value as between different ages based upon the same service credit.

Mr. HILL. Was that done in issuing the certificate?

Mr. LEA. I understand it was. But I think it would be unfortunate to depend upon me for technical insurance information when you have the authorities here from the Veterans' Administration.

Mr. HILL. I ask that question in view of a provision in your bill, on page 2, wherein it is provided that in determining the surrender value of the certificate for the time yet unexpired, it shall be based upon "the then attained age of the certificate holder," and you consider the age of the veteran in determining the basis of the present cash value of a certificate maturing in 1945.

Mr. LEA. That is the insurance man's way of saying that there is a variation in this due to the age of the veteran; but it is a slight variation.

Mr. HILL. Take a man who is 30 years of age now, and another man who is 45 years of age, each holding a certificate for the same amount. The older man would get less for his unexpired term than would the younger man?

Mr. LEA. Well, he would get the same value, but it would be a different face value. It costs more to insure the older man than it does the younger, and so he can not get as much insurance for the same amount of money.

Mr. HILL. I am talking about the actual dollars he would get now.

Mr. LEA. Yes; you are right. There is a variation.

Mr. HILL. Now, in making your calculation as to the payment to be made on these certificates, over and above the loans made, that has all been taken into consideration, I take it?

Mr. LEA. Yes; and I have placed in the record, with the permission of the committee, the statement of the Veterans' Administration as to how this works out, and the costs, and the differences.

Mr. HILL. Under your plan a younger man would get more money in payment of his certificate now than the older man would get, on the basis of the same amount of certificate?

Mr. LEA. There would be a slight difference. But the older man would secure a larger rebate for the unused portion of his certificate. Of course, all these men have secured the advantages of insurance up to date, and each man has been rewarded equally in that respect up to this time. But the variation is slight, because these men belonged to a common period of life. The Veterans' Administration can give you the exact facts.

Mr. CHINDBLOM. Have you made an estimate as to how much money would be needed during the next fiscal year to carry out your plan?

Mr. LEA. No; I have not, because I do not have the information on which to estimate the number and amounts of certificates that would be cashed. I think the Veterans' Administration can give you a pretty fair estimate based upon their experience as to the loans, but I would not attempt to advise you. Just roughly speaking, I estimate that three or four hundred million dollars would cover the total immediate cash payments.

Mr. CHINDBLOM. And have you estimated the total payment that would be required?

Mr. LEA. $773,000,000; and those figures were given me by the Veterans' Administration. That is $773,000,000 to the veterans. The cost to the Government would be over a billion dollars, due to other obligations already created in meeting obligations in excess of appropriations.

Mr. BACHARACH. I think, Mr. Lea, you are justified in your statement, because, as I recall the figures, after the 50 per cent loan they borrowed $965,000,000, and I think they borrowed about $75,000,000 from banks, making about a billion dollars, and they were entitled to borrow about a billion seven hundred and eighty or ninety million dollars.

Mr. LEA. Yes; obligations that were assumed in advance of appropriations.

Mr. VINSON. Referring to Mr. Chindblom's question about how much the burden would be in the next fiscal year, I might suggest that if the moneys were obtained on securities, and it was before July 1 of this year, it would simply be an addition to the national debt, and there would be no trouble about unbalancing any budget that might be balanced for the fiscal year 1933, whether it is the amount suggested by Mr. Lea or even a larger amount.

Mr. LEA. Of course that is true.

Mr. VINSON. Did I get your idea correctly about the cost being four billion eight hundred million under the Patman plan? I did not quite get that.

Mr. LEA. Under the Patman plan the total liability of the Government based on face value of the certificates would be $3,500,000,000. There is no doubt about that. The Government would have to pay, minus deductions, $3,500,000,000 to clean the slate. But in order to do that we must issue the securities of the United States and pay interest on those securities.

Mr. VINSON. Not on the Patman plan.

Mr. LEA. I mean that is what will actually happen. Of course the Patman bill tries to avoid that. Your criticism is correct in that respect. The bill provides a plan of inflation, to issue paper money and pay without taxes or burdens.

Mr. VINSON. And, of course, you would not have any interest charge upon that currency.

Mr. LEA. No. If you were going to do that, it is true that you would not have any interest charge against the Government, but you would decrease the value of all the Government's securities and all private debts to the extent that you inflated.

Mr. VINSON. That is another question. Now, under the Owen plan, where bonds would be issued and placed in the hands of the Federal Reserve Board, to remain there without sale unless and until commodity prices should exceed the price in 1926, you would not have any interest charge on those bonds, would you?

Mr. LEA. Based on that assumption, I would have to agree with you; but the possibility of reaching up into the sky and paying debts without placing burdens upon labor and capital is so improbable, and, it seems to me, fantastic, that I have not figured from that standpoint.

Mr. VINSON. Another question: In computing interest, Mr. Lea, upon the service credit—that is practically what it is?

Mr. LEA. Yes.

Mr. VINSON. And service credit means the dollar a day for domestic service and a dollar and a quarter for foreign service, plus the 25 per cent credit?

Mr. LEA. Yes.

Mr. VINSON. When did you start the interest; from the date of the passage of the bill?

Mr. LEA. January 1, 1925.

Mr. VINSON. When the bill became effective?

Mr. LEA. The date of the certificates; that is, the majority of the certificates. Of course, if the committee gets into detail, they may want to consider the fact that there are about 30 per cent of these certificates that were issued at subsequent dates instead of January 1, 1925.

Mr. VINSON. You made a statement that I thought was very pertinent, in that the World War veteran, under the adjusted-service certificates, was not a voluntary creditor. I think that is something that is very pertinent to the issue. You made another statement—that the case ought not to be tried at law, but it was a case on the chancery side or the equity side of the docket; and of course an amendment based upon equity would become law. Now, if you take the service credit plus 25 per cent, this being an effort to continue the congressional policy of adjusting compensation to the soldier, do you not think it would be fair, equitable, and right to start that interest payment at the date of the discharge of the soldier?

Mr. LEA. We did, in effect. That is what the 25 per cent covers. Say these men were discharged from 1919 up to possibly 1921. There were from four to six years that elapsed from the time they were discharged until the bonus act was passed, and 25 per cent was only a reasonable compensation to cover the interest in that elapsed period.

Mr. VINSON. We had a statement from a gentleman the other day who was on the committee at the time—a gentleman from Washington, and a very distinguished member of this committee (Mr. Hadley)—and as I recall, he stated that it was his understanding that that 25 per cent credit was added because of the fact that the payment of it was to be delayed 20 years.

Mr. LEA. Well, I did not understand the gentleman to say that exactly. But anyway, let us go back to your original proposition that we are going to treat this matter from the standpoint of equity; we allowed 25 per cent, which was just about in harmony with the 4 per cent compound interest to cover the period after the date of the certificate.

I thank you.

Mr. RAGON. It has been suggested that your bill be incorporated in your remarks, for the benefit of the committee.

Mr. LEA. Yes; I would like to have it incorporated.

Mr. RAGON. Without objection, that will be done.

(The bill, H. R. 11300, is as follows:)

[H. R. 11300, Seventy-second Congress, first session]

A BILL To provide for the payment to veterans of the present value of their adjusted-service certificate

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Title V of the World War Adjusted Compensation Act, as amended, is amended by adding at the end thereof two new sections to read as follows:

"PAYMENT OF PRESENT VALUE OF CERTIFICATES

"SEC. 509. The Administrator of Veterans' Affairs is authorized and directed to pay to any veteran to whom an adjusted-service certificate has been issued, upon application by him and surrender of the certificate and all rights thereunder, the amount of the net single premium determined as of the last anniversary of the certificate necessary to purchase a paid-up endowment insurance for the face amount of the certificate at the then attained age of the certificate holder for the unexpired portion of the original twenty-year period, on the basis of the American Experience Table of Mortality and interest at 4 per centum per annum, compounded annually: *Provided*, That no payment shall be made under this section until the certificate is in the possession of the Veterans' Administration, or until all obligations for which the certificate was held for security have been paid or otherwise discharged: *Provided further*, That upon payment under this section the certificate and all rights thereunder shall be canceled.

"SEC. 510. There is authorized to be appropriated such amounts as may be necessary to carry out the provisions of section 509. Amounts now or hereafter in the adjusted-certificate fund created by section 505 of the World War adjusted compensation act, as amended, are authorized to be made available for the payment of the net single premiums as provided in section 509 of this amendatory act."

Mr. RAGON. The next witness is Hon. A. Piatt Andrew.

STATEMENT OF HON. A. PIATT ANDREW, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

Mr. ANDREW. Mr. Chairman and gentlemen of the committee, if I may be permitted a personal word along the line of the discussion that has just preceded, I came to Congress when the question of the so-called bonus was very much in the foreground. I felt that the original payment of $60 for a veteran when he returned home from the war was a pitiful and niggardly allowance, and I was from the beginning an advocate of the bonus, or adjusted compensation, as it is more deservedly called. I believed that it was not a gratuity, but an obligation, and that it was fully justified; and, I opposed at that time, on the floor of the House and elsewhere, the statements which were made by Mr. Mellon, the Secretary of the Treasury, that we could not pay the bonus without impairing the credit of the Government, and that we should not be able to reduce taxes, or go on retiring the debt if the bonus were paid. I protested against those assertions and I twice voted for the measure over the President's veto.

The statement that has just been made by Congressman Lea as to the calculations about the payment, tallies with my memory of what was agreed upon at the time and the reason for it. When the adjusted service certificate was authorized in 1924, the period in which the veterans' need was greatest, which was when he left the Army, had passed, and it was felt by the leaders of the veterans' organizations at that time that it was to the interest of the veteran himself—at that time they were generally employed—not to give him money, which he would be apt to spend at once, but to give him instead a much larger sum in its face value in the form of an endowment insurance certificate. The dollar a day for home service and the dollar and a quarter a day for foreign service, to which allusion has been made, was the basis; but 25 per cent more was added to this basis, and my distinct recollection is that it was added to cover the interest for the period from the time when these men left the service to the time when the so-called bonus certificates were issued. Then this whole total was more than doubled, as has been so often stated, by adding the interest of 4 per cent cumulatively compounded for 20 years, and a 20-year endowment insurance policy was given the veterans for the full amount, which was nearly three times the cash originally asked for.

To-day I want to address myself briefly to the proposal of our colleague, Mr. Patman, that there should be immediately paid—or rather prepaid—the interest for the next 13 years on those certificates, and that provision should be made for that payment by the issue of United States notes to the extent of about $2,400,000,000.

I realize that many veterans, probably the majority of the veterans in the country, would like to have such a prepayment, and have been led to believe that it would be of benefit to them. It is with some regret therefore that I feel obliged to oppose them. But I can not do otherwise because I believe the proposal, if adopted, would involve immense harm to the country and to the veterans themselves. I shall try very briefly to explain the grounds for that belief.

We probably should not all agree as to the cause and the sources of the terrible economic depression that confronts this country and the world to-day; but there is one aspect of the crisis upon which there can be little difference of opinion. It will be generally agreed that the situation has been prolonged and has been greatly aggravated because of fear and distrust, and the cumlative pessimism which has pervaded the world as to what lies in the future. It has been like a disease, a nervous disease, which has infected the whole community, and left the entire economic organism in a state of complete prostration. There are many people to-day whose incomes, derived from salaries or wages or otherwise, would permit them to buy more than they are buying in the way of comforts and luxuries, but who are so worried about the future that they do not purchase anything aside from the merest necessities. There are plenty of men who could repaint their houses or reroof them, who could buy automobiles, or washing machines, or new clothes for their families, who have ceased doing so out of a nameless fear that an even greater disaster is going to happen, a feeling that they ought to save what they have against some dreadful event that still lies ahead—a worse situation than we have yet experienced.

The storekeepers and merchants in the different cities similarly hesitate to place their usual orders, or such orders as they might easily place, because of fright and dread of something still to come. The manufacturers and heads of industrial plants likewise refuse to improve their factories or to buy machinery which they might very easily buy because of that same anxiety about worse conditions still before us. The banks, in their turn, continue to call their loans, refuse to extend credit, and try to make their assets liquid, because they are also afraid of what may happen in the future. They are constantly confronted by the fear that their depositors, suffering from that same nameless dread, might at any moment withdraw their deposits, institute a run, and force the bank to close its doors.

Back of all this unsettlement and distrust lies a still greater dread—that our Government itself, the last bulwark of our economic defense, may yield under the strain that is placed upon it. Wherever we look to-day throughout the world; whether we look to Europe or to South America or to the Orient, we find government treasuries which have sunk into bankruptcy. Even Great Britain, a country whose economic stability seemed a year ago beyond question, slumped last September into practical insolvency, and this has made our own situation much worse than it was, or otherwise would be. Every effort that has been made in this country to revive confidence and start the wheels of business going has been blanketed ultimately by apprehension that our Government may be confronted with the same destiny as so many other governments, and that the Treasury of the United States itself may be headed toward insolvency.

Our Congress has made very earnest efforts to deal with this baffling crisis. When it was first threatened, in the field of agriculture, we appropriated $500,000,000—perhaps not too wisely—to help the farmers. Since then we have appropriated hundreds of millions of dollars for road building and for the construction of public buildings which were not necessary at the time, but in the hope that this would increase employment and revive business. Two years ago we agreed to put at the disposal of the veterans $1,200,000,000 not merely to help them, but with the hope, which had been promised, that this in its turn would give a new fillip to general trade. This year we liberalized, in the Glass-Steagall Act, the provisions of the Federal reserve laws so as to make available to the country more currency and more credit to the possible extent of many hundreds of millions of dollars.

About three months ago, when banks were failing here and there throughout the country in alarming numbers, and multitudes of families found their bank balances unavailable when they had the greatest need for them, and when the insurance companies, in which sixty or seventy million Americans had invested their savings in the hope of providing for old age or hard times or for their families when they died, were in jeopardy—when it appeared that the insurance companies as well as the banks might be forced into insolvency, Congress adopted another measure. It created the Reconstruction Finance Corporation and put at its disposal $500,000,000 more of its own money and offered to guarantee them $1,500,000,000 additional in order to save the depositors in the banks, and those who had placed their future in the trust of the insurance companies, from a disaster which would have caused untold misery to millions and tens of millions of people.

Now, all of these measures have helped in some degree. The last measure to which I have alluded, as General Dawes said yesterday, has greatly curtailed the closing of banks, has made it possible for some banks to reopen, and enabled their depositors to recover the money which they had intrusted to them. The insurance companies, too, have avoided failure. But throughout all of this tremendous effort there has lurked in the background a fear that is not often named—the fear that the Treasury of the United States might itself yield under the stupendous pressure which has been brought to bear upon it.

These different measures to which I have alluded have entailed a tremendous drain upon the National Treasury at the very moment when the government's sources of taxation and powers of borrowing were withering up. And with the example of other countries in the rest of the world, which one after another, in the course of the last year, and mostly since last September, have slumped into insolvency—with that example before them, the fear has grown in the minds of many people that the Treasury of the United States might itself become insolvent.

Now, at the present time, in this current year, as we all know, we are confronted in the Treasury with a deficit which will exceed the enormous sum of $2,000,000,000. It may reach two and a half billions. The very proposal at this time that Congress should double this already vast deficit, which is what the bonus proposal would amount to, seems to me to be fraught with grave danger, because it adds to the distrust and the apprehension as to the ability of the United States Treasury to stand the strain.

The proposal which has been made by our colleague to issue two billion four hundred million more of United States notes could in my judgment have but one effect at the present time, if it were adopted. It could not fail to promote a further disturbance of confidence, which is already so badly unsettled. It could not but increase the mistrust and aggravate the pessimism of our people as to the future. It could not but magnify the one thing which, as it seems to me, has prolonged and aggravated this great crisis.

It is difficult for many people to realize how tenuous a thing the credit of a country is; how vast and frail a structure is built upon so slight a basis. Yesterday Professor Kemmerer called attention to the fact that the means of exchange in the country consist in the main of some fifty billions of credit accounts in the banks. They are the so-called deposit accounts which are for the most part created, not by deposits of cash, but by the extension of loans to the people. There are fifty billions of such accounts in the banks of the country, all of which are demand obligations on the banks, yet for the redemption of these accounts the banks hold less than 10 per cent in actual cash, and what is more, that cash in its turn consists largely of credit money which is a demand obligation on the Government payable in gold.

The Federal Government itself has issued a great many different types of fiduciary currency, with which you are all familiar, which the Government is pledged to pay in gold, but which the banks count as part of their reserves.

Mr. VINSON. Mr. Chairman——

Mr. RAGON (presiding). Does the gentleman object to being interrupted?

Mr. ANDREW. I am perfectly willing.

Mr. VINSON. I think the gentleman is in error about the 10 per cent cash. As I recall it, Doctor Kemmerer said that it was 90 per cent trading and 10 per cent cash, but there was only about 2 per cent gold behind the $50,000,000,000 of deposits; in other words, he said about $800,000,000 in gold.

Mr. ANDREW. In speaking of bank reserves I had in mind both gold and lawful money. That is, we count as reserves of banks not only the gold which they hold but all the other forms of currency—silver certificates, United States notes, Federal reserve notes, and so on. The banks count in their reserves something like a billion and a half of other money than gold.

Now, the Government ultimately stands responsible for all of that currency and agrees to redeem it in gold. I think to-day the Government's obligations in the way of fiduciary currency are approximately $5,000,000,000, against which there is in the banks and in the Treasury about $4,000,000,000 in gold. In other words we have about fifty billions of bank deposits and about five billions of paper money, all supposedly payable in gold, but the banks and the Treasury have only about four billions in actual gold with which to pay them.

Mr. BACHARACH. I think the statement made by Doctor Kemmerer was 4.3 per cent, plus $800,000,000.

Mr. VINSON. That was it—4.3 per cent; but the $800,000,000 was included in the 4.3 per cent.

Mr. BACHARACH. I did not hear him make that statement.

Mr. ANDREW. However that may be, the substance of what I wanted to say was this: that the banks have demand obligations, payable in lawful money, of about fifty billions of dollars, roughly, and against that they hold in cash, including not only gold, but all other forms of lawful money, less than one-tenth of that amount; and that in turn the Government itself is subject to demands upon it for the redemption in gold of all that lawful money. It has something like three and a half billions of dollars in gold, against which there are outstanding obligations of more than five billions of dollars in other forms of money. Whatever the exact percentage may be, a stupendous amount of credit is founded upon a very small basis of gold, and any curtailment of that basis is fraught with danger to the superstructure.

Last autumn when distrust as to the solvency of the governments of the world was becoming widespread; when in France, for example, they had found that by leaving their balances in London for too long a time, the Bank of France, after the suspension of gold payments by the Bank of England, had to write off a loss of a hundred millions of dollars because of the sudden depreciation, to the extent of one-third of the value of the British pound—at that moment Europeans began to be fearful as to what might happen in this country, and began to call their money back, and in two months time something like $700,000,000 in gold were withdrawn from this country. This was undoubtedly prompted by the fear of the same thing happening to our standard of value as had happened to the British standard of value, and which had entailed upon French investors, and the Bank of France particularly, a loss within a very brief period of a hundred millions of dollars. Our Treasury and our banks were able to stand the strain, but it is doubtful whether they could withstand another drain of like proportions.

I believe that an attempt at this time to issue two billions and more of paper money, if adopted, would result in world-wide distrust in our financial stability, and would cause a similar withdrawal of gold from the country, and that this in all likelihood would be accompanied by runs upon our banks by frightened depositors, trying to get hold of gold and gold certificates. This would mean the collapse of our whole banking system, a panic of unexampled proportions, and our forced abandonment of the gold standard. The very agitation of such a proposal to-day serves to arouse apprehension as to the imminence of such a catastrophe and frustrates every hope and effort looking toward an economic revival.

Mr. HILL. Mr. Chairman, will the gentleman yield right there?

Mr. ANDREW. Yes.

Mr. HILL. What resulted to Great Britain in the matter of withdrawals of gold when they went off the gold basis?

Mr. ANDREW. They went off so suddenly that it was difficult to withdraw the gold. France attempted to withdraw what she had there, but she acted so late that she had already suffered a loss of $100,000,000.

Mr. HILL. That was all on the sterling deposit they had in Great Britain?

Mr. ANDREW. Yes, sir.

Mr. HILL. But as to the efflux of gold itself in Great Britain as a result of getting off the gold standard? That is the question I am interested in.

Mr. ANDREW. I could not give you the exact amount, but after the Government suspended gold payments, it was practically impossible to obtain gold in London for export. The situation in Great Britain was quite different from that which might confront a country in consequence of inflation. When Great Britain went off the gold standard they had not begun to issue paper money, and there was no efflux of gold because of rising prices. They went off the gold standard, not as the result of inflation, but because of general distrust before inflation had occurred.

I have been in two countries that suffered from inflation and the resort to unconvertible paper currency. I was in Germany in the autumn of 1923 when the German mark, which originally had been equivalent to 25 cents, had gradually fallen in value until it was not worth the cheapest kind of tissue paper.

The German Government had not begun with the idea of issuing paper money in vast amounts. They began with relatively small quantities. But as prices rapidly rose wages lagged far behind, and the people did not have enough money to meet the new price level, they ignorantly clamored for larger and larger issues. Then as the Government issued more and more paper money, prices rose higher and higher, and it became more and more difficult for the people to purchase anything and the Government tried to meet the difficulty by issuing still more money. When I was there, in October, 1923, a man who received any money had to spend it within a few hours or he would find that prices had risen in the meanwhile to double what they were before. The farmers naturally refused to sell their grain, or their meat or their vegetables, or milk or eggs or chickens, and the people in the towns or cities were almost without food.

If I may narrate a personal incident, I went into a bank in Dusseldorf to buy some German money, not to spend it, but for the momentary feeling of opulence that it gave me, and to keep as an example of what happens to a country which resorts to inconvertible paper money. I put down $10 and got for it something like 10,000,000,000 of marks, the equivalent under normal rates of exchange of more than $2,000,000,000. I invited the rather haggard bank clerk to lunch with me and asked him to explain how it had affected him. He told me that he was not able to have meat more than once in two weeks, but while his wages were increased every fortnight, they were fixed two weeks in advance, and that by the time he was paid the wages which were promised two weeks before, they would scarcely buy anything at all.

The result of all that inflation and all of that terrible experience in Germany was this, that the working people who had gradually through the years lifted their wages to where they offered a decent standard of living, found that the value of those wages was completely wiped out and they had to start at the bottom again.

What did it mean to the veterans? It meant that those veterans who were getting pensions and compensation for disabilities of one kind and another found that all that they had achieved during the preceding four or five years in the way of relief from their Government was worthless and they too had to start all over again.

The same thing happened in France. I was in France in 1926, and as I have a good many friends among those veterans whom I met in the war, I was able to learn what had befallen them in consequence of inflation and depreciation. The franc had dwindled in value through inflation from a value of 20 cents to a value of 4 cents and all of their pensions and everything that they by effort and pressure had been able to induce their government to provide for them had been cut down to the extent of four-fifths of their value.

If that were to happen in this country, and I believe it might happen if this bill were passed, it would do incalculable harm to every wage earners in the country, and to every man who has a salary. It would do incalculable harm to every one who has insurance, or who has deposits in savings banks. It would do incalculable harm to the veterans themselves, because whatever they have won in the way of promises from the Government for compensation, for disability allowances, or for retirement allowances, would be diminshed in value and might be completely wiped out.

Mr. ESLICK. Will the gentleman yield?

Mr. ANDREW. Yes.

Mr. ESLICK. In case the $2,400,000,000 were paid, in accordance with the Patman bill, and money in that amount were issued, does the gentleman think that that would create an inflation comparable to the German inflation and the French inflation?

Mr. ANDREW. No, not necessarily. I did not mean to say that that would inevitably result, but I think it would take us off the gold standard. I think if it were adopted that vast numbers of people would withdraw gold or gold certificates from the banks, and the banks would fail, and that Europeans who have hundreds of millions of dollars in this country would withdraw their gold, and that the Treasury would fail, and that we should be left upon an inconvertible paper standard, dependent only upon the will of congressional majorities. In that event I fear that the temptation would be almost irresistable under existing circumstances to issue more money to help the unemployed, to balance the Budget, to build roads, to lend money to impoverished cities and States, and so on. It is the easiest way for a government to pay its bills and it is a very tempting way to meet extravagant appropriations. That is why I fear, the step once taken, if it drove us off the gold standard, would plunge us on a career that might lead anywhere.

Mr. ESLICK. If it were to stop at this issue, it would only produce a reasonable rise in other values, in agricultural and industrial values, would it not?

Mr. ANDREW. I can not believe that it could happen without causing the failure of banks or without inducing European people to withdraw their money. They have felt that the standard of monetary stability in the United States was higher than anywhere else in the world, and they have lots of money, hundreds of millions of dollars invested here or on balance. If they drew that back we would pass off the gold standard and after that no one can say what might follow.

Mr. ESLICK. Let me ask you one other question. With an estimated wealth of $250,000,000,000 and an indebtedness of

$150,000,000,000 public and private in this country, what hope is there to pay these debts unless there is a material increase in circulation?

Mr. ANDREW. Now, if I may answer that as I see it—and I do not claim to be the final seat of authority on anything——

Mr. ESLICK. I take it it is more or less guesswork with all of us.

Mr. ANDREW. Yes. But I will try to answer it as I see it. Professor Kemmerer, if you were here yesterday, explained quite clearly what is the generally accepted theory of the level of prices, how in our country the purchasing power which influences prices, is only in a very small proportion (he said about 10 per cent) in the form of currency and about 90 per cent in the form of credit or checking accounts. Most payments are made to-day by checks, in the United States, and in all the English speaking countries. The price level depends primarily upon the rapidity with which these checking accounts revolve, upon their velocity of circulation.

I think the way to restore the price level in this country is to restore confidence, so that checking accounts and money will circulate again with the rapidity with which they used to circulate. The checking accounts of the banks, which influence prices in the same way as actual currency, used to circulate three years ago about seventy-eight times in a year. To-day they circulate at the rate of only about forty times in a year.

Now, the way to restore the price level, in my judgment, is to let confidence and hope recuperate, and not to disturb it. Then our people will begin to buy again, and checking accounts and money will function with their old-time velocity, and prices will tend to go back to their old level.

Mr. ESLICK. We have the same money standards that we had three years ago in this country.

Mr. ANDREW. Yes, exactly.

Mr. ESLICK. Now, there has been a perpetual loss of confidence.

Mr. ANDREW. No, I should rather say that it is a temporary disease.

Mr. ESLICK. What are you going to do to cure that disease with the present standards without adding some new blood or some new methods?

Mr. ANDREW. I should say that the way to treat a nervous disease is to let the patient rest quietly, and not try too many artificial stimulants. We have gotten into a morbidly sensitive and melancholic condition—all our people. They do not see things as they are. They are unduly apprehensive of the future. If you issue more fiduciary money, you only increase the fright, and if you scare people more, you make things worse.

Mr. ESLICK. Gold is the standard, is it not?

Mr. ANDREW. Yes.

Mr. ESLICK. Do you agree with Doctor Kemmerer that if the amount of gold in the world to-day could be doubled, it would be a detriment to the people rather than an aid?

Mr. ANDREW. No, I do not. I do not say it would be a detriment or an aid. It would benefit some, and harm others.

Mr. ESLICK. If the people of this country or the world had $2 of gold to take the place of one, and gold is the standard, would not that necessarily aid the commerce of the world?

Mr. ANDREW. I think it would give something in the nature of a fillip to business throughout the world if that happened. But I can not feel the same way about a currency dependent in its amount upon the will of Congress. I would not disparage Congress, being a member of it. But I do not believe that you could reestablish trust in the business world if the currency system and the amount of money in the country were left to the will of political majorities, because you have so many persistent appeals for help, first from one group and then from another. If Congress could easily provide financial assistance for one group or the other group, by simply printing paper money, we might too often yield to the temptation.

Mr. ESLICK. May I ask you what you define as fiduciary money?

Mr. ANDREW. I mean money that is not gold, that could not command in the market the value of gold except as it is redeemable in gold. I mean United States notes and Federal reserve notes and silver certificates and silver or copper coins.

Mr. ESLICK. In other words, it is not measured by gold.

Mr. ANDREW. Its substance has not the value of gold.

Mr. VINSON. Would you call national bank notes fiduciary money?

Mr. ANDREW. Yes, surely.

Mr. DICKINSON. To what do you attribute the want of confidence in the United States? What brought about this want of confidence, in your judgment?

Mr. ANDREW. It seems to have been a reaction from a period of tremendous overoptimism and overexpansion in every field, not merely speculation in the stock market. Everybody, three or four years ago was banking too much on the future, was buying not only from current earnings but from those expected or hoped for. The whole installment plan of buying was based on that. Women bought fur coats and jewelry expecting to pay for them two or three years hence. Men built houses, and bought automobiles and electric refrigerators and radios and everything else, not with what they had, but with what they hoped to have. Cities and States, factories and firms of all sorts mortgaged their future. They went too far and borrowed too much from the future, and finally the bubble burst.

Mr. DICKINSON. Due in part to this speculation in stocks and the resultant crash—Professor Kemmerer thought that it was largely due to that.

Mr. ANDREW. I think that was one very influential factor, but the speculation was not only in securities. People were speculating in almost everything, thinking that they would have the income next year or the year following to pay for them, they speculated in real estate developments, in houses, hotels, store buildings, factories, as well as in automobiles or personal luxuries.

Mr. LEWIS. Professor Kemmerer yesterday referred to the fact that the number of shares of stock on the New York Stock Exchange had been multiplied from 171,000,000 to 1,125,000,000 in the few years preceding this financial break. Would you call that fiatism in industry capital?

Mr. ANDREW. To an extreme degree. I do not like to say it, lest I be misunderstood or misquoted, but I think the big banking houses, affiliates, and brokers who were floating securities, both domestic and foreign at inflated values were probably more responsible than anybody else in this country for the situation that exists to-day.

Mr. LEWIS. Fiatism, then, in private industry and private capital may be as dangerous as fiatism of the Government?

Mr. ANDREW. Yes. Our recent history proves it.

Mr. VINSON. I have listened very attentatively to your idea about the insertion of new currency into our system. What would be your notion if the currency were contracted—fiduciary currency—at this time?

Mr. ANDREW. Were contracted?

Mr. VINSON. Yes. If it were withdrawn from circulation. You say it would be harmful to add any fiduciary currency to the system. Now, what would happen or what would be the effect if you withdrew fiduciary currency?

Mr. ANDREW. You mean by Government vote?

Mr. VINSON. Yes.

Mr. ANDREW. I think it would be unfortunate. I think the less the Government has to do with the quantity of currency in a country, the better it is for the country.

Mr. VINSON. Who is going to have anything to do with it, Mr. Andrew, if the Government does not manage it?

Mr. ANDREW. We have an organized banking system which was established by Congress, and one of its purposes was to make our currency responsive to the needs of business. It works more or less automatically. It is dependent to some extent upon the production and distribution of gold in the world, and to some extent upon the men who administer the banking system. It has not worked successfully all the time, but I should rather leave it as it is than subject it to the changing will of political majorities. I do not mean political in the sense of Republican or Democrat.

Mr. VINSON. Most of us when we are sick look for a doctor?

Mr. ANDREW. Yes. Most people do.

Mr. VINSON. We do not like to let nature take its course. What we as Members of Congress, including yourself, are trying to do is to find a prescription.

Mr. ANDREW. Yes, I wish that we might, but sometimes nature in her own quiet way overcomes disease more effectively than medicine.

Mr. VINSON. Mr. Andrew, what is your personal view with respect to the cessation of the interest charge upon loans made to veterans?

Mr. ANDREW. I think there ought to be some adjustment made. I have not studied it carefully enough to know just exactly what. I feel that the Government should not charge the veteran for his borrowings more than it has itself to pay for the money which it borrows on similarly long-time loans. But I should not want to make it more profitable for the veteran to borrow than to hold on to his insurance.

I have talked in a very rambling way here, but I did want to say after Mr. Lea spoke this morning, that I agree with him in the feeling that the Government does not now owe to the veterans interest for the next 13 years on their certificates; that it is not exact to say, as many of the veterans have come to feel, that the Government owes them the interest for the next 13 years.

I will say in that connection if a system can be worked out along the lines as suggested by Mr. Lea this morning, by which an option could be given to the veterans allowing them to receive in cash the original service basis of their certificates, plus the 25 per cent which was allotted for the period between the time they left the Army or the Navy and the date when the bonus certificates were issued, plus the compound interest up to the present time—I should favor allowing them the option of a final settlement in cash upon this basis.

Mr. VINSON. At what date would you compute it at compound interest?

Mr. ANDREW. Just as it is in the certificate to-day.

Mr. VINSON. The date of the issuance of the certificate?

Mr. ANDREW. Yes, because we added 25 per cent, which was approximately compound interest at 4 per cent, for the preceding years.

Mr. VINSON. There is some controversy as to just why that 25 per cent was added. I was not a member of the committee at that time, but some seem to think that it was added in order to compensate for the delay in securing the face value of the certificates.

Mr. ANDREW. I can not remember the motives of everybody at that time. It has been my understanding in the intervening years as I have stated it, but at any rate in actual fact it does do that very thing. It adds about 4 per cent compounded for five years approximately.

As to the proposal before us to-day—for the immediate prepayment of future interest on the bonus certificates, if Congress does not endorse it, and I do not see how we can, ex-service men and their families should not feel that we are treating them ungenerously. It will simply mean that Congress has a more thoughtful comprehension of the real interests of the veterans and of the country as a whole than some of the veterans have themselves. They must also remember that our National Government is already spending more than a third of all the taxes it collects, or more than a billion dollars a year, for veteran relief. Congress is appropriating during the present year for the benefit only of those connected with the World War no less than eight hundred seventy millions, or an average of nearly $200 for every one of the more than 4,000,000 men who at one date or another enlisted in that war (and this takes no account of the loans extended to these veterans upon their certificates). The Nation has rightly shown and will continue to show its gratitude for the inestimable service rendered by these men in 1917–18. The vast majority of ex-service men appreciate this fact, and I am sure that they would not want us to accede to any proposal which they might make if in our earnest judgment it could not be granted without harm or peril to the country.

Thank you very much, gentlemen, for allowing me to trespass so much upon your time.

Mr. RAGON. We will now hear from Congressman Hamilton Fish.

STATEMENT OF HON. HAMILTON FISH, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. FISH. Mr. Chairman and gentlemen of the committee, I was one of those Members of Congress who voted for the original adjusted compensation bill and I believe I voted for it over the veto of a President of my own party. I supported the adjusted service certificate bill and I believed in both of those bills then on their merits and still do. I am of the opinion that every veteran who has appeared here in opposition to cash payment under the adjusted service certificate bill at this time, including Representative Royal Johnson, Representative LaGuardia, Representative Andrew, Representative

Simmons, and myself, all voted for the original adjusted compensation bill and for the adjusted service certificate bill, and voted to pass one or the other of them over the veto of a President of their own party.

But, at the same time, in this economic emergency and in this severe financial crisis, we do not believe that any cash payment should be made. It is most unfortunate, Mr. Chairman, that a great many veterans back home have what many of us think an erroneous idea in regard to this legislation. Of course, we can admit, many of them want the cash payment at this time and many hundreds of thousands of them are in need. But unfortunately they think the Government owes them somethong. They believe the Government has an obligation to pay them at this time and furthermore they are under another misapprehension, that the Congress of the United States has been spending a large part of its time in granting, not millions but billions, of dollars to the big interests of the country, to the banks, to the railroads, and to the insurance companies.

The veterans themselves feel that if Congress is going to give money to the banks and the railroads in vast quantities that they themselves should be taken care of at this time.

At the outset I want to state emphatically that in my opinion the Government does not owe one cent to the able-bodied veterans of the United States at this particular time. There is no indirect or implied promise to pay the veterans this year or next year or until 1945 under their adjusted-service certificates.

In answer to the misunderstanding about the grants of the Congress to the big interests, General Dawes submitted detailed data on that issue yesterday. The Reconstruction Finance Corporation bill is not a bonus. It provides for loans to industry, primarily to banks and, as pointed out by General Dawes, 92 per cent of the loans were made in cities under 100,000; 88 per cent in cities under 25,000; and 76 per cent in cities under 10,000. To do what? To take care of the small banks. Fortunately few of the big banks of this country, up to the present time at least, have failed. It is the little bank back home that is in danger and that has failed and the little bank is the one that lends money to the little fellow, to the grocer, the butcher, the baker, and the farmer and dairyman in the little towns of 5,000 and 10,000.

But if you talk to groups of veterans anywhere in this country, you can be sure a number of them will get up and say, "Well, we ought to be paid in cash now because the Congress is giving billions to the big banks of this country, to Mellon and to Morgan, and so on." I agree generally with the suggestions that have been made here about the reduction of interest on the loans made on the adjusted-service certificates. I introduced a bill to reduce the interest to 3 per cent and it might well be reduced to 2 per cent. I also introduced a bill permitting veterans to make loans up to 50 per cent on issuance of the certificates without having to hold them for the 2-year period. But that is a matter for the committee to decide. I think we all agree and most of the veterans agree that there should be a reduction in the interest payments. When the adjusted service bill was first up, there was a vast amount of propaganda by the interests opposed to it. They talked about a raid upon the Treasury, and so on. Many of us took the floor and appeared before this committee and pointed out that it was not a raid upon the Treasury, that if we charged the veteran 2 per cent more than the rate of interest in the different reserve districts for loans on the adjusted-service certificates, the Government would make a profit of about $10,000,000 annually on these loans to the veterans.

The difficulty in talking against this bill at the present time is the same old story of chickens come home to roost. It is the vicious propaganda that was originally directed against the original adjusted compensation bill. All the big metropolitan papers, and all the big interests howled in unison, that if we passed this bill it would mean that Liberty bonds would go down and the rate of interest would go up, that there would be a deficit of $600,000,000 in the Treasury, and that the country would go bankrupt; that there would be no tax reductions for another generation.

Within a few weeks after we passed the bill, there was a further tax reduction bill. We have had four of them since we began discussing this matter originally. Instead of having a deficit of $600,000,000, we had a surplus of $300,000,000 or $400,000,000. Liberty bonds instead of going down went immediately up to par and over par after the bill was passed, and the rate of interest instead of going up went down to 2 per cent on loans at that time. It was the lowest rate of interest that had been quoted for years in this country.

So, when we come to oppose this bill and object to cash payments at this time we are faced with what was said then, when they said that the country would go bankrupt, and so on.

I am not here to discuss the gold standard. I am even willing to admit Mr. Patman's contention—and I want to say to the committee that I have the highest personal and political regard for Mr. Patman and believe that he is absolutely sincere and always has been in the advocacy of his bill in the past. I am willing to admit that you could issue $2,400,000,000, backed by 40 per cent gold. I believe that there is a sufficient gold reserve amounting to a billion dollars, to issue that amount of money.

At the same time I believe that if you do that, you will exhaust your gold reserve in this national emergency and that you will drive us off the gold standard within six months of the passage of such a bill providing $2,400,000,000 of additional money based on 40 per cent gold, because, as pointed out to you, it is a matter of confidence and credit. People who now are shaking in their boots would lose their confidence if Congress went into issuing vast amounts of paper money. They would draw the gold out of the banks; gold would take flight to foreign nations, to France particularly, and we would be off of the gold standard in six months.

And, furthermore, I am naturally very much opposed to the issuing by the Congress of the United States of currency in that way; because of the experience of Russia. All that Mr. Andrew said about Germany is not a patch on what happened in Russia. Instead of it being billions, the paper ruble just went into the hundreds of billions; and the value of the paper ruble completely disappeared. It has always happened in every other country the same way where a government starts in paying off its debts or obligations by merely issuing additional paper currency.

Mr. Vinson. What gold reserve did Russia and Germany have at the time of the issue of that money?

Mr. Fish. They both had very little gold reserve, compared with this country. Russia has not got $200,000,000 in gold to-day.

Although I do not believe there is any obligation to reduce the rate of interest on the adjusted-service certificates I think at least we can afford to try to do it. I do not know whether we can afford to do it financially, but we should take such action in view of the fact that we settled and adjusted and liquidated our foreign war debts and reduced them down to 2 per cent interest, and 1½ per cent interest and less. Of course nobody in this country is in favor of profiteering, as we are now, at the expense of the veterans, by charging them 6 per cent. I, for one, would like to see this rate of interest go down to 3 per cent, or 2 per cent—whichever in your judgment you think advisable. It would cost twenty-five million dollars a year to fix the interest at 3 per cent; it would cost thirty-five to thirty-six million to put it at 2 per cent a year.

Mr. RAGON. On what do you base that?

Mr. FISH. I base it on information I got from the Veterans' Bureau and I think that you can best get that information from General Hines, who will appear before your committee on Monday.

Mr. RAGON. I was just going to ask you if you could supply us the information on which you base it.

Mr. FISH. I could do it, but it would be just a duplication and I would like to finish here in a short time.

Mr. VINSON. May I interpolate there that the average interest on the Italian settlement was forty-one one-hundredths of 1 per cent.

Mr. FISH. I do not know what the rate of interest was. The Italian debt funding was 25 cents on the dollar; it was the lowest settlement of all.

Now you referred to the gold reserve in Russia and Germany, If Russia, a country with practically no gold at all—it had last year $200,000,000; I do not think it has that amount now——Soviet Russia owes $700,000,000; it owes $300,000,000 to Germany, and has no credit back of it, except fast vanishing gold reserves—if a country like Russia, which is practically bankrupt, or is bankrupt for all purposes which count in finance, with a labor that is not experienced and intelligent like ours, can establish a 5-year program, it does seem to me that the Ways and Means Committee of the House of Representatives, the greatest legislative body in the world, has a duty to perform in this crisis. And I, for one, look for leadership from the Ways and Means Committee, both on the Democratic and Republican side. It is not for me to criticize, Mr. Chairman; I have a personal liking for every member of this committee, but I can not help thinking that up to now there has not been the leadership, the courage that is required, or the nerve perhaps that is necessary, on either side, in proposing measures to meet this particular crisis which we are in, which is the most severe and far-reaching in the history of our country and in the entire world, I believe, in the last two hundred years.

Here we are discussing the question of issuing $2,400,000,000 in paper currency to able-bodied veterans and, at the same time, the leaders in the House and the leaders on this committee are spending sleepless nights as to how to economize and to save money on our Federal expenditures. The two things are utterly inconsistent, and I hope your committee will expedite these hearings and report the bill adversely for a vote on the floor of the House, so that we can clear this issue out of the way; because we can not talk economy on the one hand and have $2,400,000,000 cash payment hanging over us on the other.

But I go further. I have been in the House for 12 years and I have been in politics a great deal longer, and it seems to me we have always been told that the time for Government construction, the time to build, was in periods of depression and, in times of prosperity, of course, the public will take care of the building. But here we are in the depths of depression, and we have contracted everywhere and everything. I say to you that is not sound or logical or in accordance with all our teachings and with sound common sense. This Government is not bankrupt, and I see no reason why there could not be a bond issue of $500,000,000 or $1,000,000,000. We can float that amount. Everybody will admit we can float $500,000,000, or $1,000,000,000 if necessary—take care of our capital investments and to give employment to those who are not employed, the 8,000,000 unemployed in this country, and give a preference to the 800,000 veterans who are unemployed, on a huge public-works program.

Why put $132,000,000 appropriation for road construction in the Budget? That is a capital investment that should go in a bond issue. Why not build post offices and complete all second-class post offices in every little town in this country, which would cost $300,000,000? Then take the $70,000,000 for rivers and harbors, which will be in the Army bill. That will make up a total of $500,000,000. I am perfectly willing to go much farther and have a bond issue of $1,000,000,000 if necessary.

Mr. VINSON. Your Army appropriation is included in the Budget, is it not?

Mr. FISH. The Army appropriation is included in the Budget. Then, if you want to go further, we have big projects in this country which we can use as vast capital investments all over the country—whether the Missouri River project, the Mississippi River project, or in Florida—wherever there is need. I do not believe in putting any money of the Government where it will create overproduction. I think that is the whole trouble with the country to-day and I agree with the gentleman from Missouri, Mr. Dickinson—I do not find any great difficulty in defining this panic. I agree that it is worse than any other, because it is world-wide and the difficulty of getting out of it is so much worse; but it does seem to me that the panic itself was largely created by the American people, by their extravagance, by their speculation, and by their gambling, led on by the big bankers in the city of New York, who, instead of maintaining their banking business, which was their function, went into the security business and promoted all kinds of stocks and bonds, and foreign bonds—often without any real investigation, as now proven—and sold them to whom? Not to the widows and orphans alone but to people all over this country who believed in those banks and believed in the heads of those banks, and believed that they were almost gilt-edged, because the banks were behind them.

And what did it do? Why, it meant an overproduction of factories and a vast overproduction of commodities from these factories, so that we had a gigantic inflation that, sooner or later, had to collapse, as it did in 1929. And when the pendulum swung back, in swinging back it did not stop at normalcy; it went right on, as it always does, right into the depths. And that is where we are now.

I am not in favor of spending Government money to create overproduction in agriculture or industry, of wheat, or oil or lumber, or cotton, or any other commodity or manufactured article, where we have big factories and can produce almost at a monent's notice, but where it can be put into capital investments on roads and public works, to employ labor, that is the biggest problem in the country to-day.

And the veterans themselves are not asking charity; they are not asking doles. In the past, on all this legislation, they have asked justice not charity. Now they are asking employment more than anything else, and I feel that the Congress—I do not mean the Ways and Means Committee alone; I think the Congress and the Government both, have not shown the degree of courage and nerve that is required for adequate leadership to solve this problem—the most important problem we have had before our country in our day and generation. We have simply contracted governmental credit. And what do we say to these railroads and big industries? "Go out and build and spend your money," and then we, in turn, turn around and say to Congress "Do not spend a cent; do not have a bond issue for a million dollars; do not have any bond issue." Yet we are telling everybody else to do this very thing. I submit that we are inconsistent and wrong in our attitude. I say if Russia can put on a five-year program with almost no gold at all, with almost no credit, with gigantic undertakings and employing people, we at least in this country, which is far from bankrupt and is still the richest country in the world, with intelligent man power and leadership, certainly should have a program. And I suggest a two-year program, backed by bond issues; but put that money in constructive work—not in productivity to increase overproduction, but constructive work to keep people employed. And, after all, the Government would be the gainer, because the Government can now get labor and materials at least 40 per cent cheaper than they were a few years ago, and whatever capital investment we put in now will be almost velvet in the end.

But it requires leadership, courage, and nerve. We, as Members of Congress—and I am included the same as any other; that is why I am permitted to criticize, I suppose—have just stood still; we have not moved at all, outside of the Reconstruction Finance Corporation and a few efforts of that kind.

I hope your committee, in considering this question, will not get away from the bigger question, which is employment for millions of American wage earners. I, for one, do not know how long we can continue to go along the way we have, another year, with eight million or more unemployed. The only reason we have gotten thus far is the faith and loyalty of the American people, and particularly of the unemployed Americans, in their institutions and in their Government, and in their belief that this is a better country and a better Government than any in the world, in spite of the depression. And we have some responsibility to try to lead them out of the depression. There is no way of getting out of the depression except through hard work and courage and thrift and constructive endeavor.

And that is my plea more than anything else, in coming before you, that we start in on a 2-year program, backed by bond issues of \$500,000,000, or \$1,000,000,000 and, if need be, I would go up to

$2,000,000,000. But the committee should find out what is needed and not spend a cent on anything that is not needed for that kind of a constructive program.

Mr. VINSON. Do you think the issue of $2,000,000,000 in bonds would have any detrimental effect upon the value of any bonds now outstanding?

Mr. FISH. Well, I will answer you this way: I do not think that $500,000,000 would have any; I doubt if a billion would. If two billion is necessary (which I have not advocated, but if it is), I think you could sell two billion. It might have a little effect; it might reduce bonds a few points; but, after all, we have a bigger objective that the question of people making or losing two or three points on their investments.

Mr. VINSON. I agree with the gentleman entirely that it would have small effect on the Nation's credit.

Mr. FISH. I wish more people would say so, and make their own statements along those lines.

Mr. RAGON. I will say to the gentleman this much, that if he will say not only there is a lack of courage on the part of Congress and the President, but if he will add to that the business men of the country, too, I will agree with him entirely.

Mr. FISH. I will add that; but with this restriction, that the Government has called on the business men to do this very thing which they, in turn, are not doing.

Mr. RAGON. I think it is all around; I think we are all scared.

Mr. ESLICK. Mr. Fish, you have spoken of the duty of the Ways and Means Committee and of Congress to point out the way. The leader of the army is always the commander in chief, is he not?

Mr. FISH. I think the administration has as much responsibility as Congress; but I do not know that we have to wait upon the administration. We, in Congress, who are elected by the people, do not have to wait to initiate legislation.

Mr. ESLICK. But, primarily, is it not the duty of the leader of the army to blaze the way?

Mr. FISH. If you are talking about war, possibly it is; but I think the Democrats, who are in the majority in the House, should control legislation in the House; on the other hand, I do not think the Republicans should sit back waiting for orders from above. They are elected by the people and I think they have a definite obligation, the same as any other Member of Congress—Democrats or any other—to act for the best interests of the country as they see it, and not as some other individual may see it. We can argue on this thing, Judge, all day.

Mr. ESLICK. But the President has said we are in war, and do you not think it is the duty of the President to blaze the way—to point the way?

Mr. FISH. Judge, the President can not do everything. He has made some very sound recommendations. I think we have some obligations, too. I am not trying to defend the President, or to uphold him, because I think we do not have to wait on the President.

Mr. VINSON. I might suggest to the gentleman that when the Ways and Means Committee wrote the tax bill, it was their thought that $200,000,000 might be saved to the taxpayers of the country.

The Treasury immediately made the statement we could not save $118,000,000.

Mr. RAGON. And then they came out and said $200,000,000.

Mr. VINSON. And they have gotten up to $208,000,000 now.

Mr. FISH. I do not want to get into that question; I am trying to keep away from politics here, but I want to be fair. I agree with you, however, judge, that we are in a situation that is far more serious than the World War; the World War did not compare to the economic and financial condition of the country at the present time.

Mr. ESLICK. I agree with you.

Mr. FISH. We are in a crisis affecting the happiness, the lives, and the security of 120,000,000 American citizens. Right now that is far, far more serious than in the days of the World War when we did not hesitate about floating bond issues. We spent, in the 18 months of the World War, thirty-six billions of dollars—thirty-six billions of dollars. We raised part of it by taxation, and about twenty-six billions by bond issues and Liberty bonds. And if I am correct in the statement—and I think most people agree it is a fact—if it is far more serious to-day than it was in the World War, then we have a duty to perform outselves in this Congress. And we do not have to wait on anybody else; if we need a bond issue of a billion dollars, we can authorize it and should do so.

Mr. CROWTHER. Have you any idea how much we shall have to spend as a result of that war?

Mr. FISH. Well, I have heard all kinds of figures up to $100,000,000,000.

Mr. CROWTHER. And a good deal of that burden is what is creating our difficulty now, is it not?

Mr. FISH. It certainly is.

Mr. DICKINSON. I am attracted by your statement that this measure we have pending should be reported. Do I catch your thought that it ought to be reported without unnecessary delay, after fair hearing, and reported favorably, or unfavorably, to the House?

Mr. FISH. Of course, I am advocating that you report it unfavorably to the House, to be voted on in the House.

Mr. DICKINSON. But you think it ought to be reported without unnecessary delay?

Mr. FISH. I think so. I think it is essential because with this whole question, as Mr. Andrew said this morning, in the air, there is a lack of confidence; and as long as it is hanging over the Congress and as long as this thought of $2,400,000,000 of paper money is hanging over industry in this country, there will be no confidence, because no one knows where it will end. But I do think this bill should be reported adversely and voted on in the House. This committee has been overfair, overpatient, to both sides in the hearings; there has never been a freer discussion or greater opportunity given to consider any question before Congress. But I, for one, hope you will not smother the bill; I hope you will not simply lay it on the table, but bring it up in the House of Representatives for a vote there, and if it passes the House, which I do not think it will, then for a vote in the Senate of the United States. Of course, if I were here from a partisan point of view, I would advise you to smother it in the committee and then we, on the other side, can blame the Democratic Party in control of the legislation for not bringing it up in the House of Representatives for a vote there.

Mr. DICKINSON. I am very much interested in what you are saying, but let me ask you another question. You are talking about issuing bonds for the purpose of taking care of unemployment. Did I catch the suggestion that we need not balance the Budget by levying taxes sufficient and that it might be at least in part balanced by the issuing of bonds?

Mr. FISH. Yes. I believe very strongly in the absolute necessity of balancing the Budget, but on matters like road construction—a bill I voted for myself, $132,000,000—I believe that ought to go into capital investment and ought to be financed on the basis of a bond issue; and these other matters I referred to, such as the construction of post offices, should be paid for by a bond issue and not included in the Budget as part of the running expenses of the Government.

Mr. DICKINSON. I simply wanted to get your thought.

Mr. CROWTHER. Let me say on that point, that $132,000,000 is not figured in our estimate to balance the Budget; that is going to be charged to the public debt, together with $500,000,000 for the Reconstruction Finance Corporation, and $125,000,000 for the Federal land banks. That is wiped off of the slate; that is added to the public debt.

Mr. FISH. It should be.

Mr. CROWTHER. Well, it is.

Mr. FISH. But not appropriations for post offices and other public works. Now everybody in this country is in favor of doing the right, fair, and just thing for the veterans, and I think it is very unfair to the Government to have the idea get out that the Government of the United States has not been liberal, or generous, or absolutely fair to the veterans of the World War. I am not going to take much of your time, because General Hines will be here on Monday, but it is interesting to note that the sums received by the veterans of the World War range from $8 to $100, except for special cases for the blinded, amounting to $150 and, for double disability, amounting to $200. The following figures at least seem astounding to me: There are to-day 322,825 World War veterans receiving disability compensation, and 353,744 receiving disability allowance for injuries or diseases that have no connection with the war service. There are also 6,451 emergency officers receiving retirement pay, of which 25 per cent are doctors. In addition, there are 98,401 dependents of World War veterans, making a total of 781,421 World War veterans and dependents of veterans receiving direct financial relief from the Government of the United States at the present time—or almost 20 per cent of the veterans are receiving compensation. In addition—I can not give you the figures; I hope you will get them from General Hines—there are a large number of veterans employed in the service of the United States. You know we gave them a preference, a disability preference of 10 per cent—I happened to have been chairman of that committee, myself—and we have given 5 per cent to the able-bodied, and that means that a large proportion of the positions in the Government service go to veterans of the World War. So, if you add those two together, those receiving compensation and allowance 700,000, leaving out the dependent and those employed by the Government it makes well over 800,000. Then, in addition to that, add those veterans who are employed in State and municipal services, amounting to several hundred thousand more, and the aggregate will be approximately a million World War veterans, or one-fourth of the veterans.

I only say that because, as a veteran, I want to be fair to the Government of the United States and I do not want the people back home to think in any way that we have not been generous. I have studied this thing carefully and, compared with Great Britain, France, Italy, or Belgium, we have done five to one more in money aid to our veterans than any one of those countries that fought with us in the World War.

That is all I would like to say, unless there are questions.

Mr. RAGON. Are there any further questions? If not, we thank you for your appearance.

Mr. FISH. I thank you for the opportunity of coming here.

Mr. RAGON. I notice the rest of the witnesses on the calendar are Washington people, except Mr. George D. Evans, of Philadelphia. I suppose these Washington people could be here at some other time. I am wondering if it would suit your convenience, Mr. Evans, to appear later before the committee?

Mr. EVANS. I was going to say, Mr. Chairman, I deem the necessity of my coming to Washington of considerable importance, and my experience has been that when I get started nobody wants me to stop. I might say, by way of explanation, that I started to talk for ten minutes in opposition to the use of Fairmont Park in Philadelphia and spoke for an hour and ten minutes, and would have been speaking yet if I had not quit voluntarily. Now this subject is of so much importance that I would prefer to wait over until Monday for an opportunity to speak, rather than to undertake to ask you to crowd your meeting. I could not do the subject justice in ten minutes.

Mr. RAGON. Now on Monday we have three Washington people and General Hines and then, on Tuesday, we have Mr. Myers and another witness, who will perhaps occupy all of that meeting. Then, on Wednesday, I think we have the Secretary of the Treasury scheduled to be here. So, do you think you could finish up here, say, in fifteen or twenty minutes this morning?

Mr. EVANS. Mr. Chairman, do you think it is fair——

Mr. RAGON. I am not talking about fairness; I am asking you what you can do.

Mr. EVANS. I would not like to undertake it.

Mr. RAGON. Well, would it suit you then to come back here next Thursday?

Mr. EVANS. Well, I will tell you, Mr. Chairman: I left Philadelphia with 50 cents to come down here; I left my wife in the home, with the sheriff, the constable, trying to get us out for three months [after a pause]: Pardon me, just a moment.

Mr. RAGON. The only thing I am trying to do is just to locate you; that is all.

Mr. EVANS. Yes; I know. I think this matter is so important, when we are developing manufacturing paupers in our great country faster than we are manufacturing automobiles, I do not think I ought to permit anything to interefere with my trying to do what I can to help you gentlemen save the situation. I will try and pull through here untill Thursday, if I have to do it. I do not know how I am going to live, but I have lived and will continue to live and I will stay here. I think my Nation is of more consequence than myself.

Mr. RAGON. We appreciate your interest and want to help you in any way we can.

Mr. EVANS. I do not see why you could not let me talk on Monday; I am on the calendar.

Mr. WATSON. Mr. Evans, what is the shortest time you would want?

Mr. EVANS. Well, that will be up to you gentlemen to stop me whenever you think I have exhausted your patience. I have put in 40 years studying this question, and I have something to say. Eleven years ago I wrote all you gentlemen a letter——

Mr. RAGON. What does the committee say to giving Mr. Evans 30 minutes right now?

Mr. WATSON. Can you get through in 30 minutes, rather than wait until Thursday?

Mr. EVANS. I will try.

Mr. RAGON. All right; then we will hear you now. Mr. George D. Evans, of Philadelphia. You may proceed, Mr. Evans.

STATEMENT OF GEORGE D. EVANS, PHILADELPHIA, PA.

Mr. EVANS. The problem, gentlemen, that we seem to be confronted with is a financial one.

Mr. Chairman, I am sorry this has happened; it has upset me. Would it be agreeable to you if I wait until Thursday?

Mr. RAGON. Why, it is perfectly agreeable, Mr. Evans; anything that you want. Unless you have to go back home, you might stay here until Monday——

Mr. EVANS. Well, if I could come on on Monday, I would stay.

Mr. RAGON. I can not promise you that, but we can arrange with General Hines to appear a little later and maybe we can hold an afternoon meeting Monday. So, if you prefer, and if that is agreeable to the committee, we will say to you to be here on Monday.

Mr. EVANS. I thank you.

(The committee thereupon adjourned until Monday, April 25, 1932, at 10 o'clock a. m.)

PAYMENT OF ADJUSTED-COMPENSATION CERTIFICATES

MONDAY, APRIL 25, 1932

House of Representatives,
Committee on Ways and Means,
Washington, D. C.

The committee met at 10 o'clock a. m., Hon. Henry T. Rainey presiding.

Mr. Rainey. The committee will be in order. The first witness is Mr. Emery.

STATEMENT OF JAMES A. EMERY, WASHINGTON, D. C., REPRESENTING THE NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. Emery. Mr. Chairman and gentlemen of the committee, I have the honor of undertaking, if I can, an endeavor to interpret to you the viewpoint of manufacturing industries, so far as they are represented through our national and State organizations of manufacturers with reference to the proposals before your committee at this time.

The difficulty that we confront, Mr. Chairman, is first to secure a realization upon the part of those charged with the great responsibility of legislation in this crises of the circumstances under which the producing industry is compelled to make its commitments; and second, the relationship of these bills, important as they are, to other proposals of national policy, all of which exercise a cumulative effect upon the operation of industry.

You know, gentlemen, that in the manufacturing industry between the time in which commitments are made for materials and the finished product is ultimately disposed of, a long interval elapses which varies with the character of the industry.

The manufacturer makes his commitments by the purchase of his raw materials, in the light of anticipated markets. After the time those commitments are made, he pays for his materials, supplies, his labor, and when his goods are finally disposed of, he is in the possession of the means with which to acquit himself of his outstanding debts and count his profits, if any he has.

Consequently, it is peculiarly true in the manufacturing industry that the conditions under which future commitments are to be made profoundly affect the entire character of his operations.

Now, at this time I need not say to you, who have sat through these months of critical legislation, that certainly never in the history of our time and historically so far as I can see what lies behind us, have we ever faced a more serious situation.

The whole public policy of the Nation has a more intimate relation to private operations than at any preceding period, certainly since the war, and then only because of the magnitude of the burdens that were imposed upon the one hand and the obligations which industry was required to assume upon the other.

Now we are confronted with a proposal here that is related by its effect upon our currency and credit situation, to the legislation you have enacted and to that which you have in contemplation, and to that which is pending in the other branch of the Congress, upon which you have exhausted your own studies and judgment.

The proposals pending before this committee involve by some method the cashing of veterans' adjusted-service certificates which are, of course, in effect, endowment insurance policies maturing in 1945.

It is admitted by the sincere proponents of these suggestions to you that the real issue is not whether the Government is failing in any obligation with respect to the veteran, but whether the plans at issue, while primarily to aid the veteran, would be detrimental or helpful to the welfare of the country.

The argument is made that the emission of legal-tender notes to the amount of $2,400,000,000 or of Federal reserve notes in the same amount, supported by 20-year bonds, will enlarge our currency, fatally contracted through fear and hoarding, relieve the distress of the veteran and stimulate a revival of production and trade.

Of course, with your experience, you will not forget that the same argument was made to support the adjusted-service certificate and enlarge its loan value. If such an act did not do it then, how can it be expected to do it now?

Nor are we confronted with any evidence that our difficulty arises from a lack of currency. On the contrary, you are faced with the fact that we have one-fifth more currency than we had in our boom period three years ago to do 25 per cent less business.

Gentlemen, we believe that the fundamental thing that can not be too greatly overstressed is that it is confidence that is required more than any other single thing to restore a destroyed equilibrium and restore a lost balance between production and consumption. For the objective, surely, which you are aiming at and which all are aiming at this time is primarily the restoration of a rising demand for goods and services.

Now, would the proposal pending before the committee contribute toward that result? The trouble is at present, the fundamental trouble, that we are drifting in a fog of political uncertainty. We can not chart our way until the fog lifts and the landmarks are more visible; until the nature of our public commitments and obligations are made evident to those who, on the one hand, must undertake their responsibilities and to the others who are presented with difficult circumstances under which to offer credit.

Mr. Eslick. Mr. Chairman, may I ask a question?

Mr. Rainey. Under our rule, the witness may yield if he desires or conclude his statement first.

Mr. Emery. Certainly; I am ready to yield to the gentlemen at any time.

Mr. Eslick. You say the trouble, the fundamental trouble is, that we must wait until the fog lifts. What have you to suggest to lift that fog?

Mr. Emery. Action.

Mr. ESLICK. What kind of action?

Mr. EMERY. The first necessary action to my mind is the passage of a tax act so that the business of this country will understand what the public obligations are and know their nature and extent. Until that occurs, we will move in uncertainty, because the heavy obligations that must be accepted now are what is hanging over us like a cloud. Secondly, I should say that one of our chief duties is to avoid experiments, and especially those that are condemned either by historical experience or by their nature, because we are confronted to-day not merely with a single circumstance, but with the cumulative effect of three years of continually increasing depression and the interaction of nation upon nation. That our people have maintained their steadiness and courage is a remarkable tribute to that critic of their characteristics who always comments upon their emotionalism and recklessness.

Mr. ESLICK. May I not ask if the Reconstruction Finance Corporation is not the greatest piece of experimental business this country ever undertook?

Mr. EMERY. It is undoubtedly experimental; unquestionably.

Mr. ESLICK. Were there any objections or protests on the part of your organization to that measure?

Mr. EMERY. No, sir; I do not think there was. There was a variety of views about its probable effect.

Mr. ESLICK. And there is on this measure, is there not?

Mr. EMERY. I do not think so. I think there is a very general consensus of opinion on this measure, because I think we have ample historical evidence as to what the result is likely to be.

Surely, gentlemen, as we pass through a period in which difficult economic circumstances are intensified by anxiety and doubt anything that threatens especially the more fundamental things upon which the life of the Nation rests, will tend to intensify to a still greater degree that fundamental condition of mind, because the foundation of our credit is confidence. It is confidence in the future. It is confidence in the ability to repay commitments made; above all so far as the relation of Government to its currency system is concerned it is that that system is sound and that Government obligations when made will be met, and that they will be met in the fundamental currency upon which the credit of this Nation has rested throughout its history; and every deviation from which has brought its own penalties.

Mr. HADLEY. I would like to ask one question please, in relation to the one asked by the gentleman. Is it true that the Reconstruction Finance Committee is a matter of experiment altogether, for the reason that we had in its basic principle experience in its application through the War Finance Corporation. Is not that true?

Mr. EMERY. Well, I said it was an experiment——

Mr. HADLEY. I say it was an experiment, but it is analogous——

Mr. EMERY. It is an experiment founded upon preceding experiments which seem to have been fairly successful.

I do not think we are getting the benefit of the Reconstruction Finance Corporation as yet, because nothing illustrates better the condition of mind we are in than the fact that upon the one hand the timidity and fear of banks has led to the contraction of credit. That means they have made their deposits more liquid in anticipation of some demand upon them. The result is they hesitate to make their normal commitments. Just as soon as any bank begins to have on hand a high percentage of its deposits the necessary result is that it slowly withdraws from the banking business. And to the extent that increases the liquidity of deposits in response to a perfectly natural expectation that it may be called upon to give them out, it departs from all the ordinary business of a bank. It in effect may engage unconsciously or consciously in hoarding. That is, it is withdrawing the streams of credit which normally run from it and upon which the community in which it lives and has its being relies for the conduct of its normal operations.

Now, it may be said in response that if you increase the amount of the currency, you will relieve that condition. On the contrary, if you do so at the expense of your existing supply in value which expresses itself in turn in prices and goods and services, you simply may increase the price and depress the currency.

Mr. Boswell records in his interesting life of Johnson the wise old doctor's remark that "Eggs are cheap in the Highlands not because hens are scarce but because pence are few."

Mr. CHINDBLOM. Mr. Chairman, may I ask a question? After all, the Reconstruction Finance Corporation is in the same business as the bank. It is loaning money upon security. So that in the method of its operations, it may not be said to be a new experiment.

Mr. EMERY. I am not speaking about it as an experiment without background. The gentleman asked me if I thought it was an experiment and I said it was, because it was the engagement of the Government on a large scale in support of private credit to relieve a critical situation. To that extent, it did represent an experiment, an interesting experiment but one founded upon prior war experience that justified its engagement, it seems to me. And, as I say, I do not think we are getting the benefit of it yet because the full impact of its effect upon the credit system has not resulted as yet in the increasing liquidity of those to whom its relief is addressed. As rapidly as it does, I think we will get the beneficial effect of it.

But certainly there is nothing about the Reconstruction Finance Corporation or the condition to which it is addressed that gives any force to the suggestion that we should at this time engage still further in the enlargement of our currency supply upon a basis that is not supported by gold as a foundation for tender.

Mr. CHINDBLOM. Or by credits.

Mr. EMERY. Yes, sir. Because I say that when you are in a condition that represents three years of accumulated anxiety, you have become exceedingly sensitive, especially in the business world, to anything that threatens the foundations of credit.

That has been spread before you in the experience on the other side of the water. The issue really is whether we will learn by an experience, not our own, or whether we must insist on passing through it ourselves. Because certainly we have witnessed the experience of European nations very clearly brought home to us, and we have sat here rather complacently in the belief that nothing like that could happen here.

Well, the world has grown very small. It is not the world of our fathers. It is not the world in which battles were fought a century ago three weeks after peace had been declared. It is a world in which we know not only the facts but the fears, the theories, the suggestions, the anxieties, the emotions, the pull and haul of all of the activities of mankind. They are laid upon our breakfast table and they are there to play their due part upon the minds of men, wherever they are.

So that we live in an exceedingly sensitive world. We find upon an examination of the record of our own experience that enlarged issues of legal-tender notes in the past have had a tendency not only to intensify their further increase, but indeed our experience rather indicates that once they came out it was very hard to withdraw them.

Upon that, I think we have a very interesting experience. No one is proposing now an increase in appropriations sufficient to meet the requirements of the pending proposal. All recognize that it would be a fatal blow to recovery. But what could be more disturbing than the issue of currency unbacked by a sufficient gold reserve? It would fatally embarrass the very future of the veteran who has a common stake in the future of this Nation, for the common objective of all is the restoration of the demand for goods and services.

The movement in this direction will progress with exactly the speed with which we recover confidence in our future and can perceive the character and extent of our commitments.

It seems to me that the whole history of paper currency should be a warning at this time when the danger is accentuated by every economic circumstance of the hour. It was just such currency that drove the Colonies into continuous quarrels with the royal governors when they preferred to emit declining paper issues rather than levy taxes. It was the curse of the confederation before the foundation of the Constitution. And that fatal experience wrote into the tenth section of Article I of our Constitution the prohibition against any State issuing bills of credit or making anything but gold or silver legal tender in payments of debts.

It took 17 years of bitter experience to secure the resumption of specie payments after the greenback issues of the Civil War, for the habit of issuing fiat money, once established, was hard to overcome.

That was the experience of the Colonies when they were undertaking to pay the cost of the Indian wars. That was the experience of the Continental Congress until finally the constant decline in the value of the issues either of the different Colonies or of the Congress itself left that imperishable phrase that still sticks in the New England colloquialisms, "Not worth a Continental." When we entered upon the Civil War, you will recollect that in 1861, ill prepared for the unexpected expense of that struggle and its duration, the Congress authorized the issuance of $50,000,000 in notes. Then in 1862 we began the issue of what were termed greenbacks. They were convertible into 6 per cent gold bonds, but the Government was compelled to pay them in the face of continually declining values, in a market in which they ultimately reached the point where it took $280 in our legal-tender notes to buy $100 in gold.

That condition continued, because of the uncertainty as to whether or not Congress would abandon its paper issues and return to specie payments.

You will recollect that in 1866, immediately after the war, Congress provided for their continued retirement, but in 1868 it repealed the act, and in 1874 again when the issue had reached in the neighborhood of $384,000,000, although the original issue was $450,000,000, and these various effective retirements had been made—in 1874 again Congress passed an act authorizing a further issue of notes that would have brought the total up again to $450,000,000 and it was saved only by the veto of President Grant.

And yet it was 17 years between the original issue of those notes and 1879, when they were retired, and they recovered their value in gold terms only some two weeks before their ultimate retirement.

The same occurred in Great Britain between 1799 and 1820 when the Bank of England preferred to use its gold for the Government itself and declined to guarantee the retirement of its notes in gold and the British notes fell.

The French Revolution brought the same experience on top of our own with the issuance of the assignats of the French Republic. They were secured by the land which had been taken from the church, but there was no way of turning the land into money and the notes declined in value exactly as our continental notes had. And yet the habit of issuing notes then was so strong that just as in the Colonies and in the Continental Congress the habit having been once formed, it was easier to issue paper than it was to raise taxes by direct assessment. It was also far more pleasant, and the result was the continuous struggle between the colonial assemblies and the royal governors, when the assemblies preferred to issue paper money rather than to levy taxes.

As I say, we have written that experience in memorable language of restraint into the tenth article of our Constitution.

Our own experience after the Civil War is the most direct American experience and led to the organization of the Greenback Party which intended to retire metallic money as one of its fundamental proposals and live entirely upon paper. That led us by a gradual process through three successive elections into the development of populism, the seeds of which are not yet dead.

This is no time for experiments, especially with an historical lesson behind us and the contemporary experience of Great Britain before us. It is in the absence of a gold backing that the British exchange has declined a third within a few months and within a week shifts as much as 20 points. Such fluctuations in a currency are harmful and not helpful. They make the value of services and commodities a continual gamble. It is a poor trade to swap a possible higher price level for a probable currency chaos.

It is the conquest of fear and the restoration of confidence that is the need of the hour. The prosperous nation is not that with the most nu ıerous population, the largest resources, or the greatest volume of money. Russia has perhaps the first; China and India undoubtedly have the second, and Germany had more money at the conclusion of the war or in the after years than all the rest of the world put together, but it bought nothing.

The fortunes of the service man, indeed of all of us, are bound up in securing the return of those conditions of confident adventure which assure that our most intelligent and vigorous minds are efficiently engaged in the development of our own resources. That assures the invigoration of our normal activities and the renewal of an ever-enlarging demand for men and commodities. Everything that urges perilous experiment increases uncertainty and defers the hour of recovery.

I heard an interesting comment from one of your colleagues the other day, that what this committee needed was courage.

Let me say, gentlemen, and I know I carry, at least from the industrial opinion that I have heard widely expressed, a tribute of the great respect and admiration for the steadiness of this great committee. In the midst of a wreck of matter and a crash of worlds, you held your heads. You met your great responsibilities without partisanship and you undertook to work out the most difficult tax problem that has been presented to Congress in our generation.

What the country looks to you for is steadiness, not recklessness. Not courage that dares experiments without appropriate background; but that hard and steadfast judgment that undertakes to work out its problems the best way it can by the greatest common denominator and declines in a time like this, with all of us nervous, with an anxious country, with many unsettled questions of public policy, to add another disturbing one that eats at the roots of our credit.

This is a time when you will be offered many suggestions of experiment. Periods like this are full of suggestions of experiment.

Indeed, I think that if we look into the history of our past, whether we read it socially or politically, we will discover that every bear market for goods and services has been a bull market for economic bunk.

I thank you.

Mr. HILL. Mr. Emery, your policy, I take it, is that of standpatism.

Mr. EMERY. It is not standpatism. It is the testing of any suggestion by hard sense and past experience. As Patrick Henry said, "I know of no way to guide my feet in the path of the future except with the lamp of the past."

Mr. HILL. We did not get into this depression by any wildcat schemes, did we?

Mr. EMERY. Yes; we did. We are paying the common penalty of our own human shortcomings.

Mr. HILL. That was not due to the expansion of the currency, was it?

Mr. EMERY. No; I do not know that it was due to the expansion of the currency. It was due to a continuing expansion of hope.

Mr. HILL. Was not the Federal reserve system created for the purpose of introducing elasticity into our money system?

Mr. EMERY. Yes, sir.

Mr. HILL. Then a policy of elasticity is not recognized generally as a vicious policy, is it?

Mr. EMERY. Not at all; not when it is rationally controlled.

Mr. HILL. If it were rationally controlled, would you say it has been rationally controlled up to this time under the Federal reserve system?

Mr. EMERY. I do not say that, Mr. Chairman. I think we have all made mistakes. I think the most important thing is not to repeat them or to make any more, if we can avoid it.

Mr. HILL. I take it from your statement that you are opposed to any action that would lower the value of the dollar at this time?

Mr. EMERY. We are opposed to any action that would issue legal-tender notes or any other forms of currency not backed by sufficient gold reserve to assure its stability and thus add a new note of uncertainty to an already difficult credit situation.

Mr. HILL. Let us take the so-called Patman plan.
Mr. EMERY. Yes, sir.
Mr. HILL. That is one you have reference to?
Mr. EMERY. Especially.
Mr. HILL. It has been contended here that through the issuance of $2,400,000,000 of Treasury notes there would still be at least 40 per cent gold reserve back of them.
Mr. EMERY. I do not so understand.
Mr. HILL. That is the contention. What is your understanding of the situation?
Mr. EMERY. My understanding is that it would reduce it to very close to 8 or 9 per cent.
Mr. HILL. Can you analyze that for us and tell us how it would reduce the gold reserve to 8 or 9 per cent?
Mr. EMERY. I take it upon the authority of the statements that I have read from the Treasury on the one hand and the probable commitments and financing that the Government must undertake on the other. For example, I read this morning that the Treasury is now facing the necessity of short term credits of $450,000,000 and that it anticipates before the end of the fiscal year 1932 that it must raise $1,500,000,000 more.
We have, on the other hand, the probability that we may be called upon at any time to meet the withdrawals of gold of foreign countries from the United States. Each one of these is affecting our situation, and I feel I have failed entirely if I have not succeeded in undertaking to translate to you the result of the cumulative effect upon the business mind or national mind, if you please, of all these possibilities that are affecting our credit at this time. So that if we voluntarily add a new element of uncertainty by the issuance of a large volume of currency for which there appears to be no immediate need, we are increasing the difficulty. We are certainly not in a period in which our currency is comparatively diminishing in proportion to that which we had for use, say, three years ago. The business of the United States does not run on currency. It runs on confidence and credit. Ninety per cent of it is done on men's promises to one another because they believe those promises will be fulfilled.
Mr. HILL. Upon what is credit based?
Mr. EMERY. Credit is based on confidence.
Mr. HILL. Currency has something to do with it, does it not?
Mr. EMERY. Yes, sir. Confidence ultimately, because it rests fundamentally upon reputation and reputation is that life that one man lives in the mind of another.
Mr. HILL. Let us go back to this Patman plan. Assuming that there would still be a 40 per cent gold reserve back of the currency, and should the volume be increased by an issuance of $2,400,000,000 additional Treasury notes, would that, in your opinion, be a sound basis for the currency?
Mr. EMERY. I assume, then, that the sole purpose of that issue would be to retire these adjusted-service certificates.
Mr. HILL. But, would that be a sound monetary principle?
Mr. EMERY. If you are reaching out to the limit of your resources—even assuming for the purpose of argument that you are correct in your statement that we had that reserve, we have this situation before us in an exceedingly unstable world, that you may require further

demands upon Government credit than you now have, and on international credit, and that currency is not the basis, of course, of international trade; it is a currency solely of domestic trade.

If you unduly increase the amount of currency on hand—and I can not accept the arguments of those who favor it—you are going to increase prices; and, assuming that you increase prices, that is not an unmixed blessing. You increase prices, of course; and wages, as a rule, do not follow as rapidly as prices, so that you may have, on the one hand, increasing prices, with wages moving slowly in comparison with them.

That is not an advantage to the wage earner. It is rather a disadvantage to him. Fundamentally I can not see, in the data that is presented, that there is an argument made for the necessity of the issuance of such as enormous volume of currency, especially in the light of its relationship to other proposals, like the banking bills that are before you, and without the control of a responsible body over the contraction and expansion of that currency in accordance with some standard, even if your purpose is to preserve it in the light of currency necessities. I assume that no one is going to suggest the mere utterance of currency without some control over it by a responsible factor that will undertake to adapt it to the ascertained needs of the day.

Mr. HILL. Coming back to this gold reserve, is it not true that instead of this proposed issue of $2,400,000,000 in notes reducing the gold reserve to 8 or 9 per cent, it would reduce it to 8 or 9 per cent above the 40 per cent gold reserve?

Mr. EMERY. Of notes? Well, you have got a 35 per cent requirement against the deposits of member banks.

Mr. HILL. I think you did not understand my question. You stated that it was your understanding that if this $2,400,000,000 of United States notes should be issued, it would reduce the gold reserve to 8 or 9 per cent.

Mr. EMERY. Yes, sir; with respect to reserve notes, metallic money, and other tokens and currency upon which this credit is based.

Mr. HILL. Is not this the situation: That it would reduce it to 8 or 9 per cent above the 40 per cent which is the legal reserve?

Mr. EMERY. No; that is not my understanding of it.

Mr. HILL. Now, I understand that you are representing an association of manufacturers, and of course you look at this proposed legislation from their standpoint primarily, and, of course, in the broader sense that of the entire country. You are not looking at it from the standpoint of the wage earner primarily, are you?

Mr. EMERY. Why, certainly. There can not be any gain or any loss for the manufacturer that is not correspondingly going to affect the people with whom he deals and who are his cooperative partners in production and distribution. He can not profit by himself. That is an exploded idea.

Mr. HILL. Is it your belief that the expansion of the currency, upon which there would be an expansion of credit, would cause the prices of commodities to rise?

Mr. EMERY. That is a theoretical suggestion, and it would probably follow. But that is not, of itself, an unmixed blessing.

Mr. HILL. If that followed, would not the purchasing power of the great mass of the people be increased by the amount of that rise in commodity prices?

Mr. EMERY. It would be if they were employed. It can not increase the purchasing power of the people until the people have the chance to earn that with which to purchase. No mere expansion of currency can accomplish that result.

Mr. HILL. Take the producers of farm commodities, for instance. There are about thirty million farm people in this country, are there not?

Mr. EMERY. Yes.

Mr. HILL. Suppose you increase the purchasing power of the farm population; would not that give them the power to purchase the goods that your manufacturers produce, and would not that, in turn, cause the employment of people by the manufacturers?

Mr. EMERY. Certainly; but, with all due respect to the assumption upon which your question is predicated, I do not see how the increase in currency can increase the purchasing power of the farmer.

Mr. HILL. When you lower the value of the dollar, you raise the price of commodities, do you not?

Mr. EMERY. All right; but it does not give anybody more purchasing power. If it takes more dollars to do it, then he has not any more than he had before.

Mr. HILL. All that the farmer has to buy with is what he produces?

Mr. EMERY. Yes, sir.

Mr. HILL. Now, if it takes 3 bushels of wheat to bring in $1, he is in a worse position than he would be if 1 bushel of wheat brought him $1?

Mr. EMERY. Yes.

Mr. HILL. Then has he not three times the purchasing power?

Mr. EMERY. Didn't you remark that if affected all commodities? Well, if it has that effect upon what he buys, he has not increased his purchasing power. He has simply increased it in terms of numbers. Because, after all, when you analyze it, I think you will discover that the term "producer" or "consumer" is sometimes a misnomer, because the farmer producer is buying the goods of the manufacturing producer, or he is buying the service of the transportation producer. We are engaged in really an exchange of products between producers, whether they be laborers offering their services, or manufacturers producing commodities, or farmers growing grain or other things. It is an exchange between producers that we are primarily engaged in.

Mr. HILL. You do not contend, do you, that the prices of manufactured products have been reduced proportionately with the reduction in prices of farm products?

Mr. EMERY. I would not undertake to make any comparison at this time; but I would say that the prices of manufactured products have fallen very low, and in many cases below cost.

Mr. HILL. They have fallen, but not to the extent that farm commodities have fallen; and that is because there is a cooperation, or, rather, more or less of a control of prices by the manufacturers?

Mr. EMERY. No; I do not think so.

Mr. HILL. Which is not true in the case of farm commodities?

Mr. EMERY. No; the farmer does not control his production very readily. He sets his factory in motion in the spring of the year, and he gets his production according to what the Lord does for him during the remainder of the year. If He is kind to him, and gives him good weather and favorable growing circumstances, he finds himself in the possession of an enormous crop.

Mr. HILL. He neither controls the volume of his production nor the price that he gets for that production. But that is not true of the manufacturer in the broad sense that it is of the farmer. The manufacturer can exercise control over his production, and he can exercise a certain control over the price that he gets for his product. The farmer can do neither.

Mr. EMERY. Oh, I would not say that at all.

Mr. HILL. I think that that is a fair statement. That is my opinion. As a result of that, manufactured products have not fallen in price proportionately to the fall in prices of farm products, and so there would be an advantage to the farmer if he got an increased price for his products. He would have greater purchasing power, and you would make more sales of your manufactured products, to that particular class of people at least. It would give you a greater output, and you would employ more labor, and you could start the wheels of industry turning. If you keep the dollar up to its present value, because of the shortage of money and the shortage of credit, then you are keeping these other commodity prices down to the point where there is no purchasing power. It seems to me that that is self-evident.

Mr. EMERY. But, Mr. Hill, with all due respect, we are proceeding, of course, upon the handsome assumption that mere increase in the amount of currency is going to bring about all these magical results.

Mr. HILL. Don't you think that we can afford to experiment a little at this time, when, as you state, there never has been in our time and, as far as we know, in the history of this country, such a condition of depression, such a paralysis of commerce, as now exists?

Mr. EMERY. Yes.

Mr. HILL. Is not this an opportune time to try something different from what has brought about these conditions?

Mr. EMERY. It depends entirely upon what you do. I think that the necessity for doing something is the mother of some very bad things, and always has been. The necessity for doing things does not lessen in the least the necessity for doing sound things. If we do things that threaten our fundamental credit; if they excite any distrust on the part of any great number of our people as to the value of their money, as to the basis upon which it rests. If they excite any suspicions or fears upon the part of those upon whom we must rely to-day for growing credit, then we are not doing sound things. Because what we need in this country—and I speak advisedly, because I have been in conference after conference of manufacturers in the last two months, and I know the difficulties that men are meeting to-day who can get orders but have great difficulty in getting the credit upon which to move forward, because of the suspicion and distrust that surround the sources of credit; the fear, upon the one hand, of the banks that they can not loosen up too much, because the demands of their depositors may find them incapable of suddenly meeting them—what we need now is to restore a dislocated social organization. It is not the destruction of the war that has wrought this great injury upon us, because our capacity for reproduction is so great that we can meet that; but we have dislocated our whole social organization.

Mr. HILL. Who did that?

Mr. EMERY. Who did it?

Mr. HILL. Yes.

Mr. EMERY. Why, the war did it, to begin with, and all that came thereafter.

Mr. HILL. We have had some very good times since the war.

Mr. EMERY. Yes, we have; but we are paying the penalty in the great crowd of debts that grew over us, and we are paying the great penalties, of course, of our own overconfidence. We became a nation of gamblers for a while, and now we are faced with the account rendered.

Mr. HILL. You represent a group of the highest type of business men in this country. I think that is unquestioned—men to whom the country has looked, at least in part, for leadership in economic affairs. Why have they permitted that condition to come about?

Mr. EMERY. Mr. Congressman, I decline to answer "guilty" on behalf of any large number of men who are accused in a group. I think that the only thing that can be said about the situation is that they bear their due part of the responsibility, and they are themselves, as much as anyone else, the victims of conditions.

Mr. HILL. Let me ask you this question: If, knowing that danger, as they have known it, yet they let the country get into this condition, do you not think they have lessened our confidence a little bit in their ability to take us out?

Mr. EMERY. Well, of course that is a very broad statement. If I were to say that it was a political and not a social responsibility, I might charge Congress with the responsibility for the condition, because it had not passed the legislation that would have saved us. I would be the last to say that, because I think the political responsibility is among the least.

Mr. HILL. Yes.

Mr. EMERY. But, gentlemen, you must realize that the most serious thing we are confronted with is our uncertainties. You can not move forward when you are in doubt. No wise man does. He finds out where he is, and then moves on.

Mr. HILL. If he finds himself slipping down all the while, he had better move in some direction, hadn't he?

Mr. EMERY. He probably will. But the last thing that I would suggest to him would be to jump to the bottom of the hole and get a fresh start.

Mr. HILL. Let us get back to the plan of payment. There is another plan that has been suggested here—you referred to it earlier in your statement—that of issuing Government bonds to be placed with the Federal reserve agent, and by him distributed to the Federal reserve banks, upon the basis of which to issue enough Federal reserve notes to pay this bonus. Now, that would not, I take it, have the one objectionable feature to which you referred, that would attach to the Patman bill, namely, that it would not have facilities for retirement.

Mr. EMERY. It would not have what? Pardon me.

Mr. HILL. If these notes be issued through the Federal reserve system for the payment of this bonus upon the basis of the bonds, as I stated, there would be that facility for retirement in the event that the need for such retirement should be manifested in time, would there not?

Mr. EMERY. I suppose the bonds are to be sold for the purpose of retirement ultimately.

Mr. HILL. That would, in itself, provide for the contraction of the currency if such contraction should be deemed desirable?

Mr. EMERY. Yes; and, I also understand, at any time the Federal Reserve Board was authorized to suspend payments in cash. I think that provision is in the bill, if I understand properly the Thomas bill, so called.

Mr. HILL. I am speaking of the plan suggested by Senator Owen. There is a Thomas bill that is somewhat similar.

Mr. EMERY. I read Senator Owen's statement, and I understood that Senator Owen was more or less favorable to what is termed the Thomas Bill, with modifications which he suggested.

Mr. HILL. I think the difference lies in this: That Senator Thomas's bill provides for the issuing of consols upon the basis of which to issue the Federal reserve notes, and Senator Owen's suggestion was that the Government put up bonds, 3½ or 4 per cent bonds, as the basis for such issuance. I think that is probably the main difference between the two plans. But, in any event, there would be that elasticity or power of contraction of the currency through the operation of the Federal reserve system.

Mr. EMERY. I did not have the opportunity to study that—I mean our committee did not—when this matter was up, and I would not be able to express their views.

Mr. HILL. The Federal reserve system can now, under its powers, contract the currency?

Mr. EMERY. Yes.

Mr. HILL. That is, as to those notes which it issues?

Mr. EMERY. Yes, sir.

Mr. HILL. I believe that is all.

Mr. VINSON. Mr. Emery, while the Federal reserve system has the power to contract the currency under the present law, they also have the power of expanding it, have they not?

Mr. EMERY. Yes, sir.

Mr. VINSON. Have they been doing anything toward the expansion of the currency in the last few weeks or months?

Mr. EMERY. It has had the power to do it.

Mr. VINSON. Well, has it?

Mr. EMERY. Not that I know of.

Mr. VINSON. As I understand it, for several weeks they issued currency to the extent of $25,000,000 a week, and for the past two weeks they have been issuing currency to the extent of $100,000,000 per week. Did you understand that?

Mr. EMERY. No; I do not. Do you mean bonds in connection with the Reconstruction Finance Corporation?

Mr. VINSON. No.

Mr. EMERY. Or bonds to meet anticipated taxes?

Mr. VINSON. The condition that obtains is this: They bought into the market, and at first, under the Glass-Steagall bill, they purchased $25,000,000 worth of bonds a week. Now, as I understand it, they issued currency for those bonds. Is that correct?

Mr. EMERY. I do not know, myself.

Mr. VINSON. As I understand it, for the last two weeks they have bought into the market and bought a hundred million dollars' worth of bonds per week, and issued currency for those bonds. The question I want to ask you is: If they have the power of contracting the currency, as you say they have, and they do have; if they have the power of expanding the currency, as they certainly do under the Glass-Steagall bill, and if they issue currency in consideration of Government bonds which they purchase, do they add to or subtract from the gold reserve behind that currency?

Mr. EMERY. Well, I assume that they do, in accordance with the character of their increased issue; but I assume that you gave them that authority, and that they are exercising it, to contract and expand in accordance with circumstances which they perceive. I am not in a position, of course, to pass upon any detailed circumstances that move their judgment.

Mr. VINSON. The point I wanted to make was that, as I understand it, there is no material change in the gold reserve backing up that currency.

Mr. EMERY. But there is a very considerable difference between expansion and contraction of the currency in terms of twenty-five million or even one hundred million dollars, and the suggestion that you issue at once two billion four hundred million within a brief time.

Mr. VINSON. If you were to issue a hundred million dollars a week for 24 weeks, it would make $2,400,000,000, would it not?

Mr. EMERY. Yes; but that is on the assumption that you do it. You have to anticipate a condition that has not yet occurred.

Mr. VINSON. Now, if the condition changed after you issued, say, a billion dollars in currency, if that machinery were given to the system, they could put the brakes on, could they not?

Mr. EMERY. Why, yes. I assume that you gentleman have given the machinery in the so-called Glass-Steagall bill, and that you contemplate that as a part of your system; in other words, that you have met the condition there. Of course, one can turn endlessly to the possibilities of meeting debts by the printing of bills.

Mr. VINSON. Just one further question: You referred to two contemplated issues of Treasury notes or short-term bonds.

Mr. EMERY. Pardon me?

Mr. VINSON. I say, you referred to two contemplated issues of Treasury notes; two short-time issues contemplated?

Mr. EMERY. Yes; issues in anticipation of taxation, or issues to support the Federal reconstruction act. I think that is what I referred to.

Mr. VINSON. That is to take care of the deficit for 1932, is it not, in part?

Mr. EMERY. Yes; the existing deficit. I understand, in other words, that the Government is running behind about $7,000,000 a day as against its expenditures.

Mr. VINSON. That is a 1932 deficit?

Mr. EMERY. A 1932 deficit would anticipate or require additional borrowing.

Mr. VINSON. Now, one of those issues is supposed to be a 1-year issue, and the other is a 2-year issue.

Mr. EMERY. I do not know their terms. I suppose their terms will be adjusted to the circumstances of the Government's requirements.

Mr. VINSON. I thought you said that they would be of different terms.

Mr. EMERY. I think I was referring to what appears in this morning's press with respect to the anticipated requirements of the Government.

Mr. VINSON. I would like the record to show the rates of those two issues. As I recollect it, the two-year issue was at a 3 per cent rate, but I am not just certain about it. I wish you would put that in the record, if you have it.

Mr. EMERY. I am not positive, either. I simply saw it in the press this morning. I did not see the rate.

Mr. VINSON. All right.

Mr. DICKINSON. Mr. Emery, you spoke of the trouble in this country being want of confidence. It is understood that there is a widespread want of confidence in the country. Now, would you attribute that condition, along with the depression that we have in this country, in large part to the widespread and unrestrained speculation in stocks that resulted in the drainage of money from the masses all over the country and which finally ended in the stock crash of 1929?

Mr. EMERY. I think that wholesale speculation was a very serious contributing factor to the condition in which we are. But it has not come wholly from that, I assume.

Mr. DICKINSON. But in large part?

Mr. EMERY. Yes, sir. There are a great many phases of it. And when I speak of loss of confidence I do not want you for a moment to think that I am referring to loss of confidence, by those at least whom I represent, in the future of the United States. On the contrary, we are more confident and more courageous, as far as that is concerned, than we ever were. But when I speak of loss of confidence I mean that the sources of credit in the country, the banks, for example, have, under the necessity of meeting the possible requirements of depositors, contracted their loans very seriously, and, on the other hand, have been faced by conditions in which the collateral in their possession has depreciated. The result has been the limitation upon credit.

Mr. DICKINSON. I am talking about the want of confidence that has existed for months past, and has resulted in part in the closing of banks and the hoarding of money.

Mr. EMERY. Yes.

Mr. DICKINSON. Withdrawing it from circulation; and it is due, as you say—in part, at least—to this speculation?

Mr. EMERY. Oh, unquestionably it is due to that.

Mr. RAINEY. Thank you, Mr. Emery.

The next witness is Mr. George D. Evans. You have 10 minutes, Mr. Evans.

STATEMENT OF GEORGE D. EVANS, PHILADELPHIA, PA.

Mr. EVANS. Mr. Chairman, inasmuch as I have a great deal of testimony to offer to you gentlemen for your consideration, I would ask your permission to give the testimony to you, to be included in the record. May I? [Submitting papers.]

Mr. RAINEY. What is that?

Mr. EVANS. This is my testimony; and, in addition to that, I want to supplement it with just a few brief remarks. This all bears on your proposal.

Mr. RAINEY. That is a printed document?

Mr. EVANS. I have compiled it. I have cut it out of some printed matter and arranged it just as I would read it off if I had the time to spare.

Mr. RAINEY. Let me look at it. We do not want to encumber the record too much.

Mr. EVANS. No, it will not encumber the record. It is very essential and very necessary, considering what has been told you gentlemen.

(The paper referred to was submitted to the committee.)

Mr. RAINEY. You may proceed while we are looking at this document.

Mr. EVANS. I want to submit for your consideration, gentlemen, a proposal that I am convinced, if enacted into law, would be of infinitely greater benefit to the veterans than would be the immediate payment of their adjusted compensation certificates alone, as the proposal, in addition to the benefit it would be to them in other ways, would make the payment of the adjusted compensation certificates immediately possible for those urgently needing the money, if you should decide that you would like to pay it to them.

This proposal, gentlemen, would, if enacted into law, immediately stabilize industry, trade, and commerce; it would immediately abolish poverty and unemployment; and it would reduce ignorance, crime, and taxes.

The proposal, which I term the Evans plan, is predicated upon the statement in the Declaration of Independence:

> That all men * * * are endowed by their Creator with certain inalienable rights; that among these are life, liberty, and the pursuit of happiness; that to secure these rights governments are instituted among men.

Also upon the preamble to the Constitution, which tells us that the Constitution was adopted—

> To establish justice, insure domestic tranquillity, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity.

Mr. RAINEY. May I interrupt you a moment? We are discussing now the payment of the soldiers' bonus.

Mr. EVANS. Yes, sir. This applies to it positively and directly.

Mr. RAINEY. All right.

Mr. SANDERS. Mr. Evans, whom do you represent?

Mr. EVANS. As an American citizen, I assume, gentlemen, to represent the 10,000,000 other unemployed workers in the United States, very seriously interested in the perpetuation of our government.

Mr. RAINEY. If you are prepared to do so, Mr. Evans, we would like to have you discuss the bills that are before us.

Mr. EVANS. Yes, sir. This applies to it, Mr. Chairman. I am just explaining what this proposal of mine is predicated upon.

Also upon the Supreme Court's decision relative to the right of Congress to issue a full legal-tender paper currency in time of peace or war, and also the potential wealth-creating ability of the unemployed, and the absolute need of providing every citizen with a purchasing power sufficient to consume the existing surplus products which are choking commerce.

There are 10,000,000 workers in the United States unable to find employment, and 5,000,000 working part time. Among these are 800,000 veterans totally unemployed; and as a result of the lack of employment we are manufacturing mendicants and paupers in the United States to-day faster than we are manufacturing automobiles. And mendicants and paupers, gentlemen, never have established a nation, nor have they ever maintained one.

Henry Ford has proven that the most inefficient worker is capable of producing $7 worth of wealth a day. The 10,000,000 idle workers that are deprived of the use of the land and machinery of production essential to their life, liberty, and happiness, if given the same consideration and protection by their Government that are given to those who have acquired legal titles to the ownership of the land and machinery of production, and if they, the idle workers, were privileged to use the idle land and machinery, these unemployed workers, gentlemen, could create $70,000,000 worth of wealth a day, or $21,000,000,000 worth of wealth a year. That, gentlemen, is five times as much as has ever been expended in the maintenance of the entire National Government. We are permitting the possible production of $21,000,000,000 worth of wealth to go to waste.

Now, gentlemen, I want to clear up just a couple of questions that have been touched on here. I was going to say I would like to remove the intellectual rubbish that has been dumped on the lot before I undertake to erect my beautiful, palatial, efficient structure; and the first rubbish bunch that I would like to remove is the German mark rubbish that has been handed out to you gentlemen since I have been here.

Let me call your attention, gentlemen, to the fact—and it is a fact—that when the condition in Germany developed to a point where the visible supply of foodstuffs and clothing was diminishing almost to the vanishing point, the people who owned that vanishing supply of foodstuffs, seeing any opportunity to enrich themselves, began to raise the prices. That phenomenon occurs in every place where this condition exists.

Now, after these profiteers who owned these foodstuffs raised the prices of them, the German Government, in consideration of the inability of the civil employees to buy enough of that stuff to sustain life, went to work and increased the number of marks that they were paying them. That was done by the gentlemen in control of the German Government, who were also in control of the corporations, the German corporations, the boards of directors.

The same identical men, seeing an opportunity to perpetrate one of the rotten financial rackets, such as we are having perpetrated in the United States to-day—those gentlemen went to work and increased the volume of marks, and kept multiplying and multiplying the number that they gave to the civil employees, until they almost reached the vanishing point in exchange value. But they did not diminish, at any time, in their debt-paying power. And those same gentlemen that caused the German marks to be printed in an overwhelming abundance, and doubled and trebled and quadrupled, in the payment of German civil employees' salaries—those same gentlemen were able, with $10,000 in gold, to buy 35,000,000 German marks and cancel 35,000,000 German marks of steamship bonds, and by so doing take away from the German people who had honestly invested their marks in the German steamship bonds their wealth represented by those bonds, giving them nothing in exchange; and these gentlemen, who are in control of the German Government and in control of the boards of directors of the German steamship companies, by that racket were able to rob the people.

Now, you have heard another thing, Mr. Chairman. You have heard reference to the greenbacks.

Mr. RAINEY. Your time has expired, Mr. Evans. Are there any questions?

Mr. SANDERS. One question——

Mr. RAGON. Mr. Chairman, I suggest that the gentleman be permitted to continue for five minutes. He has disposed of one question; let us give him time to dispose of another.

Mr. RAINEY. You have five minutes more, then.

Mr. EVANS. Thank you. We poor men, Mr. Chairman, are very appreciative of anything we get now.

In the case of the colonial money, I have in the record here, gentlemen, extracts from the statement of Benjamin Franklin, for whose judgment I have more respect than I have for that of anybody who has testified here. Benjamin Franklin strongly defended the colonial money. He said that the paper money of New York, New Jersey, and Pennsylvania was the chief cause of their great increase in settlements, numbers, buildings, improvements, agriculture, shipping, and commerce.

In regard to the exception clause on the greenbacks, you have not been told, gentlemen, that when the Senate amended the bill which went through Congress providing for the issue of a hundred million dollars' worth of greenbacks, after the first $50,000,000 of full legal-tender demand notes had been out and circulated and performed the purposes of money—you have not been told, gentlemen, that that very bill that put the exception clause in the greenbacks, amended the House bill from $100,000,000 to $150,000,000, and provided that the extra $50,000,000 should be used to retire the first $50,000,000 of demand notes; and you have not been told that that same bill provided that when the gold and silver coin and demand notes was received by the Government in payment of duties on imports it should be set aside and used first as a special fund to pay the interest on the bonds.

You have not been told that the fellows who held the bonds were the bankers. You have not been told that the Government paid their interest on the bonds with the gold coin at par; and you have not been told that the banker, when he got that gold, added a premium on it, but that the soldiers—my father—in defending this Nation had to accept those greenbacks at par, and the merchants had to accept them at par, and the importer had to accept them at par. But the Government refused to accept them, and the importer had to pay a premium to the banker. And if you will look up the total amount of money that was paid to the United States Government for duties on imports from 1862 to 1869, when John Sherman arbitrarily ordered that his assistants should receive those greenbacks at par, and the premium went off of gold, you will find that the amount paid to the Government was $3,200,000,000; and if you estimate that the average premium on gold during those seven years was 25 per cent, that meant a clear rake-off to the racketeering bankers of $800,000,000 because of the exception clause on the greenbacks.

Now, gentlemen, your predecessors turned over to the banking interests of this country, when they passed the Federal reserve act, the most diabolical piece of legislation that was ever enacted, the monetary sovereignity of the United States. You can not now issue any money without amending that act. You have given to the bankers the monetary sovereignty of the United States. You have permitted the bankers, gentlemen, by that act to bring about the condition which they did when they issued their credits, five billions of them, in 1922. They loaned five billions of credit on building mortgages in 1922. That stimulated production; that got the people to work. They loaned eight billions of dollars on mortgages from 1922 to 1928, inclusive, every year. They got everybody to work, producing hundreds of billions of dollars' worth of wealth; and then, when they got them all in debt to get that wealth, to get houses and other things, in 1929, the banks affiliated with the New York Federal Reserve Bank called four billions of dollars' worth of brokers' loans. That brought down the prices of everything, and they have kept them down. They have made it impossible, gentlemen, for American workers and American merchants to earn the money with which to pay their debts. They have impoverished, debased, and degraded the American people; and I tell you, as an American citizen, that I do not believe the American people will stand to be degraded and debased and impoverished.

We look to you, gentlemen—we have hired you with all the confidence in the world—we look to you, gentlemen, to provide enough money for the people to do business with. You have compelled us in the past, by the passage of the Federal reserve act, to pay to the bankers an ungodly interest for the use of their credit, because you have not permitted enough actual money to be issued for us to do business on a cash basis.

There is but $11,000,000,000 worth of gold in the country, gentlemen.

Mr. VINSON. In the world.

Mr. EVANS. In the world. There is about $5,000,000,000 here.

We are told that there is $750,000,000,000 of securities made payable in gold coin—get this—of the present standard, weight and fineness. It is a physical impossibility. There is not over 5,000,000,000 of gold in the country, gentlemen. There is $50,000,000,000 of deposits in the commercial banks subject to immediate check. If a certain group of people saw fit to draw out 5,000,000,000 of that, under the Federal reserve act they could bring it to the Government, compel the Government to give them gold for it, and every bank in the country would have to close its doors instantly.

That is what is worrying them, gentlemen. Either the bankers have got to be curbed or something is liable to happen in this country; and I am here to try to prevent it.

Gentlemen, if there are any questions that you would like to ask, I would be glad to answer them. I am sorry that you can not see your way clear to give a representative of the working class the same courtesies and the same time that you extend to the representatives of the manufacturers and the exploiting classes. Why should I be limited to 5 minutes or 10 minutes? Great God! I have put in 40 years, gentlemen, studying this question. I know it. I am a patriotic citizen. I am down here at great sacrifice; and yet I am offered 5 minutes. I am told that I can only have 5 minutes, and I have got to run ahead like a steam engine to get through.

Mr. RAINEY. You have had 20 minutes, Mr. Evans—twice as much as you asked for.

Mr. EVANS. I appreciate that. I hope I have justified it.

Mr. RAGON. Mr. Chairman, the situation with regard to Mr. Evans is that the committee offered to give him 30 minutes at the last session, and we adjourned to this morning. Now, this morning, as I understand it, he wants to submit this brief, and asked for only a few minutes.

Mr. SANDERS. To which one of the political parties do you belong?

Mr. EVANS. Great God! Any American citizen who has any faith and confidence in the efficacy of any political party to-day to salvage or to help the American people must be an ignorant ass. I do not belong to any of them. I am an American citizen, sir. I have worked in the Democratic Party, the Republican Party, the Socialist Party, and the Communist Party, and I say to you that every one of them, as far as they are able to, will undertake to exploit their fellow man.

Mr. SANDERS. All of those that you mention?

Mr. EVANS. All of them; yes, sir.

Are there any other questions?

(There were no question.)

Mr. RAINEY. Thank you, Mr. Evans. We will take up with the committee the matter of including this material in the record, and it will be decided later.

Mr. EVANS. Thank you very much, gentlemen.

(The matter referred to is as follows:)

THE EVANS PLAN

Congress shall at once pass an act authorizing and ordering the Secretary of the Treasury to have plates engraved and full legal tender Treasury notes printed in denominations of $1, $2, $5, $10, and $20 in such an amount as shall be necessary, and to at once arrange with the Post Office Department to permit every unemployed person in the United States, over 15 years of age, desiring to do so, to register, giving their name, age, occupation, trade, profession or vocation and address, and the names and addresses of two other persons who can identify him or her. False or duplicate registration or identification to be punishable by imprisonment at hard labor for five years. And to then further arrange, through the Post Office Department to pay, with said notes, to each person registered, between the ages of 15 and 21, the sum of $18 per week, and to pay to each person over the age of 21 the sum of $36 per week. Said amounts to date from the day of registration of each person, and to be paid weekly in advance.

All persons upon registering shall then be in the employ of the Treasury Department of the United States and subject to its orders 6 hours per day, 5 days per week, 10 months per year, until their name shall be removed from the registration.

The Treasury Department shall arrange, in cooperation with the local educational boards, and such other organizations or institutions as shall be necessary, for the provision of industrial, agricultural, transportational, communicational and professional educational facilities for all persons registered between the ages of 15 and 21, requiring their attendance thereat 6 hours per day, 5 days per week, 10 months per year.

The Treasury Department shall also arrange, in cooperation with the United States Department of Labor and such other national, State, county, or municipal department or public or private organizations as shall be necessary for the provision of such industrial, agricultural, transportational, communicational, and professional facilities as will be needed for the useful employment of all persons over the age of 21 so registered, for the production of such articles, and the rendering of such services as shall be needed for, and conducive to, the life, liberty, and pursuit of happiness of the citizens, for which purpose the Declaration of Independence tells us, governments are established. And all such persons shall be subject to the orders of the United States Treasury Department for employment in the said industries or professions, 6 hours per day, 5 days per week, 10 months per year. And all goods or articles so produced, or services so rendered, shall be sold or provided at current prices.

All registered persons unable to labor because of illness, or physical or mental disability, and all men and women over the age of 60 shall be exempt from labor or service, and all pregnant women shall be exempt from labor two months before childbirth and two months after childbirth.

All persons registering under this act shall immediately, upon securing or accepting other employment, notify the United States Treasury Department on blanks to be provided for that purpose, and request their names be stricken from the registration, and failure to do so shall, upon conviction, be punishable by imprison ment at hard labor for five years.

The United States Treasury Department shall also loan the said notes to towns, cities, counties, and States upon noninterest-bearing bonds to be repaid at the rate of 4 per cent per annum.

HUMANE REASONS FOR THE PLAN

We are advocating the right to work, and also the right to loaf.

And why not? Surely to God we have earned the right to loaf. We have produced an overwhelming abundance of all things for which the heart could wish. We have built and operated the machines and cultivate the soil. We have hewn the timber and mined the ore. We have given the best years of our lives to assure mankind against physical want. We have made it possible to produce all of the food, clothing, shelter, instruction, transportation, and amusement that all of the people could possibly need or use, with but a few hours labor a day, and we demand the organization of our industrial and social life so as to permit all to share in this boundless achievement.

Are we not all the children of the same God?

Shall anyone dare to say that a merciful Deity intended that one of his children should be brought into the world bridled and saddled for another to ride? That millions should toil and sweat and suffer and spend their lives in a miserable, debasing, degrading environment in order to enable a few to revel and rot in undreamed-of luxury.

God Almighty never intended such an inequitable arrangement.

Man alone is responsible for it, and man alone can, must, and will change it.

This is a Government of the people, by the people, and for the people.

Right is mighty and will in the end prevail. And take it from me, it's going to be soon.

In 10 years' time we could build more indestructible homes, equipped with all of the modern labor-saving devices, for the complete elimination of all drudgery, than all of the people that will inhabit the country in the next 100 years could possibly occupy, and they could be as free to use as the parks and the streets are now.

The slums could be abolished and the seething, debasing caldrons that man's inhumanity to man has developed, would dissolve into real joyous garden cities, wherein the spirituality of God's children might unfold, and love supplanting hate, would make of the earth a fitting abode for man's transition to the spiritual realm.

And why isn't it done?

Why are countless millions made to mourn?

Why are unwelcome little babies brought into the world to be starved and neglected?

Why are untold millions of strong, willing men deprived of an opportunity to earn their bread in the sweat of their face?

Is it because of the niggardliness of nature? No! No! No! A thousand times, no.

The beneficence of the Creator is overwhelmingly manifest on every side.

Is it because mankind is inherently cruel and malicious? No!

The countless martyrdoms and utterly unselfish sacrifices that so gloriously illumine the history of the race attest most eloquently the ingrained instinctive love of man for his fellow-man.

What then is the reason?

False teachings!

"In the sweat of thy face shalt thou eat bread."

Mankind must labor in order to live. But the harder men labor the poorer they live. The more they produce, the less they have. Instead of a vacation and the joys of indulgence that should follow the filling to overflow of the warehouses and granaries, worry, expulsion, hunger, starvation, and degradation await the workers.

In the primitive life of the race men starved because of insufficient power and knowledge to sustained life under all conditions. But in the entire story of primitive man there is no record of anything so utterly imbecile as anyone starving because he was able to produce too much food, going cold because he was able to produce too much clothing, and unsheltered because he was able to produce too much shelter.

GOVERNMENTS ARE INSTITUTED AMONG MEN, DERIVING THEIR JUST POWERS FROM THE CONSENT OF THE GOVERNED

The race consents to what they are taught is right. If they are wrongly taught, are not their teachers morally responsible for the consequences?

You who teach are devoting your energies to influencing the minds of certain of your fellow-beings.

Are you convinced that the present arrangement and organization of the life of the race is in accordance with the plans of Divinity?

Changes you know are continual in the life of the race, from a lower to a higher order. Old forms and customs, that have outlived their usefulness, give way to newer and better methods of wealth production and distribution.

Mankind emerged from savagery into barbarism, and then into civilization, as a result of economic development, and everywhere his path is strewn with the evidence of terrific struggles; even to-day, in spite of his countless marvelous achievements, the instinct to resort to force, rather than reason, still predominates. But you know that that is not the best way; that after force has expended its fury, reason must ultimately prevail.

Then why not begin now a real endeavor to formulate, promulgate, and have put in effect some plan whereby the existing injustices inherent in our present planless, objectless, wasteful methods of making a living, might be minimized or abolished?

The "Evans plan" might not impress you as being 100 per cent perfect, yet it is at least a plan, and an honest effort in the right direction, and worthy of your consideration until a better one is evolved.

Nothing could be more lacking in wisdom than an economic régime under which scarcity and want are the result of an overproduction of necessary commodities.

The natural resources and bounty of our country, the gold and silver, copper and iron, coal and oil, forest and field, must be administered for the good of all.

The Government must be so administered that every man, woman, and child shall at all times be positively assured adequate food, clothing, and shelter, air and water, light and heat, education and amusement, beauty and social opportunity, and at the least possible expenditure of his or her labor and time, in the most productive employment in which it is possible for them to be engaged.

Government, society's controlling organ, which alone has the power, must assure each individual the best means, and the best and fullest opportunities for complete self-development.

The first duty of any government should be to so shape its laws and regulate its affairs that the humblest citizen shall have the opportunity to obtain employment at such a compensation as will enable him to live comfortably and maintain a family.

The right of a citizen of the United States to demand and obtain work at wages sufficient to support himself and family must be acknowledged, established, and never abridged.

It must be made the duty of the Government to at all times guarantee employment to all who demand it.

Society can not protect itself, nor provide for its welfare, except as it provides for the safety and comfort of the individuals who make up the collectivity of which society is composed.

The sole ground upon which government has a right to exist is to secure the safety and welfare of all the people.

The "Evans plan" shows how it can be done.

ECONOMIC REASONS FOR THE PLAN

Industry, trade and commerce are stagnant in the United States to-day because, and only because of the inability of the people of the United States to purchase, either with cash or credit.

There is now existing an immense surplus of practically all kinds of commodities, including homes, which, because of tne inability of the people who ardently desire the use of these commodities to purchase them, has compelled the curtailment of production, necessitating the discharge of the workers employed in those industries, and this in turn, by curtailing their purchasing power, has tended to further restrict the markets.

Elbert Stewart, commissioner of labor statistics, says: "Unemployment has sent American pay rolls down 40 per cent, which would mean the workers' annual spending power has been diminished by $24,000,000,000 a year."

Gage P. Wright, editor of the Business Economic Digest and New York Business Counselor, says "that more than 50,000,000,000 in lost income is the price which the United States will have paid by the end of 1931 for the business depression that is now entering its third year."

Heretofore, when similar conditions have developed recovery has been brought about by the development and utilization of various credit facilities, but inasmuch as the extraordinary development of credit in the United States since 1922 has resulted in piling up the public and private indebtedness in the United States to upward of $150,000,000,000 there is not much hope of any improvement being brought about through the further expansion of credits.

The restoration of prosperity necessitates the adoption of some means whereby the impoverished people can resume purchasing.

There is not a thing, food, clothing, shelter, transportation, or anything else essential to our comfort and happiness, that has not been, or could not be produced in an overwhelming abundance, but the trouble is we are unable to buy.

An abundance of all desirable things having been produced beyond the ability of the people to buy, further production must necessarily cease until additional means to purchase have been devised.

THE "EVANS PLAN"

The "Evans Plan" is predicated upon—

First. The sovereign right of the Congress to issue money and regulate the value thereof.

Second. The rights of the governments, municipal, State, and national to provide registrational facilities for the registration of the youth and unemployed adults for the nation, as proposed in the plan.

Third. The wisdom of assuring every citizen of college education.

Fourth. The absolute necessity of immediately providing the citizens with a purchasing power sufficient to consume the existing surplus products.

Fifth. The wisdom of intelligently and efficiently utilizing the enormous potential labor power of the unemployed, now going to waste, in the production of all things essential and conducive to the comfortable, happy existence of the human race.

Sixth. The enormous advantage to the race that would result from completely safeguarding maternity.

Seventh. The savings that would be effected by the provision of an inexhaustible supply of full legal tender money, available at all times for the use of municipal, county, and State governments, without interest.

Mr. RAINEY. There are two gentlemen here representing the veterans' committee to reduce the cost of peace—Mr. Reynolds and Mr. Clark. How much time do you gentlemen want?

Mr. CLARK. Mr. Chairman, we will require a very few minutes; five minutes apiece, I should say.

Mr. RAINEY. We will give you five minutes apiece. We are anxious to conclude these hearings.

Go ahead, Mr. Reynolds.

STATEMENT OF REV. F. C. REYNOLDS, BALTIMORE, MD., REPRESENTING MARYLAND BRANCH OF VETERANS' COMMITTEE TO REDUCE COST OF PEACE

Mr. REYNOLDS. Mr. Chairman, we are representing a group of ex-soldiers of Baltimore who have come over here to express our opposition to the proposed bonus legislation.

Mr. SANDERS. Mr. Chairman, this gentleman's name is not on the list. What is your name, please?

Mr. REYNOLDS. My name is F. C. Reynolds.

Mr. RAINEY. He takes the place of Mr. Parker.

Mr. REYNOLDS. As I was saying, we are here representing a group of ex-service men from Baltimore who are opposed to the proposed bonus legislation.

First of all, I want to say that we are heartily in favor of everything that the Government is doing and everything the Government can do for disabled veterans. We believe that the Government ought to be generous and even extravagant in its care for the men who have been disabled in the service, and have nothing to say in opposition to any legislation that has been enacted or may be enacted in their behalf. We want everything done for them that can be done.

But when it comes to the able-bodied veteran, we feel that the last bonus bill, which adjusted the compensation and gave to the ex-service men adjusted compensation certificates, takes care of all the justifiable claim that the able-bodied men have. I was in favor of that action, and I believe it was justifiable, in fairness to the able-bodied men; and we feel that that action was all that they were claiming. That claim has been met. So far as that obligation is concerned, it is finished, and it is a closed deal, we feel. The able-bodied veteran, it seems to me, so far as the Government is concerned, stands now upon the same basis as every other American citizen, and we have no more claim, in view of the legislation that has already been enacted, for favor, in any way, than any other American citizen.

We feel that the proposed legislation is class legislation, in favor of a particular group, and that it is unjustifiable, because our just claims have already been met. Moreover, we feel that it is decidedly unpatriotic, under the present financial emergency which this Government faces, for any group of people to ask the Government to enact a law which would jeopardize its financial stability.

Just for these two reasons, gentlemen—because I must be brief, and I appreciate the time you are giving me—we simply want you to understand that there are ex-service men who are opposed to the proposed legislation, on the basis that all of their justifiable claims have already been met, and that to come to you and ask for another "hand-out" is simply to ask for class legislation in favor of a particular group that has no really legitimate claim; that it is decidedly threatening to the financial stability and power of the Government, if we are to believe the experts, from the President and the Secretary of the Treasury on down; and that it is unpatriotic for any group to make demands upon the Government at the present time which would jeopardize its financial stability.

For these two reasons, I personally and the group that I represent are opposed to the legislation.

I thank you very much.

Mr. RAINEY. Are there any questions?

Mr. ESLICK. Mr. Reynolds, what is your business?

Mr. REYNOLDS. I am a clergyman.

Mr. ESLICK. A clergyman?

Mr. REYNOLDS. Yes, sir. I was chaplain of the One hundred and fifteenth Infantry, Twenty-ninth Division, during the World War.

Mr. VINSON. For the purpose of the record, according to the calendar, you represent the committee to reduce the cost of peace?

Mr. REYNOLDS. Yes, sir.

Mr. VINSON. That is the same organization that Captain Durham and Colonel Castle organized immediately after the Chicago convention?

Mr. REYNOLDS. That is right.

Mr. VINSON. Were you a member of the Ex-Service Men's Anti-Bonus League prior to that?

Mr. REYNOLDS. No.

Mr. DICKINSON. Are you an ex-service man?

Mr. REYNOLDS. Yes, sir.

Mr. DICKINSON. Holding an adjusted-service certificate?

Mr. REYNOLDS. Yes, sir.

Mr. DICKINSON. You have never borrowed on your certificate?

Mr. REYNOLDS. Yes, sir.

Mr. DICKINSON. You have?

Mr. REYNOLDS. I have.

Mr. DICKINSON. You do not represent the large class who have not been compelled to borrow on their certificates?

Mr. REYNOLDS. You asked a personal question as to whether or not I have borrowed. I have. I borrowed $400 this summer to send to my brother who had all his money in a bank that went "flooey."

Mr. DICKINSON. My purpose in asking the question was this. There is a large class who hold these certificates who have not borrowed on them.

Mr. REYNOLDS. Yes, sir.

Mr. DICKINSON. I was not reflecting on the fact that you had borrowed on yours.

Mr. RAINEY. If there are no further questions, we thank you, Mr. Reynolds.

Mr. RAINEY. We will now hear Mr. Clark.

STATEMENT OF GAYLORD LEE CLARK, BALTIMORE, MD.

Mr. CLARK. Mr. Chairman and gentlemen of the committee, I came here representing not so much the Veterans' Committee to Reduce the Cost of Peace, because I was only recently aware of such an organization, but I have been for some years generally opposed to bonus legislation because I believe it cheapens patriotism. That, however, is neither here nor there now. That legislation is now on the books and is water over the dam.

I feel as a great many other veterans, that the passage of this proposed new legislation at this time is unwise and might severely and critically jeopardize the credit of this country. Whether that feeling is justified or whether it is not, it is the feeling of a great many veterans, a great many for whom I speak.

I am not a member of the American Legion. I am not a member of the Veterans of Foreign Wars. I served in the Army in the infantry overseas. When I came out, I joined the American Legion. I felt that my voice was a voice crying in the wilderness, as far as certain things of which I disapproved were concerned, I resigned after about two years. I have not been a member since.

I have a great many friends, a great many soldiers who fought under me during the war, who are members of the American Legion. A great many of them are in favor of the bonus, and I have no feeling of resentment; no feeling that they are all not honest in their judgment. Their idea on the bonus proposition is different from mine.

I think that the veterans who signed this petition and brought it to Congress—two and a half millions of them, or thereabouts—are for the most part honest, law-abiding American citizens. I do not think they would do anything now that they would not have done during the war or that they would jeopardize the best interests of their country if they had it put to them clearly. I think they fought then, most of them particularly, and I think a great many of them are fighting now for what they think they are entitled to. That is a matter of judgment.

But I do not feel that the veterans have been honestly and faithfully led in this matter.

I think a great many of them have been stimulated by false hopes. They have been told things that were not justified in fact. Their hopes were aroused of getting a payment now to which they are certainly not entitled under the certificate which was issued to them which payment is not due.

It is easy enough, as you gentlemen know, to get petitions signed. When that petition in favor of this adjusted-service payment was signed by the service men, the situation apparently was not as it is to-day. The country's credit was not then in the same danger that it apparently is in to-day. I venture to say that a great many thousands of those men who signed that petition then would under the present circumstances withdraw their names from it.

According to the figures there are 4,000,000 ex-service men in this country. The fact that with all the facilities and with all the urging of the Veterans of Foreign Wars to sign this petition, they only got 2,500,000 out of the 4,000,000, is certainly very good reason to believe that the others were not in favor of it.

I say to you gentlemen that you have got to listen to the silent voice of the veterans who are not in favor of the payment of this adjusted-compensation certificate at this time, but who are reluctant to take public stand against their old comrades.

It will be paid eventually. I do not think anybody is gullible enough to believe that the soldiers are even going to be compelled to pay the interest that they are paying now for the money that they have borrowed. When the time comes, and it assuredly will, I think that it will follow the same line that practically all pension and bonus legislation has followed up to this time from the Civil War down.

I am here just to voice my own thought, to do what I feel is my duty. It is not a pleasant duty. I know a lot of men who served under me during the war. I know how they feel about it, but I know also how they felt then. It was their country first in the dark days of the war in France. There was not thought of a bonus then for the services they were giving to their country. They will say now probably that their captain is going back on them.

But those of you who did serve during the war know what the attitude of the soldier is. I do not blame them for it. It was true then and it is true now that they will take what they can get, and they will holler for it and they will make demands for it. But when the time comes for them to do something, if they do not get what they want, which will injure their country or upset the Government as some advocates of the bonus have prophesied. I do not think they will do anything of the sort.

That is all I have to say, gentlemen. Thank you.

Mr. HILL. Were you an emergency officer during the war?

Mr. CLARK. No, I volunteered. I enlisted as a private of infantry and I came out of the Army as a captain of infantry.

Mr. HILL. Are you a retired emergency officer now?

Mr. CLARK. I am not.

Mr. HILL. Are you drawing any compensation?

Mr. CLARK. I never drew any compensation and never asked for a bonus.

Mr. VINSON. Did I understand you to say that you are in favor of the elimination of the interest charge?

Mr. CLARK. No, I did not say that. I said that when the time came, the interest would be eliminated.

Mr. VINSON. What would be your position, if you would take a stand upon that at this time? Would you favor the elimination of the interest charge on the loans heretofore made?

Mr. CLARK. If it does not involve the payment of the certificate now. Of course, I have a lot of sympathy for these men. I am not here trying to barnstorm this committee with any new ideas. I think these men have got a perfect right to their own opinion, but I think they are being misguided. I think that if the thing had been put up to them decently and squarely, a great many of them would not have been in favor of it as they are to-day.

Mr. VINSON. Would you want to express an opinion now as to the matter of the elimination of the interest charge?

Mr. CLARK. No, I would not. That was a thought that flashed through my mind at the time. I don't know what the situation might be at that time, but that has been the tendency of pension legislation from the time of the Grand Army of the Republic to this day.

Mr. VINSON. What was your position in regard to bonus legislation originally?

Mr. CLARK. I was opposed to it. I have never applied for a bonus and I have asked the War Department to record on my service record that I refused it.

Mr. VINSON. That is all.

Mr. Rainey. Thank you, Mr. Clark. Mr. Clark, you and the gentleman who preceded you, Mr. Reynolds, have the privilege of extending your remarks in the record, if you desire.

Congressman Pettengill has asked for only one minute of the Committee's time.

STATEMENT OF HON. SAMUEL B. PETTENGILL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Mr. Pettengill. Mr. Chairman, I am not on the calendar this morning and therefore in justice to those who are here I have asked for only one minute.

Some time ago, before I knew when the Ways and Means Committee was to have hearings on this matter, on my own initiative I sent a questionnaire to 50 of the leading economists of the country on the Patman and the Thomas bills; also with reference to the benefit of "reflation" and the danger of inflation.

I have a very interesting file here, including letters from Mr. Kemmerer and Mr. King who have appeared before the committee.

In order to shorten the record as much as possible, I have briefed the replies somewhat. The entire letters, of course, are available.

Prof. E. W. Kemmerer, of the international finance section of the department of economics of Princeton University, has already appeared before the committee and I am omitting from his answer the memorandum which he has already read into the record. I am, however, submitting a memorandum prepared for him by Professor Fetter of Princeton.

(Professor Fetter's statement is as follows:)

Memorandum on Patman and Thomas Bills for Immediate Payment of Adjusted-Service Certificates by Issue of Additional Money

There is a strong probability that the passage of one of these bills and the carry ing out of its provisions would result in the breakdown of the gold standard in the United States. If it is the purpose to break the gold standard, issues of paper money, if made in sufficient quantities, will certainly do it. The effects upon wages, prices, and the return of holders of fixed incomes that would follow, should we break the gold standard and embark on a policy of inflation through issues of inconvertible paper money, are familiar and need not be discussed here. As it seems to be the avowed intention of the authors of both of these bills that the United States should remain on the gold standard, this memorandum will be confined to the effect of these measures, assuming that we endeavor to maintain the gold standard in the United States.

Although differing in a number of details, the effects upon our monetary system, upon the Federal reserve banking system, upon the probable hoarding of gold, upon the withdrawal of foreign balances, and upon America's maintenance of the gold standard, of the Patman and Thomas plans for monetary inflation are essentially the same. Therefore, they may be discussed, as far as general principles go, together.

The Patman bill would increase the monetary circulation through an increase of Treasury notes very similar to the Treasury notes issued following 1890, under the provisions of the Sherman silver purchase act. These are to be unlimited legal tender, and, although the bill authorizing their issue does not link them up with the Federal reserve system, they could not but affect that system, for the following reason:

All of the obligations of the Federal reserve system, whether deposits or notes, are payable in gold. A large part of the gold stock of this country is held either by the Federal reserve banks or by the Government on behalf of the Federal reserve banks. As most of the paper money now in circulation consists of Federal reserve notes, anyone wanting gold, whether for domestic hoarding or for foreign shipments (whether the result of an international run on the United States, or simply in the ordinary course of trade in response to higher interest rates and/or lower price levels abroad), usually gets it from the reserve banks or the gold held by the Government on behalf of the reserve banks. It is true that gold certificates are redeemable in the gold which is held in the Treasury for that purpose alone, and, in addition, the Federal Treasury holds a gold reserve of $150,000,000, which is for the purpose of maintaining the parity with gold of the various kinds of money in circulation. Presumably, in case of a desire to turn paper money into gold, the Treasury would be expected to use this gold to redeem greenbacks, national bank notes, standard silver dollars, and silver certificates. But these make up only about a fourth of the present paper money in circulation, and the gold holdings of the Government are only a small per cent of those of the reserve banks.

The Patman bill provides for an issue of approximately $2,000,000,000 of Treasury notes, without in any way creating a gold reserve to redeem such notes in case the public want to turn them into gold. The present gold reserve of the Government would be simply a drop in the bucket when to the present Government paper money in circulation were added the two billion dollars additional. Hence, if there should be a desire on the part of any large number of holders of Government paper money to turn it into gold (why this is probable or likely will be discussed later), the Government would either have to refuse to redeem this new money, or would have to use the gold of the reserve system for that purpose. These two alternatives reduce themselves to one fact: any demand for gold would fall on the Federal reserve system. Hence, we can take as our point of departure that any considerable demand for gold—no matter for what purpose—will fall on the gold of the Federal reserve banks.

If the Government made no provision for the redemption of these Treasury notes, anyone wishing gold—no matter what the reason—would take Federal reserve notes and demand gold. Hence, as long as America stayed on the gold standard, all demands for gold would fall on the reserve system, because its notes would be the ones for which gold could be obtained freely.

It would be a case of the workings of Gresham's law; both the new Treasury notes and the reserve notes would be equally acceptable in payments (in fact, the Treasury notes would be legally better, as they are legal tender, which the reserve notes are not), but as the Treasury notes were not convertible into gold they would be "bad money" to anyone who wanted to hoard or to export gold. The Federal reserve notes being still convertible into gold, would be "good money," as they would be convertible into gold. Hence, any desire of the public to get gold, which might follow this increase in note issues (whether Treasury notes or new notes of the reserve banks) would fall on the reserve system.

Having established the point that, if the issue of this paper money is accompanied by an attempt on the part of the United States to maintain the gold standard, this burden will be thrown upon the gold reserve of the reserve banks, just as much as under the Thomas bill where the new paper money will be hotes of the reserve banks, let us consider what effect we might expect such an increase in money to have on our monetary and banking situation.

The first fact which must be kept in mind in any discussion of this problem is that money in circulation accounts for only a very small percentage of the monetary payments in the United States. Approximately 90 per cent, if not more, of the payments in the United States are made by means of checks drawn against bank deposits. Almost all of the large payments are made by check and the use of cash is confined largely to wage payments and retail transactions. In normal times the deposits subject to check have been something over tenfold the money which is outside of the banks and the Treasury. It is evident that by far the greatest influence on the price level is the amount of purchasing power which comes from checks drawn against deposits. In other words, it is bank deposits times the velocity at which deposits turn over that determines how much is offered in monetary terms in payments for goods and services. It is evident that, if 90 per cent of payments are made by check, doubling the money in circulation would have only a very small effect on prices, assuming that bank credit remained the same. Putting it another way, an increase of 1 per cent in bank deposits, if checked against, would have as much effect on prices as an increase of about 10 per cent in the money in circulation.

Ordinarily, the relationship between bank deposits subject to check and the supply of money changes but slowly, as the habits of the public change. Experience in the past has shown that it is the increase or decrease in deposits subject to check, and the turnover of such deposits, that is the big factor in price changes, because almost all large payments are made by check. The relationship between checks and cash is something like that between dollar bills and cents and nickels, in a community where all payments are made in cash. The thing that determined prices would be the dollar bills, and, as prices rose or fell, the demand for small change would rise or fall accordingly. So, as prices rise, the amount of money needed to make wage payments and finance retail trade increases, and, as prices fall, the amount of cash needed for this 10 per cent or less of the monetary payments of the community falls.

As stated above, this relationship between deposits and hand-to-hand cash ordinarily changes only slowly, as the habits of the community change, such as the habit of making more and more wage payments by check. Following the break of 1929 the decline of hand-to-hand cash declined, as might have been expected, with the decline in bank deposits, the decline in velocity of turnover, and the drop of prices. With the great decline in the thing that accounted for 90 per cent of the payments, it was not possible to keep outstanding the same amount of the thing which accounted for the 10 per cent, unless we had a great change in the habits of the public. Beginning in the latter part of 1930, there came a reversal of the ordinary relationship between bank credit and money in circulation. While bank credit, turnover of deposits, and prices fell, the amount of money in circulation increased during a period of a year and a half by about a billion and a quarter dollars. Although part of this increase was undoubtedly made necessary by the fact that some communities without banking facilities now required more cash to make payments formerly made by check, a large part of this increase was a hoarding resulting from a lack of confidence of our banking institutions. Following the general distrust and pessimism which accompanied the abandonment of the gold standard in Great Britain, this increase in circulation was very great.

The thing of particular importance in connection with this increase in currency was, that these additional issues did not bring "prosperity" or cause rising prices. Even assuming that some of the new issues were necessary to make payments as a result of bank failures, it is clear that much of this money was "hoarded"; that is, it was held in safe-deposit boxes or in other ways withdrawn from circulation, so as to have no effect on prices. Here, again, must be emphasized the fact that any upturn in prices is not to be expected from an increase in hand-to-hand cash, but in bank credit and the use of that bank credit. In short, even if you have a large increase in the amount of money in circulation, the effect, instead of raising prices, is very likely to be the reverse if it arouses fears in the community, because bank credit will be less and what bank credit there is will be turned over less frequently. Any increase in money 10 per cent which decreases the source from which 90 per cent of the purchasing power comes—deposits subject to check—will defeat its own purpose.

The suspension of gold standards by Great Britian was followed in the United States not only by internal hoarding of currency (mostly paper money in the form of Federal reserve notes), but by heavy drains on our gold reserve from abroad, by the withdrawal of foreign funds held here. Following the passage of the Reconstruction Corporation bill, there was another run on America by foreigners holding funds here.

The whole banking system is dependent upon the existence of confidence. If public confidence breaks down; if the public all try to exercise the rights which they have under the law; there is nothing that can prevent a complete smash-up of a modern monetary and banking system. For example, deposits payable on demand in the United States are in the neighborhood of 25 billion dollars, in addition to many billions of time deposits payable within periods varying from 30 to 90 days. The demand deposits alone are two and a half times the monetary gold of the world and five times the monetary gold of the United States. The stability of the whole system depends upon public confidence, both on the part of American depositors and holders of paper money, and foreigners with short-term credits in this country.

The lack of confidence which the American public has shown in commercial banks has as yet not been accompanied by any noticeable lack of confidence in the Federal reserve banks. This is shown by the fact that there is no evidence of extensive gold hoarding in this country. Hoarders have simply traded a claim on a commercial bank in the form of a deposit for a claim against a Federal reserve bank in the form of a note. Disturbing as this has been to general business confidence, and disastrous as it has been for many commercial banks, the effect is nothing to what it might have been, had there been a general movement to hoard gold in this country. For example, if a billion dollars in Federal reserve notes are hoarded, that puts a drain upon the gold reserve of the system to the extent that it must hold a reserve of $400,000,000 against these notes which are not circulating in the ordinary course of business. This hoarding shows that the hoarders lack conficence in commercial banks, but still have confidence in the Federal reserve system; they still have faith that, if they really neededt he gold, they could get it. But, if the "hoarders" lose faith in the stability of the reserve system and come in and demand their gold, that not only draws out the $400,000,000 held as reserve, but an additional $600,000,000 in gold. Evidently, if the holders of Reserve notes, depositors in banks and foreigners who have funds here think there is a likelihood that the American dollar will no longer be kept at parity with gold, many will want to get gold while the getting is good—that is, while they can still get it.

Is it likely that we would have such a demand for gold if $2,000,000,000, more or less, are artificially added to our monetary circulation? All of the experience of the past, confirmed by what happened in the United States after the suspension of gold payments in Great Britain, and after the passage of the reconstruction bill, and after various rumors have been circulated as to the monetary and fiscal policy of the United States, point unmistakably to a heavy run, both internal and external, upon the gold reserve of the United States, if this money is pumped into circulation. Assuming that our gold reserves were sufficient to maintain the gold standard, there is a strong likelihood that, instead of raising prices, you would temporarily force prices, both commodity and security, still lower. The reasons for this belief have already been given in the discussion above of the relative influence of checks and hand-to-hand cash on prices, but may be briefly repeated here. Most of the payments of the United States are made by checks drawn on bank deposits. The addition of $2,000,000,000 in bills would increase by only a small amount the total means of payment, because it would only increase what finances about 10 per cent of all monetary payments. It would be almost certain, not only to cause much cash to be hoarded, probably in the form of gold, but it would certainly cause banks, as well as private individuals to restrict credits. This restriction would be forced upon them by demands, both domestic and foreign, for gold.

That we want prices to go up is clear, but, if any pretense is made that America should maintain the gold standard, this is the worst way of doing it. We have a much larger gold supply than we had a few years ago, and the volume of business is much less than then. Evidently, if we can use that gold as a basis for credit, if we can give confidence to banks, the possibilities of expansion (or inflation, if you wish to call it that) are very great. By artificially putting bills into circulation you increase the small change of payments, but you will amost certainly decrease the means of payment that have the important effect on prices. The payment of the bonus by means of such issues of paper money could have only unfortunate results upon the operation of our monetary and banking system.

FRANK WHITSON FETTER,
Assistant Professor of Economics, Princeton University.

PRINCETON, N. J., *April 14, 1932.*

Mr. PETTENGILL. Mr. Chairman, as I have stated, I endeavored to get the benefit of the best and most disinterested economic thought of the country with reference to the advisability of either borrowing money or printing money with which to liquidate the adjusted service certificates. In the main, I sent my letters to the economics department of our leading colleges and universities. In order to make their replies more intelligible to you, as many of them answered numbered questions in my letter, I attach, first, my original letter.

(The letter referred to is as follows:)

DEAR SIR: I am writing you and other leading economists in the country with reference to the problem confronting Congress with regard to the proposed payment of the soldiers' bonus. I trust that I will be able to secure a symposium of opinion by authorities such as yourself which will be of real value to Congress.

As you know, at the end of this fiscal year we will have an accumulated deficit of some $3,000,000,000. It is, I think, the largest peace-time deficit of any country in the world. It is rapidly getting larger. We are going into the red now $7,000,000 a day. United States obligations have recently sold below 85.

On the other hand, commodity, wage, land, and security prices are slowly drifting to levels so disastrous that they threaten the most widespread repudiation of debts and tax defaults, which may wipe out, along with the debtors, classes holding the obligations of individuals, corporations, States, and municipalities now totaling some one hundred fifty to two hundred billion dollars, which is about one-half the Nation's wealth. For example, the conservative Washington Post, April 11, said:

"The dollar increases in value every day * * * unless this vicious movement is checked it will result in panic. The extension of credit will not be sufficient. Heroic emergency measures that will arrest the fall of prices seem to be in order. * * * This economic malady has reached a point where it can not be expected to cure itself without leaving horrible scars. * * * Some powerful agency must be thrown into the breach to restore the value of goods and services against this exaggerated value of money. * * * Emergencies of this kind call for drastic action. * * * It is time for the leaders in Government and financial circles to focus their minds upon realignment of values. The people would not countenance the manufacture of fiat money to make prices rise. But some method of currency expansion on a sound gold basis may be necessary."

The question is the advisability of paying the so-called soldiers' bonus as an antideflationary, inflationary, "reflationary" or stabilizing measure. The name, of course, is not important.

A number of different bills have been proposed. H. R. 1, introduced by Mr. Patman, of Texas, calls for borrowing the $2,400,000,000 necessary to make payment.

1. Do you think we can, or should, borrow this?

Sentiment here, however, is crystallizing around (for or against) Mr. Patman's substitute, H. R. 7726; I inclose copy.

This bill simply proposes to print money to pay the debt. Is this sound, advisable, or defensible, in view of the existing emergency? And in the light of present gold reserves?

It has been suggested that it could be strengthened as follows:

Call in the outstanding adjusted-service certificates now redeemable in 1945. Collateralize them together with 40 per cent gold which is said to be now available over and above the amount necessary for circulation now outstanding. Issue currency against this hypothecation and pay the veterans off. Then set up a sinking fund to retire the currency (together with the certificates) in whole or in part in 1945, or gradually before that time.

With reference to "excess reserves" see Federal Reserve Bulletin, March, 1932, page 143: "On the basis of these excess reserves, the Federal reserve banks could issue $3,500,000,000 of credit if the demand were for currency and $4,000,000,000 if it were for deposits at the reserve banks."

2. What credit do you give this statement as a basis for the proposed bonus payment?

There are, of course, all sorts of social and political features around this problem, but I direct your attention to its economic and fiscal aspects. It is a problem of the most tremendous consequences and Members here who are patriotically trying to do their best to cut the present vicious circle for the good of the entire country (not the veterans alone) need, and will appreciate, the advice of men like yourself, whose life study makes your judgment so valuable.

3. Is the suggested alternative sound?

4. Does it in reality add any element of safety to H. R. 7726, the outright issue of nonretirable currency?

5. Can it be improved? If so, how?

6. It is said the Europe holds $2,000,000,000 of deposits in this country. With their experience with "printing-press" money, would they become frightened for the solvency of the dollar, and cause disastrous liquidation and withdrawals here in America? Could such liquidation of foreign-held obligations be stopped unless we "went off gold," or had available the precautionary device of authorizing the Treasury to change the amount of gold in our dollar along the lines advocated by Irving Fisher? If foreign exchange began to go against us, would it help Europe pay us her public and private debts, as an offset against our investment and deposit obligations held by Europeans?

7. Would the introduction of $2,400,000,000 new currency into the pockets of the people necessarily result in the rise of commodity and other levels thus causing merchants to place orders for the products of farm and factory, thus starting production and accelerating employment?

8. The Glass-Steagall bill, as you know, for the period of one year, authorized placing 60 per cent Government bonds plus 40 per cent gold behind Federal reserve money. This, of course, as I understand it, is 60 per cent "greenbackism,"

placing one promise to pay (Government bond) behind another promise to pay (currency) to the extent of 60 per cent. Assuming that the adjusted-service certificates are also promises to pay, can the Glass-Steagall bill and the suggested method of handling the payment of the bonus be distinguished, from the standpoint of soundness?

The Glass-Steagall bill, as it appears to me, does not seem to have stopped the deflationary trend, for the reason that its potential currency expansion is based upon borrowing, and banks and individuals are not borrowing (or lending).

Recently I have heard Willford I. King, professor of economics, New York University, testify before the House Banking and Currency Committee. Although not directing his particular attention to the "bonus" he was quite clear that the currency must be expanded at the present time in order to start commodity prices upward and permit debts and taxes to be paid, as well as to start buying, and employment. However, he was equally clear that for such currency something of equal value should be taken in by the Government, e. g., Government bonds, thus temporarily substituting noncirculating certificates of indebtedness (bonds) for circulating certificates (currency). Then, he said, when commodity prices reach the desired level, e. g., 1926 commodity index, the process would be reversed, the bonds resold, and the currency retired. It was his opinion that such a device is necessary in order to stop the elevator at the right floor—i. e., prevent inflation beyond a certain point.

Neither the Patman nor the suggested alternative plan seems to me to contain this safeguard. That is, the adjusted-compensation certificates when once taken in would not be available for reissue.

I need not state that every member here is anxious to solve the problem, not from the standpoint of helping the needy veteran and his family at the expense of the rest of the community, but only from the standpoint of benefiting the entire Nation, on the theory that a distribution to the veteran would, of course, be passed on at once in the payment of taxes, interest, land contracts, doctors' and merchants' bills, etc., and with the expectation that this would stop and reverse the trend of values. If the plan or any other conceivable plan at this time would bring only disaster to the Nation and thus to the veteran and his family we have no alternative except to wait until the present economic storm blows over.

Your thoughtful consideration of this matter is most earnestly requested. Your prompt reply will be a distinct public service.

I desire, of course, to use the substance of your reply, but will not quote you, by name, without your permission. Please let me know if you do give this permission.

Sincerely yours,

SAMUEL B. PETTENGILL, *Member of Congress.*

(The other bona fide replies referred to by Mr. Pettengill are as follows:)

Yours of April 6 was forwarded to me here. I am unalterably opposed to the Patman bill in principle. Uncle Sam should not be distributing gifts at this time; in fact, never. If there are to be any gifts why not multiply by 10 Congressmens' salaries, or give a million dollars apiece to college professors? It would appear that the real motive is vote getting. If so, Uncle Sam is paying for a benefit which comes not to him but to certain Congressmen.

I entirely agree with Mr. King. Uncle Sam should get a quid pro quo for whatever he spends. Reflation is a necessity but should not be mixed with any political immorality. (Irving Fisher, department of economics, Yale University.)

In reply to your form letter of April 13, I will say that I stated yesterday to the Ways and Means Committee of the House of Representatives that I felt that the payment of the bonus, by means of the issuance of new money would be distinctly dangerous, unless it were coupled clearly with the provisions of the Goldsborough bill for stabilization at a definite price level. I also explained to the committee that I saw no reason for paying more than the present worth of the bonus certificates. My impression is that this would reduce the amount of payments to a relatively small fraction of the $2,400,000,000 proposed by the Patman measure.

I still feel that it is far more sound to issue new money only in exchange for something of equal value which can again be sold, than it is to issue new money in exchange for service certificates which can not again be marketed. (Willford I. King, professor of economics, New York University.)

In your letter of April 13 you ask my opinion as to the economic and fiscal aspects of the proposed bonus-payment legislation. I am glad to try to be helpful in response to questioning so thoughtful and intelligent.

(1) Do I think the $2,400,000,000 could or should be borrowed as provided in Mr. Patman's bill H. R. 1? Possibly it could be done but with serious and perhaps critical effect on the national credit.

(2) Mr. Patman's substitute H. R. 7726, as you say, "simply proposes to print money" to make the bonus payment. Its enactment would, in my opinion, be harmful and possibly disastrous. Gresham's law that the poorer money will drive out the better works as inexorably as the law of gravitation.

(3) What of the suggestion that gold be used to the amount of 40 per cent? In so far as the proposed issue were strengthened by gold coverage the purpose of the Glass-Steagall Act would be thwarted and its effects nullified.

(4) Answered under (3) 3.

(5) I know no way of making sound a fundamentally unsound proposal.

(6) Europe would doubtless be alarmed and the results, while not predictable in detail, would be inevitably serious.

(7) Would the introduction of $2,400,000,000 of new currency necessarily raise the level of commodity prices? The effects would be in the direction of raising the level but neither administrative nor legislative action in this country can raise the level of commodity prices in any predictable way in view of world conditions.

(8) The Glass-Steagall Act has, in my opinion, been helpful in that, by providing an additional resource for hard-pressed banks, it has abated panic and bank failures. (Evans Woollen, Indianapolis, Ind.)

I thank you for your thoughtful letter of April 13.

I inclose a carbon copy of an editorial which appeared in the Boston Herald last October, and which may interest you. (T. N. Carver, division of history, government, and economics, Harvard University.)

Cures for Depressions

(By T. N. Carver, Harvard University)

It is perfectly easy to cure any depression, this one included. The trouble would be to get over the cure. To find a cure that would not be worse than the disease is not so easy. Here are a few sample cures.

1. Let the Government remit all taxes for a year and pay all its bills with paper money by speeding up its printing presses. Taxpayers would certainly enjoy the relief—at least for a time. They would probably buy more goods.

Besides, with the rapid increase in currency, everybody would foresee a period of rising prices. We all like to buy while the buying is good. When prices are rising, the time to buy is now. We would all rush out to buy at once everything that we were likely to need later on. Stores would be crowded with buyers; factories would soon have to run overtime. How to get over the inflation is another question.

2. Let the Federal reserve system issue Federal reserve notes in exchange for deposits in warehouses of wheat, corn, pork, cotton, pig iron, etc., as it does now in exchange for paper securities; issue money in exchange for "real wealth" as it now does in exchange for paper evidence of claims on real wealth. What could be simpler?

This would increase the volume of our circulating medium. The farmers would have money to spend. Other people would foresee rising prices and would rush to buy as soon as possible before the price got any higher. Nearly everybody would be happy and feel prosperous, but the morning after would not be so pleasant.

3. Start a vast building program, but pay for it by issuing new money against the new wealth created. To pay for the new public works out of taxes merely takes away from taxpayers the power to purchase goods in order to give the Government the same purchasing power. No new purchasing power is created by that silly process. Let the taxpayers have all their own money to spend for goods and labor. Let the Government come into the field as a new purchaser with new money. That will increase the sum total of purchasing, put new purchasing power into circulation, and start a business boom. The depression could be ended at once.

4. Change from the gold to the silver standard. Silver is so abundant and cheap. It is likely to grow still cheaper. Let the Government agree to pay 412½ grams, or even twice that amount, of silver for every dollar of currency that

is presented. That quantity of silver will then determine the purchasing power of every dollar in circulation, as a piece of gold weighing 25.8 grains of gold, nine-tenths fine, now does. But silver will probably grow somewhat more abundant and cheaper from year to year. Consequently, prices of other goods will gradually rise. Rising prices always make people feel prosperous. They can at least keep marking up the prices of what they own and call themselves richer and richer.

5. Redefine the dollar. Instead of defining it as consisting of 25.8 grains of gold nine-tenths fine, make is six-tenths, or even less. A dollar would then purchase less, or goods would sell for more dollars, prices would be high, debts could easily be paid, and new ones contracted.

If an immediate cure for the present depression is desired, a drastic reduction in the amount of gold in the dollar would be necessary. However, the reduction might proceed very gradually.

Let the dollar be defined in flexible terms, so that different quantities of gold could be paid out in exchange for paper dollars. Instead of always exchanging 25.8 grains of standard gold for a paper dollar, let varying quantities of gold be exchanged. Let as much gold be exchanged for a paper dollar as will keep the general purchasing power of the dollar always the same. This is the so-called Fisher dollar, deriving its name from Prof. Irving Fisher.

This would not work so instantaneously as the other cures which have been mentioned. Neither would it be so hard to get over. It would not result in any inflation of the currency. It would merely stabilize the general purchasing power of the dollar. In these days when so many countries are having difficulty with the old style of rigid gold standard, the flexible gold standard might well be considered.

In an emergency of this kind, from the purely theoretical angle, I am inclined to think there is some justification for a wide distribution of purchasing power like that suggested in the immediate paying off of the adjusted-service certificates which are due in 1945. I doubt, however, for various reasons whether any such scheme is expedient.

I. In order to issue this new currency ($2,400,000,000 Federal reserve bank notes) there would have be be a 40 per cent gold reserve and a dollar for dollar deposit of security. This security might be 2 per cent 3-year notes of the United States, or as suggested in your letter the services certificates themselves against which a sinking fund must be built up. In either case it would result in increasing the annual expenditure of the United States Government by large amounts and a further increase in Budget deficits which would add to the difficulties of balancing our Budget. The effect of the 40 per cent gold against notes would be to reduce our surplus gold held by the Federal reserve banks, and make the reserve about 46.1 per cent where now it is about 66 per cent. I feel that adding thus largely to the difficulties of balancing our Budget is likely to bring swift retribution.

II. Whether rightly or wrongly, foreigners are already skeptical about the credit of the United States. An increase of our paper money by $2,400,000,000 at the present time, and the resulting further unbalancing of our Budget would, in my judgment, lead to a scramble for gold on the part of those holding claims in terms of dollars. The short-term commitments are large enough in volume, if used, to exhaust our surplus gold now held by the Federal reserve banks. Add to this the sale of stocks and bonds held by foreign investors and you would have such large losses of gold that suspension of specie payments would be inevitable. The new notes would reduce out gold reserve to about 46.1 per cent, and on that basis, according to a recent writer in the New York Herald-Tribune, a withdrawal of as much as $500,000,000 would reduce our reserve below the legal limit and put us off the gold standard.

III. The general effect of the new note issue is likely to be much more inflationary than its advocates believe. The notes would be paid out to the ex-service men, and would be paid by them to grocers, physicians, dentists, movie houses, bootleggers, tax collectors, and the like. These people, having no use for them except in exchange, would pass them on to member banks; the banks, finding they had a surplus, would pay the notes into the Federal reserve banks to pay off member-bank borrowing. The member banks would build up surplus balances in excess of the minimum reserve requirements. Not wanting these reserves to lie idle, member banks would encourage borrowing by their clients, which would expand deposits and purchasing power in the form of checks. Through the issue of these notes our deposit currency could be increased in a net amount of some $13,000,000,000. This, I think, is rather more inflation than we contemplate.

IV. All monetary history teaches sad lessons of fiat money issued in excess of the money work to be done. One lesson is that cheap money tends to drive out the dear money. Another that it is relatively easy to issue the currency but quite another matter to retire it. I apprehend that these notes might for a very considerable time become a permanent part of our circulation. Inflation by note issue is a very difficult thing to control. Your very laudable desire may be to increase the present price level to that of 1926, but there is no effective way of putting on the brakes and the note issue runs away with you. We may sin in a hurry and repent at leisure. The process of repentance might be conceivably much more costly than the condition at the time the sin was committed.

V. I am a firm believer in giving a fair trial to the conservative experiments which the Government has already initiated. They have been in operation so short a time that we are not in a position to judge of the effects. It seems to me that new purchasing power is being released through the weekly purchases of Government bonds in the open market by the Federal reserve banks. At first perhaps the distribution of this purchasing power is not as wide as we might like, and therefore its beneficial effects may not be felt as quickly as by a scheme of Government borrowing for a big public-works program, or paying these adjusted service certificates. I do think we need to be patient and give these schemes already adopted time to test themselves, rather than embarking on so radical a proposal as an issue of fiat money. I feel that the people of this country are a bit hysterical over the whole situation and are in that state of mind where they are likely to be induced off from the straight and narrow way which leads to a healthy revival of economic life. Our problem is not simply domestic, but is greatly affected by the international situation and the near bankruptcy of Europe.

I am constitutionally opposed to paying these certificates now. I feel that the American Legion has a strong political lobby which is making use of a fairly good theoretical point and a presidential year to force immediate payment. I do not think the ex-service men are as needy as many others. If we are going to have Government borrowing for the purpose of putting into the hands of large groups of persons new purchasing power, I should prefer some scheme which would get it into the hands of the unemployed on the basis of definite value received by the Government. (Everett W. Goodhue, department of economics, Dartmouth University.)

It would not be advisable for the Government to borrow such a sum as $2,400,000,000 to pay a soldiers' bonus at this time, nor would it be expedient or defensible to borrow the money through a forced loan by the device of printing money.

The present economic depression is the result of a disturbance of equilibrium among prices. That is to say, while all prices have fallen, some of them have fallen faster and farther than others so that the old relations are disturbed and confidence has been shaken. Recovery can not come permanently until equilibrium is again restored through:

(*a*) A rise in the most depressed prices.

(*b*) Further liquidation of those commodities which are now least depressed.

(*c*) Adaptation to the new price relations, or some combination of these three.

A deliberate overinflation of the currency, without any specific plan except to put a certain sum into circulation, such as is proposed by the soldiers' bonus, might possibly temporarily revive some prices, but it would be of no permanent benefit and, if attempted at this time, would probably be disastrous. It would certainly lead foreign investors to question the solvency of the United States dollar, and probably would lead to liquidation by foreign investors and withdrawal of at least some of their investments.

The Federal Reserve Board has so far appeared somewhat reluctant to use its powers under the Glass-Steagall Act. The board has perhaps shown wisdom in its discretion but now, if it should evidence somewhat more courage, it would doubtless have a salutary effect. Undoubtedly, if the currency could be somewhat expanded at this time, an upward movement of commodity prices could be started but, in order to do this without indiscreet inflation, the Government should take in something of value such as Government bonds and not merely inflate the currency with fiat money. There is plenty of real wealth in the country and what is needed is a restoration of confidence in order to make it liquid.

It seems to me that since most veterans suffer through economic disturbance along with the rest of the community, that the Patman bill, if it became law, would, in the long run, help neither the veterans nor the community. (S. J. Coon, Dean, College of Business Administration, University of Washington.)

I have numbered my answers to correspond roughly to the numbering of your questions.

1. I think that we can borrow $2,400,000,000, as proposed in H. R. 1, but that mischief would result without adequate compensation by way of benefit and I therefore feel that this proposal is decidedly undesirable. Confidence is a fundamental factor in the present difficulties. To increase the public debt by this amount in order to pacify a particular group would cause misgivings both here and abroad concerning our public finances and would further undermine confidence. Our difficulty is not so much that there is a lack of monetary units in the country as that the people are unwilling to borrow them and expend them (while potential lenders are unwilling to lend them).

2, 3, 4. The proposal to print money to pay the debt seems to me to make the project increasingly dangerous. Such an act would not permanently increase the amount of currency in circulation to its full extent. The Treasury notes would presumably be deposited to a large degree in the banks after having been circulated once or twice in expenditure and we should probably find that what had resulted was the substitution to a considerable extent of Treasury notes for Federal reserve notes in circulation, and the reduction of debts on the part of member banks to the Federal reserve banks. Presumably member banks would have accumulated in many instances surplus reserves that could serve as a basis of creating deposits by lending and investing. But our difficulty is lack not of ability to lend but of willingness, and favorable opportunity, of our banks to lend and of borrowers to borrow. I do not believe that this proposal would help restore that confidence, the lack of which interferes with utilization of the present lending resources of our banking system. As for the substitution of Treasury notes for Federal reserve notes as a large fraction of our circulation, this would certainly be a backward step. It would give us a Government issue that is inelastic, arbitrary in amount, and that would raise all the misgivings of history. with reference to such a step. Substantial withdrawal of gold from this country might well result and the very soundness of the gold standard would in all probability be brought into question. For example, if, as suggested, the notes were back by the adjusted-service certificates with 40 per cent gold as collateral, we might well repeat the experience of 1893 and find that each time the nonretirable currency was paid out by the Government it came back for redemption in gold for exporting (and for hoarding) until our gold reserves were wiped out.

6. I have already indicated the grave possibility that such arbitrary inflation of our currency would cause a withdrawal of gold and raise real danger of forcing us off gold. This might to some degree facilitate the purchase of dollar assets by foreign debtor governments, but this incidental result of forcing such dollar assets onto the market would be relatively insignificant. Irving Fisher's proposal to alter the gold weight of the dollar could be invoked to restore higher prices equally well without any bonus legislation. It would involve international complications.

7. I have already indicated that the new currency, especially if there were no restoration of confidence, would not continue to circulate in repeated expenditures but would be largely deposited and if paid out repeatedly by the banks would cause a contraction of other types of currency in circulation. We should probably repeat the experience of the smaller bonus of last year which gave only a temporary fillip to industry, and we should probably more than offset this with the blow to confidence in our monetary system that would result.

8. The Glass-Steagall bill which you refer to as "greenbackism" seems to me to have been a desirable piece of emergency legislation. It served to remove the paradox that the ability of the Federal reserve banks to issue notes incidental to their credit policy was limited by the curious working of our law whereby the amount of gold available restricted note issue in spite of the abundance of our gold for all essential purposes. Gold was threatening to become inadequate because of the lack of another basis (commercial paper) intended to supply a major fraction of collateral for note issue. The bonus proposal differs essentially in that it seeks an arbitrary expansion of note issue by a huge amount while the Glass-Steagall bill permits the Federal reserve banks to expand note issue to such extent as banking considerations may seem to indicate. It is highly unlikely that we shall have a $2,000,000,000 expansion of note circulation by virtue of

the Glass-Steagall bill, beyond that which would otherwise be in circulation. And such expansion as does occur will be governed in volume and duration by banking and monetary considerations.

The proposal by Professor King, to which you refer, is essentially what the Federal reserve banks in their expansion of open market operations are attempting. While the results are by no means certain this method has the advantage over the proposed bonus project that you point out on page four of your letter.

I am heartily in sympathy with the desire to stop the price recession and to bring about some degree of "reflation." I think that the direct issue of Government paper money is the least satisfactory way to accomplish it. I also believe that bonus legislation as a means of distributing additional units of media of payment is unfortunate politically and otherwise. My own preference would be, in addition to open market operations of the Federal reserve banks, to have the Government create still further employment that would give us desirable public works, paying for it by added taxes and by borrowing within reasonable limits consistent with maintaining the national credit. I feel that there is an inherent fallacy in economy at such times as the present that is at the expense of economic waste in the form of additional unemployment. Still heavier taxation, including, for example, the lower ranges of income, would seem to me desirable in order to provide through the Government additional creative work. I also feel that our public debt is not so great but that some expansion for the same purpose would still be warranted. The expenditure should be for desirable, durable improvement, and through letting of contracts to efficient, competitive industries. Such a program would differ from bonus legislation in that it would result directly in public gain from the public works that were undertaken; the expenditures would reach, in the first instance, persons who would otherwise be (partially) unemployed, giving a more proper basis of distribution in the present emergency; and, since it would be of the nature of an economic program rather than having the complication of a benefit given to a special group in our political life, it would cause less misgivings. It would be in line with the thinking of many prominent students in this country and abroad. It would not involve Government issue of paper money. When one considers the relative burden of our taxes as compared with our per capita income and the magnitude of our public debt, in comparison with similar items in other countries, it seems that we are too timid in failing to provide at least some of the employment that the profit motive fails to provide in an emergency like the present by virtue of falling prices.

Any scheme to raise prices must recognize the international unity of the price system. In so far as our prices go up relative to world prices, our industries are progressing at a relative disadvantage. It is largely by virtue of this unity of the world's price system, as well as of the world's psychology of to-day that students so generally feel that we ought in our own interests to welcome international collaboration in grappling with the problem of the depression. I do not mean to suggest by this that we should hesitate to take the lead in revising the trend of prices. For may reasons I feel that we shall have to take the lead and are peculiarly capable of doing so. (Harry E. Miller, professor of economics, Brown University.)

May I say that, in the first place, I am ordinarily opposed to the payment of any compensation to particular classes at the present time, but I do see in the redemption of the soldiers' compensation certificates at this time a means of getting purchasing power into the hands of the public and not by way of the banks. What is needed most now is greater purchasing power in the hands of the public. If demand for commodities can be increased, it is probable that most of our worry will be past.

I can not see the desirability of borrowing $2,400,000,000 for the purpose of making these payments. Such borrowing would mean the creation of more obligations of the Federal Government and result in a lower price of all Government obligations.

Secondly, I can not agree that the printing of paper money in accordance with section 2 of the Patman bill, H. R. 7726, is any solution. We have had too many sad experiences with fiat money that I do not believe that the people of the country would put up with such permanent inflation of our currency.

In order to raise the funds, I am wondering whether greater use could not be made of the Glass-Steagall Act. Although this act has undoubtedly created confidence, I understand that it has not yet been put into actual operation. Although Federal reserve notes can be created under this act to the amount of $3,500,000,000 or deposits to the extent of $4,000,000,000, neither have been called for. Business men are not borrowing at present and the banks are not calling for expansion of currency or credit. Under the circumstances, the necessary inflation of our currency is not going to come through this act since it could come only through expansion of loans to banks and thence to individual business men. As I suggested above, what we need is purchasing power placed directly in the hands of individuals without having such purchasing power tied up with banks in the form of loans. I should like to suggest the possibility of expanding Federal reserve notes to the amount required to meet the adjusted compensation certificates payment. In order to do this, Government securities would have to be purchased by the Federal reserve banks. This would release further credit to member banks and perhaps raise the price of Government securities. The note issue would not exhaust the facilities of the Federal reserve system under the Glass-Steagall Act by a considerable amount. The certificates could be retired and acceptable currency would pass directly into the hands of consumers for use. The life of the Glass-Steagall Act would have to be lengthened and there is the great question of the Federal Government operating in this way through the Federal reserve system, but it does seem to me that such a procedure has more justification for it than either large Government borrowing or the printing of fiat money. (C. W. Hasek, Head of the Department of Economics and Sociology, Pennsylvania State College.)

As you ask a number of questions, I will attempt to answer them seriatim:

1. There is little doubt in my mind that the bond issue proposed by H. R. 1 could be floated in the United States, provided that the issue offered reasonable terms as to interest and maturity, and provided further that the banks would get behind the sale of these bonds and consent to underwrite the undistributed portion. The argument against such a bond issue on the ground that it would be impossible to dispose of the issue seems to me to have little force. As to whether or not such an issue should be floated, the answerr seems to me to depend upon the reasonably certain results of its flotation. If such a bond issue would halt deflation, or, even better, cause a rise in prices without at the same time setting in motion other forces counteracting these beneficial effects, then in my opinion it would be wise for the bill to pass. The principal question, however, is, can we be certain of desirable results? I will give my opinion in answer to this question later in the letter.

2. It is a little difficult to determine just what question 2 refers to, but I take it that it refers to the statement in the paragraph immediately preceding, and in my opinion the statement is sound and relevant to the proposed bonus payment. In so far as payment of currency to holders of certificates takes place, the possibility of lending Federal reserve credit to member banks is diminished, not only proportionately but much more than proportionately owing to the operation of existing banking practices.

3. I regard the principle of H. R. 7726 as unsound, as it is a device merely to inflate the currency for the purpose of putting money into the hands of one section of the community without regard to the effects which might result upon the rest of the community.

However, H. R. 7726 amended or strengthened in the way you suggest in paragraph 7 on page 2 seems to me not to be objectionable from a purely fiscal point of view. During the past week, the Federal reserve banks have purchased $100,000,000 of Government short-time certificates and notes, and it is hinted that the Federal Reserve Board proposes to authorize the purchase of an equal amount per week until its new powers under section 3 of the Glass-Steagall Act are exhausted. The new facilities provided by that act will permit the purchase of about $1,100,000,000 of Government notes and certificates by the Federal reserve banks. By that time the ratio between note issues of the Federal reserve bank and its supply of monetary gold will have been reduced to approximately the legal minimum.

4. In my opinion, your proposed strengthening of H. R. 7726 is sound because it places a limit on the amount of currency to be issued under the bill, the limit being the amount of collateral available; that is, the total of the unpaid adjusted-compensation certificates. Furthermore, it seems to me to provide for a method for the gradual retirement of the currency so issued.

5. I will suggest a method later on in the letter whereby this suggestion of yours could be improved in its technical application.

6. I doubt the accuracy of the figure $2,000,000,000 for European deposits in this country. In my estimation, the figure is between $800,000,000 and

$1,000,000,000 for funds that could be quickly withdrawn. If the passage of H. R. 7726, strengthened as you propose, should cause European countries to doubt the solvency of the American position and to withdraw their funds, the powers of the Federal reserve system in the proposed financing would be proportionately diminished.

7. I have grave doubts that the putting of $2,400,000,000 into the pockets of the people of the United States would have the effect of raising prices. To begin with, the sum is not large enough. You will recall that the payment of $900,000,000 to the veterans a year or so ago had no effect whatever upon the progress of deflation, and the sum proposed in this bill, while it is nearly three times as great, is not large enough. Furthermore, it is difficult to forecast how much (and it would probably be more than half) would be used immediately in paying off debts, and to this extent new purchases by veterans would be diminished. Still further it should be noted that an issue of money in this amount would doubtless frighten many people and cause a flight from the dollar or encourage hoarding of the dollar.

8. I can see no essential difference between the third section of the Glass-Steagall Act and the proposed H. R. 7726 as strengthened in the way you suggest. The only perceptible difference, and it is not an important one, between the two kinds of promises to pay is one of the date of maturity. I agree entirely with your analysis in the second last paragraph on page 3.

Likewise, I agree with you that safeguards are necessary to prevent undue inflation. Under H. R. 7726 as strengthened, the maximum of inflation would be determined by the face value of the adjusted-compensation certificates which are to be paid off, and that answers the question satisfactorily to my mind.

As to your second paragraph on page 4 of your letter, I am unable to see its point. Evidently you think that because the adjusted-compensation certificates can not be reissued, the currency put into circulation by their payment can therefore not be retired, and thus the price level might rise indefinitely. It is true that the proposed device will not work in the same way as the Federal reserve banks do when they pump money into or out of the market by buying or selling Government bonds. You are correct in assuming that the Federal reserve banks are able to influence the money market largely because they buy and sell Government bonds. But H. R. 7726 as strengthened provides another device that works equally well, in the shape of the proposed sinking fund. Additions made to this sinking fund year by year would finally take out of the market all the additional money that was put into it by the cash payment of the adjusted-compensation certificates. As a matter of fact, I think this sinking fund scheme could be worked so as to accomplish exactly the same effect as the Federal reserve banks now accomplish in selling Government bonds in order to reduce the purchasing power in the hands of the people.

Earlier in this letter I offered to suggest a means of improving the technique of the sinking fund, and it is now time to make the suggestion:

(*a*) The establishment of the sinking fund should be delayed until the depression has passed.

(*b*) When it is set up, payments into the sinking fund should be adjusted in amount in such a way as to exactly offset the existing tendencies for prices to rise unduly.

From these remarks, you will see that on fiscal grounds I can see no good reason for saying that the cash payment of the bonus is not possible at the present time, nor can I see any good reason for supposing that H. R. 7726 as strengthened is not a sufficient protection against an unfortunate degree of inflation.

As you have not asked me for an opinion on this bill except on fiscal grounds, I need not go further, even though my convinced opinion is that the passage of this bill at this time would have highly unfortunate, even unpredictable, results upon our economic situation. (Walter W. McLaren, Department of Economics, Williams College.)

One of the serious difficulties in the present depression is the considerable decline of commodity prices. In the case of America this is not caused by a shortage of currency as we all know that the amount of money in circulation (hoarded money) has in recent months increased. The real difficulty is a decline in the velocity of circulation of money and credit as well as a decline in the amount of credit.

The reason for this decline in credit is that the people of the United States, and for that matter of the world, have lost confidence in their neighbors and in the future. The recent exposures of the unethical and oftentimes positively dishonest practices of many people who are connected with the issuing of securities has added to this general uncertainty.

The political aspect is another element in the uncertainty. The recent high tariff has made it difficult for many people abroad to purchase goods in this country. This has affected the export industries and the depression has spread to other people. Our insistence on the payment of reparations at the same time we hold 60 per cent of the world's monetary currency and erect high tariff barriers is ridiculous.

I see no reason for connecting monetary legislation with the soldier's bonus as this merely confuses the issue.

If a soldier's bonus were paid with bonds, which were given the power of circulation, there would be considerable question about our ability under those circumstances to remain on the gold standard. No one knows exactly what would happen if we were to leave the gold standard, but we do know that our experiences with fiat money have been universally unsatisfactory.

The whole issue of a soldier's bonus seems to me to bring up the general desirability of some sort of carefully thought out type of social insurance, and personally, under proper safeguard, I would favor such a movement, but consider it extremely unwise to connect the monetary legislation with remedial measures of this sort. (Harry L. Severson, assistant professor department of economics and sociology, Indiana University)

Let me first say that I am myself an ex-service man and the holder of an adjusted certificate which has a rather substantial value under the proposed bonus legislation.

I will take up your questions in order.

I. I do not believe H. R. No. 1 is advisable. We have for several years looked upon United States bonds as representing the highest investment quality. With the counrty running into a huge deficit, and with numerous bonds issued under the provisions of the emergency credit bills, I believe the addition of another $2,400,000,000 to the supply of Government bonds would tend to depress the value of government and with them all other bonds. I think our banking and insurance organizations are too much dependent on the bond market to justify a further depression of bond values. Such further depression, at any rate, should not be deliberate.

II. I realize that we have at the present time excessive gold reserves which would seem to justify and enable the issuance of more paper money. The statement is often made that our currency issues, particularly the Federal reserve notes, have been at times in excess to the present amount. Why not increase it now, "pay off the boys," and at the same time raise prices and stimulate business? There are, however, two ways of reducing the reserve ratio to a dangerous point. The first is to raise the amount of deposits and paper money unduly; the second is to reduce the supply of gold in the country. What will happen if the country decides to pay the bonus in cash directly or indirectly? People both in the United States and in other countries will fear inflation. As a result the people in this country will increase their hoarding not of currency, since they will tend to lose confidence in paper, but of gold. This will draw gold out of the Treasury and the Federal reserve banks into the vaults of the people. Moreover, foreigners who have deposits in this country will have the same fear of inflation, and will also withdraw gold from the United States and deposit it or hoard it somewhere which they consider safe.

Accordingly, there is a danger of burning the candle at both ends—to increase the money and deposits and at the same time to scare gold from the vaults of the Treasury and banks either into hiding places at home or into a refuge abroad.

Figures often cited to the effect that we can expand currency such and such an amount assume that the gold in the Treasury and the banks will remain there—an assumption which I do not believe is correct.

We have heard much about hoarding in the past few months. Such hoarding has been generally of paper money. We haven't trusted the banks, or the bond market, or the stock market; but we have had faith in the United States Government and its paper money. Suppose we should also lose faith in our paper money? Then hoarders in this country and banks and individuals in foreign countries would be no longer satisfied to hoard paper; they would hoard gold.

I will admit that with our present gold reserves we can issue three and one-half billions more of currency if such increase comes because of a business demand and not from a demand for inflation.

Back in the nineties the United States found that it had been burning both ends of the candle. On the one hand, we had for 12 or 15 years been buying up silver and had issued paper money of various kinds either to pay for our purchases (Sherman notes), or simply as a representative of the purchased silver in the vaults (silver certificates). Both of these were directly or indirectly redeemable in gold. At the same time there was the agitation for more greenbacks from the Greenback and the Populist Parties. Then, with the ratio at about 32, came a strong demand for free silver. The election of Cleveland some way or other created in the minds of foreigners the impression that the United States was about to adopt bimetallism, which could only under the conditions result in the silver standard. They feared the repayment of the obligations and deposits due them in a dollar only half as valuable as they had advanced. Both people at home and abroad began withdrawing gold, with the result that we almost went off the gold standard.

III, IV, V, VI. Already answered.

VII. The introduction of $2,400,000,000 new currency would not necessarily cause a rise in prices, though the general fear of such would bring about the situation described in II. I have long held that business will not revive until it is ready, until certain adjustments in the prices of raw materials and of finished products, as well as of wages, have been made.

I do not believe we can stimulate business by easy credit any more than we can make a horse run by pushing on the lines. You can provide business with an abundance of credit, but something more is required to bring on business recovery. This extra something is readjustments in prices and wages.

In 1929 we regarded business as fundamentally sound; in 1930 we tried to restore business by such slogans as "Buy Now." People did "buy now," but the depression continued. In 1931 and 1932 the emphasis has been placed on money and credit as a way of business reform. In all three years we have suffered from too many attempts to conceal actual conditions and from too obvious efforts to revive the patient by hypodermics in order to bring on semblances of prosperity without first permitting the patient to make necessary adjustments.

VIII. The comments in your letter in regard to number VIII indicate the necessity of putting a stop to the inflation if it should once "catch." History shows that one of the greatest dangers in regard to inflation deliberately entered into is the difficulty to stop. If we use paper money to pay the money, perhaps next there will be a demand for paper money to help the unemployed, to help homeowners bereft of their homes by tax sales. In short a "me too" attitude is likely to develop.

You will surmise from the above that I am opposed to the payment of the bonus either by Government notes or by some indirect way also involving a desire for inflation. A great amount was borrowed on the bonus certificates some 12 to 14 months ago on account of the act increasing the cash value of certificates. I believe this did slightly stimulate business. But it was only a temporary flare-up. Business artificially stimulated is likely to find itself worse off afterwards than it was before. (Hiram L. Jome, professor of economics, DePauw University.)

I hope it is not too late to attempt an answer to some of the searching questions you ask about the proposals for the payment of the soldiers bonus.

In the first place, I do not think there is any strong or justifiable demand for such payment at the present time; however, it is planned to raise the funds to make it. If some of the veterans are in need, there is little reason to think that they are worse off than many others or that their case need be distinguished from that of the entire body of unemployed and needy persons. Considering that our Army in the late war was chiefly made up of men who were drafted and not of volunteers, I do not think that the men in the service acquired any special halo above others who have done their duty when it was shown to them. I sincerely hope we may be preserved from any further pampering and molly-coddling.

As to raising the funds for this unnecessary object by means of an issue of Government Treasury notes, there could, in my opinion, be no more pernicious way. Any such deliberate inflation of the circulating medium is sure to have all the bad effects of intoxication and we shall have to pay for it not only once but many times. It would raise the price of everything we buy and of everything the Government itself buys until it is finally taken up or eliminated; and, if that is true, we might as well—indeed, far better—pay as we go and have done with it.

Most orthodox economists have little faith in all these inflationary ideas. The Government is not called upon to play the witch doctor to business and, without any disrespect for your learned body, I do not think it has either the art or the wisdom to perform this function. Contraction of credit has undoubtedly gone too far just as expansion went too far in 1928–29; but the remedy lies in bringing costs down to a level where the average business man can see a profit and is willing to go ahead, and not through artificially bolstering up prices. Reflation or expansion, when it comes, will and should come from the gradual extension of bank credit and other forms of private loans at low rates of interest to those who see a good use for new capital. Once started, such recovery gathers momentum rapidly and grows by what it feeds on; and the Government has very little to do with it. (Warren B. Catlin, Department of Economics and Sociology, Boudoin College.)

No. 1. I am in favor of borrowing the necessary two and a half billions if it is decided to make the bonus payments at this time. Personally I am opposed to the policy of such payment. The printing of paper money to meet the demands should the bonus be paid, is, however, as unwise a procedure as can be suggested.

No. 2. I give no credit at all to the statement that you summarize with respect to the use of Government notes for the bonus payment. My reason for this is that the issue of credit is not simply a question of reserves. It should be in connection with productive operations and not as a mere transfer of income from one group to another. If such a transfer be desired by the Government as a matter of policy, then the transfer should be effected through a carefully determined policy of taxation. Paper money inflation by the Government is a form of taxation, but it is a form that is not controlled by all the accepted canons of taxation.

Nos. 3, 4, and 5. I answer "no."

No. 6. While I doubt the accuracy of this estimate there is certainly some basis for fear of European gold withdrawals. In my judgment a greater threat from the enactment of the Patman bill would arise at home. We have already witnessed considerable hoarding due to loss of confidence primarily in banks. The arbitrary issue of two and a half billion of new paper money might well undermine the confidence in the gold basis of our money itself and might lead to gold hoarding.

No. 7. Also "no."

No. 8. I would disagree with you a little that the Glass-Steagall bill represents 60 per cent greenbackism. You will doubtless recall that the greenbacks were not issued on any basis of Government bonds or of stipulated reserves. I should say that a marked difference arises between the use of adjusted-service certificates and Government bonds, as the latter are authorized to be used in the Glass-Steagall bill. The essence of the difference is found in the fact that the Glass-Steagall bill is an emergency measure making possible, but not requiring, the substitution of Government bonds for gold as collateral against Federal reserve notes. It will be utilized only at the discretion of the Federal reserve authorities and to the minimum degree. You have doubtless noticed that the Federal reserve statement discloses little evidence of the use of bonds as collateral thus far.

Your reference to Professor King's testimony supports, I think, what I have said above about the issue of paper money.

I may summarize by saying that a paper money issue has all the vices of a forced loan. A regular loan raised through bond issue taps accumulated funds voluntarily made available for governmental purposes and is repaid through orderly tax procedure. Nobody knows exactly where the incidence of the tax implied in inflation really is. In general, however, what is known is that such taxation falls upon those groups whose income are not readily flexible. Hence, it is a scheme of taxation based not on ability to pay but on the strategic weakness of one's position in the economic scheme. (E. E. Agger, professor of economics and head of economics department, *Rutgers University*.)

I quite agree with the conclusions of Professor King which seem to command your assent also. In a crisis like this it is important to keep our heads clear and not to confuse what has recently been called reflation with inflation. An increase in the price level such as can be brought about in a normal way as indicated by the present efforts of the Federal reserve bank is one thing—a mere halving of the value of gold either by the remonetization of silver or by the issue of pure fiat money is quite another thing. The one tends to reestablish confidence, the other will surely destroy confidence, and in the present crisis the psychological element is of the greatest importance. I hope that you will continue to set your face sternly against such wild propositions as those of Mr. Patman or alternative plans. (Edwin R. A. Seligman, Columbia University.)

The University of Chicago,
Department of Economics,
April 26, 1932.

Hon. Samuel B. Pettengill,
House Office Building, Washington, D. C.

My Dear Mr. Pettengill: The inclosed memorandum has been prepared in an attempt to answer the questions put in your letter of April 13. It has been developed in a committee of two, in conference, and in round table. It is approved by all of the University of Chicago economists who participated in the discussion and formulation; their names appear at the end of the memorandum.

It has seemed better to answer your questions in a memorandum divided into five sections rather than to answer them specifically, the one after the other. I think all of your questions, save that relating to Professor King's testimony, are answered. No direct reference is made to King's position because it has seemed better to take a positive stand rather than to criticize.

You ask permission to use the replies to your questions. This is, of course, granted, but our preference would be to have the whole rather than a part of the memorandum given publicity.

Trusting that the memorandum will be of some assistance to you, I am

Very truly yours,

H. A. Millis.

(The memorandum referred to follows:)

I. Severe depression and deflation can be checked, and recovery initiated, either by virtue of automatic adjustments, or by deliberate governmental action. The automatic process involves tremendous losses, in wastage of productive capacity, and in acute suffering. It requires drastic reduction of wage rates, rents, and other "sticky" prices, notably those in industries where readjustments are impeded by monopoly and exceeding politeness of competition. It must also involve widespread insolvency and financial reorganization, with consequent reduction of fixed charges, in order that firms may be placed in position to obtain necessary working capital when and where expansion of output becomes profitable. Given drastic deflation of costs and elimination of fixed charges, business will discover opportunities for profitably increasing employment, firms will become anxious to borrow, and banks will be more willing to lend.

As long as wage cutting is evaded by reducing employment, and as long as monopolies, including public utilities, resist pressure for lower prices, deflation may continue indefinitely. The more intractable the "sticky" prices, the further credit contraction will go, and the more drastic must be the ultimate readjustment. We have developed an economy in which the volume and velocity of credit is exceedingly flexible and sensitive, while wages and pegged prices are highly resistant to downward pressure. This is at once the explanation of our plight and the ground on which governmental action may be justified. Recovery can be brought about, either by reduction of costs to a level consistent with existing commodity prices, or by injecting enough new purchasing power so that much larger production will be profitable at existing costs. The first method is conveniently automatic but dreadfully slow; and it admits hardly at all of being facilitated by political measures. The second method, while readily amenable to abuse, only requires a courageous fiscal policy on the part of the central government.

(We agree entirely with your remarks as to the inadequacy of the Glass-Steagall bill and similar expedients. Little is to be gained merely by easing the circumstances of banks, in a situation where, by virtue of cost-price relations, everyone, including the banks, is anxious to get out of debt. Such measures may retard deflation and prepare the way for recovery; but they can not much mitigate the fundamental maladjustments between prices and costs.)

II. If action is needed to raise prices (and we believe it is), it should take the form of generous Federal expenditures, financed without resort to taxes on commodities or transactions. For the effect on prices, the direction of expenditure is not crucially important. Heavy Federal contribution toward relief of distress is the most urgent and, for reflation, perhaps the most effective measure. Large appropriations for public and semipublic improvements are also an attractive expedient, provided projects are chosen which can be started quickly and opportunely stopped. Generous bonus legislation would be the most objectionable of all available devices for releasing purchasing power. Purchase of the certificates at their present value, instead of at maturity value, is perhaps relatively unobjectionable.

Bonus legislation invites comparison with a program of Federal subsidy to agencies engaged in administering emergency relief. Both measures involve a sort of outright gift, the provision of funds to individuals or for their support. One involves allocation according to need, when need is dreadfully acute; the other ignores this criterion completely. Furthermore, funds spent for relief would certainly be spent for commodities, and very promptly, while less needy veterans might only use additional cash further to increase hoarded savings. Of the possible consequences of bonus concessions for the future of pension legislation, mere reminder should suffice. Congress has already capitulated to the veterans and their votes on the grounds that the Treasury was full, and the community prosperous. It is now on the verge of capitulating again, on the grounds that the Treasury is empty, and the community impoverished.

III. It is impossible to estimate in advance how much Federal expenditure might be required to bring genuine revival of business. We are persuaded, however, that the automatic adjustments have already proceeded to a stage where the necessary inflationary expenditures would be handsomely rewarded, in greater production, larger employment, and higher tax revenues.

One should recognize at the outset a danger that any measures of fiscal inflation may be too meager and too short lived. Inadequate, temporary stimulation might well leave conditions worse than it found them. We might experience temporary revival and then serious relapse, followed by more drastic deflation than would otherwise have been necessary. If we indorse inflation, we should be prepared to administer heavy doses of stimulant if necessary, to continue them until recovery is firmly established, and to discontinue them when the emergency is ended. It is obvious that the bonus measures fail utterly to provide this necessary flexibility.

IV. The question of how emergency expenditures, for whatever purposes, should be financed, is difficult and highly controversial. The wisest policy for the present, however, would seem to be one guided largely by psychological considerations. It is likely that adequate stimulus could be imparted, and recovery assured, without creating an excessive drain upon our gold reserves. Inflationary measures, in whatever form, will probably accelerate for a time the export of gold; but this strain we may well be able to endure until revival of business is assured. Domestic hoarding of gold, on the other hand, might force us to suspension of our currency laws; and this possibility dictates caution as to the technique of inflation. The problem is simply that of selecting the procedure which will be least alarming.

On other grounds, the issue of greenbacks seems most expedient; but this method must be ruled out unless one is ready to abandon gold immediately, for it would create the greatest danger of domestic drain. Large sales of Federal bonds in the open market would be much less alarming; but the probable effect upon the prices of such bonds must give us pause, especially since a marked decline might jeopardize the position of many banks. It would certainly be better for the Government to sell new issues directly to the reserve banks or, in effect, to exchange bonds for bank deposits and Federal reserve notes. Much may be said, indeed, for issuing the bonds with the circulation privilege, thus permitting the reserve banks to issue Federal reserve bank notes in exchange; for this procedure does not much invite suspicion, has supporting precedent, and would greatly reduce the legal requirements with respect to gold.

It is well to face the possibility, though it seems remote, that adequate fiscal inflation might force us to abandon gold for a time. We must be prepared to see a sort of race between depletion of the gold holdings of the reserve banks and improvement of business. If definite business revival is attained before the gold position becomes acute, the hoarders will have missed some great investment bargains; if inflation must be carried beyond the limits tolerated by gold, the hoarders will reap a profit. Moreover, if other gold-standard countries follow our example, as is quite probable, the threat to our adherence to the gold standard will prove negligible.

But we would insist again that, once deliberate reflation is undertaken, it must be carried through, whatever that policy may mean for gold. To withdraw artificial support before genuine recovery is achieved, might create a situation worse than that which would have obtained in the absence of remedial efforts. If the time comes, as it probably will not, when we must choose between recovery and convertibility, we must then abandon gold, pending the not distanct time when world recovery will permit our returning to the old standard on the old terms. The remote possibility of our being forced to this step, however, should not influence our decision now. The supposedly awful consequences of departure from gold are, as England has shown us so clearly, nothing but fantastic illusions.

V. It is easy to be too greatly alarmed about the possibility of extreme and uncontrolled inflation. With improvement of business, Federal revenues will automatically increase. Expenditures may then be financed to a lesser extent by borrowing, and thus with less inflationary influence. Indeed, one might maintain that temporary inflation is the most promising means to restore a balanced Budget. Moreover, with proper precautions, it should not be difficult to effect drastic reduction of expenditures at the appropriate time. The emergency character of inflationary appropriations should be emphasized in the acts themselves; and Congress should record the intention of balancing expenditures and revenues over a period of, say four or five years. Incidentally, no emergency expenditures would permit of more opportune retrenchment than those for relief of distress.

We find it difficult, at the present juncture, to give due attention to the problem of preventing or modifying the next boom. Obviously, we should attend to getting out of the present emergency first. It demands emphasis, however, that successful resort to fiscal methods for terminating deflation will present the very serious problem of keeping recovery within safe bounds. A merely salutary inflation treatment will fail to satisfy many groups. There will certainly be demand for more inflation and more "prosperity" than we can afford or sanely endure. Fiscal inflation must be regarded as a means for meeting an acute emergency for industry as a whole. It should not be viewed as a means of solving the agricultural problem, nor as a method for deflating the rentier. It is properly a most temporary expedient, to be abandoned (and reversed) long before many individual industries and classes have obtained the measure of relief which justice might prescribe.

We have suggested that for the period of the ensuing five years all Federal expenditures, including those of an emergency character, should be covered by tax revenues. To minimize the total necessary outlay, outlays should be very generous now; parsimonious inflation is an illusory economy. It would also be eminently wise to avoid now any new taxes which fall at the producer's (or dealer's) margin. The levies on income, however, should be advanced immediately to the maximum levels which an imperfect, but improving, administrative system can support. While such levies will be rather unproductive for a time, they will have no very deterrent effect upon business; and, having gotten them into the statutes during a period of least political resistance, we may be assured of large revenues at the appropriate time. Even after recovery, additional commodity taxes should be resorted to only if more equitable levies prove inadequate to full completion of the "5-year plan." Indeed, by 1940, our Federal debt should stand at a figure far below that contemplated by existing legislation. We should have high income taxes when incomes are high.

Sound fiscal management during the next few years should give close attention to indexes of production, employment, and wholesale prices. We shall not undertake at this time to indicate any definite rules. There is no immediate problem of excessive inflation—rather, a danger of doing nothing or of a too modest beginning. For the not distant future, however, most careful and intelligent management will be imperative. Once there is clear evidence of revival, of increased and profitable production, the mechanism of credit expansion will begin to operate, and to carry on the task which fiscal inflation has begun. As soon as this happens, retrenchment must be started; emergency expenditures must be reduced as rapidly as is possible without undermining recovery. We should not attempt, by deliberate inflation, to bring prices to any level which we choose to regard as normal; nor should artificial stimulus be continued until production and employment attain really staisfactory levels. Fiscal measures should only be used to give to recovery a sure start. When this is done, the real task will be that of preventing the recovery from becoming a boom; and a beginning must be made in this task long before any alarming signs appear. The seeds of booms are sown by innocent expansion of credit during years of seemingly wholesome revival. The task of control is easily neglected at such times; and there is grave danger that both the Reserve Board and the Treasury will adopt inadequately deflationary tactics in this period when it is so easy to have no policy at all.

In summary, it is our unequivocal position that drastic but temporary fiscal inflation can now be productive of tremendous gains, with no possible losses of compensating magnitude; further, that after genuine revival of business has occurred, and especially if it is attained by artificial stimulation, there will soon be urgent need for prompt and decisive action of a deflationary character.

GARFIELD V. COX.
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HENRY C. SIMONS.
JACOB VINER.
CHESTER W. WRIGHT.
THEODORE O. YNTEM.

It seems to me that the payment of the soldiers' bonus in any form whatsoever at this time would be fraught with the gravest consequences, and that the execution of the project in any of the several manners proposed would be nothing short of catastrophe.

As to the first proposition, the factors involved are: A critical state of the country's finances and the necessity for drastic retrenchment, burdensome additional taxation, and a high degree of restraint to maintain public solvency As to the second proposition, a combination of domestic and foreign elements have brought us to the brink of monetary insecurity, from which we shall escape only by the exercise of rigid sobriety.

If a lifetime devoted to economic study offers the slightest credential for an opinion in this juncture, I venture to urge with profound earnestness that the country should be saved from the economic disaster into which the passage of the bonus bill would assuredly plunge us. (Jacob H. Hollander, Johns Hopkins University.)

I must say that a complete answer would be extraordinarily difficult to make. Ordinarily one could quickly dismiss such proposed schemes of direct currency inflation but under the present economic situation and the deep apprehensions which one may entertain with reference to the future an answer is not so simple. In order to make the reply pointed and direct I shall follow the questions in the letter.

1. There is no doubt that the economic situation, if we want to stimulate it into a revival, requires a program of deliberate inflation, in fact that is what the Government through the financial reconstruction program and the current Federal reserve policy is attempting. The question may be raised whether this inflation is directed into the right channels. It does not seem that it is, and I agree with the statement in the second paragraph under 8, page 3, of the letter. If we intend to preserve the gold standard this proposal would not aid us to do so. It would likely lead to the experience we had as the result of greenback and silver currency inflation which culminated into the drastic panic of 1893 and the prolonged depression to 1897. Direct currency inflation has many dangers apart from our present gold position. It would certainly lead to a withdrawal of funds by foreigners. It would set a precedent for correcting untoward economic situations and thereforein future claims by other economic interests to obtain relief by this method could not be successfully combated politically. No doubt we can borrow the amount involved from the standpoint of our gold reserves considered as being circumscribed by the domestic situation, but a gold reserve of a nation at present is vulnerable not from a domestic standpoint but because of foreign diverse influences upon it. At present foreign balances as well as dollar securities held by foreigners could throw us off the gold standard very quickly. This is the chief danger inherent in the proposal.

3. The suggested alternative aiming at the retirement of the curreney in whole or in part by 1945 would certainly mean a constant deflation of our currency to the amount of the proposed issue. If in the meantime we should be forced off the gold standard I presume that this could be done but it certainly would mean continuous deflation if we should attempt to remain on the gold base.

4. Whether or not the proposed retirement adds any element of safety is, in the light of 3 above, difficult to answer. There is no statement in the bill as to whether this currency shall be legal tender or count as lawful money for bank reserves. This is highly important. If it could count as lawful money for reserves the gold standard would be further endangered.

5. It is difficult to suggest any improvement in the proposal. The final result will be pretty much the same regardless of the technical features with which the proposal is surrounded. The ultimate result would be indential.

6. Europe would undoubtedly be frightened should we set the printing press to work in creating money. The only weapon we would have to protect our gold would be to put an embargo on exports of gold or reduce the weight and fineness of the present gold dollar. Should that arise no doubt Europe's ability to pay us in the cheapened dollar would be made easier but none of these things could happen on the existing gold standard.

7. There is no doubt that this amount of new currency if put into circulation would stimulate a business revival. The real question is What will be the aftermath? Do we want to go off the gold standard? Are we ready to modify the gold standard or go upon a managed currency system?

8. Frankly, there is no difference between the Glass-Steagall Act and this proposal. In either case there is an issuance of fiat money. The difference in soundness, however, is in favor of the former, because it is not a direct issue of currency but indirectly a permission to substitute collateral for Fdeeral reserve notes and is directed against foreign tax upon our gold supply and domestic hoarding. I would be in hearty accord with Dr. W. I. King as to the effectiveness of Government bonds as collateral, because it would stop the runaway which the proposal might bring about.

Having been an infantry doughboy myself for two years—one year in the trenches—this proposal should therefore appeal to a veteran, but on economic fiscal grounds, and having the interest of the country as a whole at heart, I should be against this proposed plan of direct currency inflation, although I readily admit that the aims of this plan would be inflationary. If we wish to erase the present deflation it could be more advisably accomplished, in my opinion, by a more indirect scheme of business stimulation by the use of liberal credits. In conclusion, I should not favor the proposal for the following reasons:

1. It would certainly be the end of the gold standard in the United States.

2. The means of bringing this about as inherent in the proposed plan would be exceedingly dangerous because it might wreck our whole banking and currency system.

3. We should work for business stimulation through the existing banking and credit mechanism, requiring of course the use of Government credit in order to break the present vicious circle of deflation.

4. The proposed plan is extremely dangerous politically and I can see no way of restraining other elements besides the veterans from demanding similar treatment.

5. There might be a consideration in favor of the plan provided every veteran who would be the recipient of a cash bonus would sign a statement that he would make no further claims upon the Government for compensation, but with this addition I should prefer a payment through existing governmental and banking channels.

I do not know whether I have been specific enough in my opinions because it opens up broad questions of monetary and credit policies which could not be discussed adequately in a letter. Should you desire any further expression of opinion I shall be very glad to be of assistance. (William C. Schleter, University of Pennsylvania.)

As the father of two soldiers of the World War who would receive their proportion of the payment which you support, I am absolutely against the selection of ex-soldiers as recipients of funds which must in the end be paid by the whole community. The surviving soldiers who are incapacitated by wounds or disease from the war time, or for any other time, are provided for. I can not believe that the assuming of new obligation of $2,400,000,000, to be placed in the hands of a hundredth part of the population, and to be eventually paid by the rest of the population, will relieve the country from the present desperate financial situation.

If such payment to former soldiers would aid to raise the country out of its present condition, I should think that a similar amount, to be distributed among retired college professors and teachers in high and common schools, would double the beneficial effect. What is the guaranty that such a payment as is proposed by the old soldiers would be spent in ways which would create a better market for general manufactures? A good deal of it might be spent for tobacco and drink, which, however agreeable, add nothing to the productive power of the persons concerned. To my mind the argument for one such issue is just as good if applied to 10 such issues.

The Lord knows (being all-wise) what is the difficulty with the business of the United States. I think a great deal of it is due to extravagant payments for drink and amusements and automobiles beyond the earning power of the Nation.

What is the answer to this argument—that if one issue of $2,400,000,000 in promises to pay would be a good thing, that 10 more issues would be ten times better? Who is safe in saying that the people of the United States 20 years or 30 years hence will be any better able to pay up these enormous paper issues than at present? No nation in the world ever dealt so generously with ex-soldiers as the United States, which seems to me a reason for not selecting the soldiers as the recipients of a special bounty. My sons, like a million other young men, risked their lives—and in fact, both of them came back with physical difficulties which will probably shorten their lives. Undoubtedly the country would take care of them, if necessary, should they become disabled. Otherwise I should think it a calamity for the ex-soldiers, most of whom are presumably able to take care of themselves, to be selected for this enormous payment which must eventually be repaid by the whole community or be repudiated—and that would not be a very good way of restoring the normal status of the United States. (Albert Bushnell Hart, Harvard University.)

Mr. PETTENGILL. I wish to emphasize to the committee the fact that it was only after studying these replies that I worked out the plan which I will give you and in which I have sought to obviate the various objections which have beem made in these replies to either borrowing money or issuing currency. My suggestion may be summed up in one sentence: At the option of the veteran and for the face value at the present time of the certificate that he holds, payable in 1945, issue to him small denominational Government bonds. This gives him transferrable certificates of indebtedness of the United States in place of the nontransferable certificate he now has.

For the suggestion in my statement marked "Paragraph L" I am indebted to my colleague, Mr. Hill, of Alabama.

I have worked out a suggestion, Mr. Chairman, which I have submitted to some of my colleagues, and they have done me the honor of saying that they think it is the soundest and simplest suggestion that has been made, as obviating the objections which have been made to either the difficulty of borrowing money or the danger of printing money.

Without taking the time of the committee to read it at this time, I May say that I have prepared it in the form of a letter to the committee and I have multigraph copies of it, and I shall be glad to submit it to the committee.

Mr. LEWIS. Briefly, what is it?

Mr. PETTENGILL. Briefly, Mr. Lewis, it is that at the option of the veteran, the present value of his adjusted service certificate be ascertained at some agreed rate of interest and that he be paid for such present value United States coupon bonds in $50 denominations payable in 1945.

Mr. RAINEY. Without objection, the letter addressed to the committee by Mr. Pettengill will be made a part of the record.

(The letter above referred to is as follows:)

RE SOLDIERS' BONUS

HOUSE OF REPRESENTATIVES,
Washington, D. C.

To the WAYS AND MEANS COMMITTEE,
House of Representatives.

GENTLEMEN: I suggest for your consideration the following plan:

1. At the option of the veteran, let him turn in his adjusted service certificate.

2. Less any amount due on loans previously made, ascertain its "present value" at a low rate of interest, say, 2 or 3 per cent.

3. For such present value, deliver to the veteran $50 (or possibly $25) coupon bonds, all due in 1945, bearing 2 or 3 per cent interest. I think there should be such an interest differential in ascertaining "present value" and the rate on the bonds so that there will be a pecuniary object in the veteran retaining his adjusted service certificate until 1945, as a paid up annuity policy for himself when 13 years older, or for the protection of his widow and children if he dies before then.

4. For any odd fraction of the amount of such present value, pay him in money (e. g., present value, $717.50. Deliver bonds of face value of $700, 14 bonds at $50 par, or 28 bonds at $25 par and $17.50 cash).

5. Except for date, maturity, interest rate, etc., these bonds to be practically indistinguishable from the so-called "baby" Liberty bonds with which the public became familiar during the World War.

6. In order to help maintain a market value close to par on the bonds, I suggest this: The Government has already set up a sinking fund to redeem the adjusted service certificates in 1945, 13 years from now. Let the Government undertake to purchase in the open market at face value, plus accrued interest, bonds totaling one-thirteenth of the issue each year. I would go further and purchase one-twelfth of such thirteenth every month. While at first, at least, more bonds might be offered than the Government had undertaken to purchase, nevertheless the fact that it is known that the Government is in the market at par would help materially to maintain face value despite the low interest rate. In this connection I call your attention to the plan of the Government to retire at face, on 60 days' notice, the low interest rate "antihoarding bonds."

For this plan I suggest that it possesses these advantages:

(*a*) Its utter simplicity. It does not go outside of established patterns of thought.

(*b*) It substitutes one obligation of the Government for another—bonds for adjusted service certificates, both due in 1945, and both to the same creditor, the veteran. It does not increase the total obligation. If the credit of the Government is not impaired by the fact that adjusted service certificates due in 1945 are outstanding, the substitution of baby bonds for a like amount, and a like maturity, would not seem capable of impairing confidence in the Government.

(*c*) It does not admit the principle that the Government is paying in advance of 1945, an obligation not due until then. It does not create the dangerous precedent of the Government paying this, or other debts by paper money. Nevertheless, the veteran has something for immediate use.

(*d*) Except for the annual purchase of one-thirteenth of the issue each year, it throws no additional strain on the Government for the immediate future. Even this might be eliminated for the present, as it is suggested primarily to maintain a market substantially at par. Or the Federal reserve banks could purchase them in "open-market" operations, as they are now doing, presenting them to the Treasury for retirement in 1945. Or you can make these bonds eligible for deposits by national banks as security for their notes. A number of things could be done to sustain the market on these bonds.

(*e*) It would relieve distress and bring hope in hundreds of thousands of homes.

(*f*) Creditors of the veteran, his grocer, his coal man, his merchant, his mortgage holder, his doctor, would accept the bonds as money, and I think in most cases without discount, both because it pays a debt which he is glad to receive and for patriotic reasons also.

(*g*) It would bring Government credit to the grass roots, to every township in America.

(*h*) Because these small bonds would pass from hand to hand, they would tend to produce a moderate degree of inflation or "reflation" which we all agree is imperative if commodity values are to be turned upward—without which buying, production, and employment will continue from hand to mouth. At the same time such inflation would not tend to get out of hand.

(*i*) Although these small denominational bonds would pass from debtor to creditor as money, nevertheless for the very reason that they are not money, they would not cause the psychological shock which I fear would attend any scheme for "fiat" or "printing press" money. Any such plan (granting its actual soundness for argument's sake) would, I fear, by reason of its intricate machinery, and public unfamiliarity with a new issue of money, tend to destroy confidence in the American paper dollar, and cause a disastrous withdrawal and hoarding of gold, both at home and from abroad. The stump may be a stump, but if the horse thinks it is a bear, the arguments of the driver are wasted. We can not overlook the psychological factor at this time. Confidence in the money of the Government must be maintained at every hazard.

(*j*) As against procuring money to pay the bonus by a bond issue to the general public, it does not deplete the resources of banks or disturb funds awaiting private investment.

(*k*) It does not "freeze" nor hypothecate nor segregate existing gold reserves behind currency issues, reserves which we may need to meet foreign withdrawals, or as a basis for credit expansion through the Federal reserve.

(*l*) One reason the Glass-Steagall bill has not stopped the deflationary trend is that banks are not loaning money. They do not loan because good collateral is not offered. The bonds would be good collateral. To the extent that the holder borrowed on them, it would help the expansion of credit.

(*m*) Further, it seems to me to be a splendid thing in these critical times to have small Government bonds in the pockets of the people. It ties them to their Government. These bonds would become a visible symbol of our ship of state as it plunges forward against heavy seas. They would make hundreds of thousands—yes, millions—of people in humble homes all over this broad land interested in preserving the integrity of the National Government against every foe, foreign and domestic. They would interest our people in our problems. They would give support for sound government, for honest government, for frugal government.

In closing, I offer this only as a suggestion and with the sole desire to be helpful to the committee in working out a tremendously difficult problem. No doubt it can be improved. I invite your criticism. I realize that serious objections which do not now occur to me may be offered. It, however, seems to me to occupy sound middle ground between no bonus at all and putting the printing presses to work.

Samuel B. Pettengill, M. C.

Mr. Aldrich. May I ask you a question? You say you have written 50 economists in regard to the Patman plan.

Mr. Pettengill. Yes, and the Thomas plan. I have some very valuable letters here. I do not want to encumber the record with all of them, but they are exceedingly interesting. If the committee or some member will go over them with the idea of selecting the more important paragraphs for the record, I will be very glad to leave them with the committee.

Mr. Rainey. We will ask the secretary to do that.

Mr. Lewis. Just one more question. The present value of those certificates to which you refer—have you computed that?

Mr. Pettengill. No, because we would first have to agree upon the rate of interest. I would suggest a low rate of interest for the reason that the lower the rate the higher the present value.

Mr. Vinson. What do you think the effect of issuing these bonds would be upon the securities now outstanding?

Mr. Pettengill. My position on that is this, that if the credit of the United States Government is not endangered by the fact that the adjusted-service certificates payable in 1945 are now outstanding the credit of the Government would not be impaired by converting those nontransferrable credits in the hands of veterans into $50 bonds with which the public is thoroughly familiar, which the veteran could use in the payment of his debts in the same way that farmers and others did during the World War, and you do not produce the psychological shock upon the Nation that would be produced by the issuance of a new and unfamiliar species of currency with all of the intricate machinery behind it.

You are simply converting in the hands of the veteran himself at his own option Government credits which he can assign in payment of his debts, which are not money but which would have the benefit to him of money.

Mr. VINSON. In other words, you are just changing the form of the obligation of the Federal Government.

Mr. PETTENGILL. That is right. The same obligation in a different form. It is the same creditor, the same veteran himself. It does not go through the banks at all.

Mr. HILL. What rate of interest do you suggest?

Mr. PETTENGILL. Two or three per cent.

Mr. HILL. What in your judgment would be the result so far as discounts that might be taken on those bonds are concerned?

Mr. PETTENGILL. I am suggesting that the Government maintain a market for the bonds at par, using the present annual sinking fund for that purpose. The Government can not, of course, undertake to purchase all of them in any one year, but the Government can undertake to buy in a certain percentage of them each year or each month, in the same way that the antihoarding bonds on 60 days' notice may be redeemed at face. If the Government does not wish to undertake that obligation at this time, then the Federal reserve banks under their open market operations which are now in process, could buy these $50 bonds in the same way they are buying other Government bonds and present them to the Treasury in 1945.

Mr. HILL. They would be holding a 2 or 3 per cent bond in 1945 and unless the Government should——

Mr. PETTENGILL. Or the Federal reserve system would maintain a market. Of course, they probably would fall from their original value; I appreciate that.

Mr. VINSON. Have you considered the insertion of a provision that would not permit the acceptance of a bond in exchange for commodities or credits of a lesser value than that stated in the loan?

Mr. PETTENGILL. No, I had not. But it is my judgment, Mr. Vinson, that the creditor of the veteran, the coal man, his merchant, his doctor, his hospital, would be very glad to accept these $50 coupons baby bonds similar to Liberty bonds, at their full face value.

Mr. VINSON. If he did, then a provision of that kind would not hurt, would it?

Mr. PETTENGILL. No, it would not.

Mr. LEWIS. What is the objection to having an interest rate of 4 per cent on them? I see that 4¼ per cent bonds are now selling at about par.

Mr. PETTENGILL. I am leaving that entirely with the committee as to the rate of interest to be adopted. I do not want to take any more time of the committee. I do hope that the committee will find time to give to my suggestion, at least as many minutes of time as I have given hours to it in my deliberation and study of it.

There is one further suggestion which has been made to me by a national officer of a veterans' organization. He tells me that there are about 15,000 posts of different veterans' organizations; that all of these posts, as well as their State and national headquarters have funds on hand, ranging from a few hundred to many thousands of dollars; that these funds are available for the purpose of buying these bonds from a post member. He therefore suggests that here is a useful, though necessarily limited market to help sustain the price of the bonds.

As I say, I have conferred with several of my colleagues and they say that it is the simplest and the soundest suggestion which has been offered and they were very anxious to have me present it to the Ways and Means Committee.

Mr. Rainey. Thank you, Mr. Pettengill.

We will now hear Mr. McKeown of Oklahoma.

STATEMENT OF HON. TOM D. McKEOWN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. McKeown. Mr. Chairman and gentlemen of the committee, I am not going to undertake to clear up the fog that is over the country. I think it is necessary, however, to clear up some brush that has been thrown in the path that we should take.

I thought this country was in awfully bad shape last summer. I said to my father, "This country is in a terrible shape." He replied, "This country is not in as bad shape as it has been. I have seen it in far worse condition, at the end of the Civil War."

There has been a book passed around by a certain gentleman in which he assaults the memory of the members of the Grand Army of the Republic, and although I am from the Southland and from a country where the soldier returned after the Civil War and never received any compensation of any kind, yet I rise to defend the memory of these men in the Grand Army of the Republic and say that this onslaught in this book is not justified. The author of the book says that the "Curious alignment between honest but dreamy sentimentality and dishonest greed has governed the course of veteran disbursements."

"The Roman soldier, and so forth, fought for the money and the plunder."

Also, "Soldiers are defenders of themselves, not profit seekers."

He says that this is a psychological hangover behind this soldier benefit.

Mr. Eslick. What is the book that the gentleman is quoting from?

Mr. McKeown. "Billions for the Veteran," by a man named Durham.

The psychological hangover in this instance is selfishness. It is selfishness versus the soldier. That is the hangover. We remember that after the armistice, they undertook in the War Department to have contracts signed for a billion dollars worth of war material. That was after hostilities had ended, and was done in order to tie up the Government with a billion dollars of obligations. I am here to say this morning that if the $2,400,000,000 were owing to the banks or the industries of this country, although it were not due until 1945 and this depression were on, as it is, these gentlemen would be presenting logical arguments to you on how you could restore business confidence if you would make this payment in advance.

This is the first time I have ever heard so much talk about the kind of money that you are going to pay the soldier. If the soldier is willing to accept this kind of money, why raise so much sand about it? They say it is going to hurt the credit of the United States. Well, let us see. After the close of the Civil War, when all of the estimated wealth of the Union was only $25,000,000,000, when half of the country was desolate, in ashes, in prostration and poverty, the United States paid to the defenders of this country the enormous sum of over $400,000,000 as a bounty, not taking into consideration the 160 acres of land that they granted to each veteran.

There was $400,000,000 of bounty with a wealth of $25,000,000,000. The total that was paid by the States and the Government was $680,000,000, which compared to the wealth of the country was seventeen six hundred twenty fifths of the wealth of the country.

This bonus of $4,000,000,000, which is the estimated full amount of the bonus, is only two-one hundred eightieths of the entire wealth of the United States.

Now, the only objection is that we will impair the credit of the United States. Now, according to the latest report of the Treasury, the Treasury is in the same shape as many bankers and business men of this country. Uncle Sam has got a lot of frozen assets. Uncle Sam has in his Treasury frozen assets in the amount of $12,672,000,000 plus.

Mr. Hill. What are you referring to now, Mr. McKeown?

Mr. McKeown. I am referring to the statement of the public debt, the public liabilities and assets as of February 29.

Mr. Hill. That is, frozen assets being what are owed the country?

Mr. McKeown. They are the foreign bonded obligations, the unfunded obligations; surplus war supplies; for the relief of surplus supplies sold on credit; that is, relief supplies sold on credit.

German bonds; capital stock of the War Emergency Corporation; capital stock of the Reconstruction Finance Corporation; equipment trust gold notes required by the Director General of Railroads; obligation of carriers; capital stock of the Panama Railroad.

The different kinds of assets held in the Treasury amount to $12,672,000,000 and the total liability of the Government is $17,873,000,000.

Now, they say that the chief objection of this proposal is that it will affect the confidence of the people in the Government. How can it affect the confidence of the people simply to issue $2,000,000,000 worth of new money? They say that foreign depositors will withdraw their gold from this country. That is the first time, gentlemen, I have heard it suggested that the foreigners have enough gold in this country to affect the financial stability of America. For my part, the quicker they draw it out of this country, if that is the situation, and the sooner we get down to rock bottom, the sooner we are going to recover.

There has been a great deal of talk about gold. At the outbreak of the war we issued $368,000,000 of notes, under the Aldrich-Vreeland Act. Now under the reserve act, of course, you have to have 40 per cent of gold to cover Federal reserve notes and 60 per cent of eligible paper and 35 per cent of gold to cover the notes outstanding.

In the last report there was $2,637,000,000 of notes; eligible papers, $680,000,000. The amount of gold to cover that was 74 per cent, which was $1,977,000,000, which represented a large excess of the amount that we required.

The gold required, 35 per cent gold against the bank deposits, was $503,000,000. The total of gold was $2,944,000,000 which left free gold of $464,000,000.

Forty per cent of $2,000,000,000 would be $800,000,000. Take that from the gold held to cover the Federal reserve notes now in Federal reserve banks and you would have $1,077,000,000 of free gold. That shows you what you would have in gold.

When you get down to this thing, it is not so much a question of danger to the country in paying these soldiers. Those who opposed this proposition oppose paying the soldier now what is due in 1945.

The facts are that if you put it on a legal basis, we do not owe the soldier any money. We did not owe the soldier any money after the war was over. This is a gratuity from a Government that appreciates the services of the soldier.

There has been talk about compensating the soldier for what he did. How are you going to compensate him for giving up his liberty and going into the trenches? Are you going to compensate him for the horrors and dangers of battle? Gentlemen, there is no such compensation and you know it.

This is a gratuity. But now we find the soldier in absolute distress. Two million of them have petitioned Congress. They are in distress. The country is in distress. The soldier is not responsible for this situation. It is a situation over which he has no control.

Now what do we find? We find this year that this man comes to Congress and says "You owe me; you promised to pay me; you can not apply the gold law or any kind of law to these contracts; it is a gratuity; you said you would pay me in 1945." Then why not let us tell the truth about this situation now? When we started to give him his gratuity, in order that we might make it appear to him that he was getting a large sum, we concocted a scheme. He did not come and ask for this bonus in the first instance; this bonus legislation was passed by Congress of its own initiative and, in order to make it look better and bigger to him, why we concocted this life insurance policy—we gave an endowment policy. Why, we could have paid the soldier off then; we could have paid him, because we had reduced our annual debt——

Mr. RAGON. Let me interrupt you there. I do not go with you on that line of argument. How much do you figure we owned him in 1923?

Mr. McKEOWN. We did not owe him anything.

Mr. RAGON. How much should we have paid him in 1923?

Mr. McKEOWN. If you take your proposition here, you would have paid him what was found to be due him.

Mr. RAGON. On what would you base that?

Mr. McKEOWN. You based that on the service—your committee and the Congress. I am just as much responsible as the gentleman is.

Mr. RAGON. You said we concocted a scheme. I did not know that; I want to find out about it. I understand this, that if we had paid the cash bonus back there in 1923, it would have been much smaller than it is.

Mr. McKeown. That is the argument I am making; but instead of paying him cash at that time, the amount we figured out that was due him, under the plan submitted, to give him his money, we would have paid him off for very much less money, but we did not think that was enough to satisfy him; we wanted to make it appear to be a larger sum, in order to satisfy him, and in order to do that we fixed it up for payment in 20 years.

Mr. Ragon. I will say I was for the cash bonus proposition.

Mr. McKeown. I understood you were for the cash bonus and quite a number were for the cash bonus.

Mr. Ragon. But when the bonus settlement was made, I did not think there was any scheme about it.

Mr. McKeown. It was just this—this is the difference between paying him at that time, or paying him later. We could not have any excuse at that time that we could not pay him, because we had paid off millions of the public debt at the same time.

Mr. Ragon. That is true.

Mr. McKeown. We paid millions of bondholders their money then that we did not owe then; it was not due; and we could have paid the soldier just as well. But it was thought it was not enough of an attraction to him to hand him $500 then, when we could give him a policy for a thousand dollars payable in 1945.

Mr. Ragon. But really at that time was not that very much the best thing to do for many of the soldiers; the fellows were all employed at that time and it was a good investment for them?

Mr. McKeown. Oh, Mr. Representative, let me say this to you: Many, many soldiers were a long time, after they were discharged, ever getting back their jobs. We told them when they went——

Mr. Ragon. That is true.

Mr. McKeown. We told them when they went: "Your job will be here for you when you come back."

Mr. Ragon. We did not have any right to tell them that if we told them that; I did not know we told them that.

Mr. McKeown. I am taking about the individuals. That was the individual attitude of the American citizen. It was not Congress, but it was the individual who said to his boy "You go along, Johnny; your job will be here when you come back."

Mr. Ragon. My idea is this: I do not think Congress is to be criticized in any action toward the ex-service men.

Mr. McKeown. I am not criticizing Congress.

Mr. Ragon. I think we have been extremely fair to him, and I think the majority of the Members of Congress now want to get right in here now and pay the adjusted compensation and they are interested in knowing how they can pay it. You can not pay it out of the Treasury of the United States, and won't you now give us your plan of paying it?

Mr. Crowther. May I interrupt there to say, along the line of thought expressed by Mr. Ragon, that I was a member of the committee at that time. I think there were only two members on the other side who were members of the committee at that time—Mr. Rainey and Mr. Dickinson—and let me say, as regards the concoction of any scheme, that that is hardly language that ought to be applied to it.

Mr. McKeown. I will take that back, Mr. Congressman; I will apply that to myself.

Mr. Crowther. I am not trying to be critical, but I just want to state the facts as they were. The American Legion and kindred societies were represented and it was a matter that was given the most careful consideration. You remember there was a great outcry against the bonus, and the majority party at that time held a conference in the House (and I was a member of the committee), and the conference instructed the majority party at that time to write a bonus bill—instructed them—and they only placed one limitation on them, and that was that we should revise the tax bill first. That was the only limitation. And we went to work at that. Now, it just so happens I was the member of the committee who offered the amendment in the committee to pay the bonus in cash at that time.

Mr. McKeown. I remember you did; I was not a member of the committee, but I remember the gentleman did that.

Mr. Crowther. But it was defeated in the committee. Then we took into consideration, if you please, the fact that this money on the 20-year tontine policy would mature about the time it would be rather valuable to the man, around in his early forties; in addition to that, there was the insurance feature, that if he should die there was a little nest egg left for the wife and children. All those things were taken into consideration. I think the political aspect of it, Mr. McKeown, was the last thing——

Mr. McKeown. I did not have reference to political parties; I beg the gentleman's pardon if he construed it that way. I am not referring to political parties.

Mr. Crowther. I am not, either. We tried to consider that in the committee, both sides, and I am sure the minority at that time considered it too.

Mr. McKeown. I was not referring to political parties.

Mr. Crowther. I was not, either.

Mr. McKeown. But in using the word "politics" there, what I am trying to say is this, that the soldier at that time was not pressing Congress for the bonus so much as we had felt, Congress felt, and the American people felt, that there ought to be some payment in recognition of their gallantry and their trials over there, and we based it on the basis of the work he did as compared to civil labor under the circumstances. That was the basis upon which they worked.

Mr. Crowther. There was outcry enough at that time that manifested the necessity to us and the American Legion and other kindred societies, which I think were pressed very hard at that time, and we had, if I remember correctly, I think over 50 bills in Congress at that time.

Mr. McKeown. Yes.

Mr. Crowther. But there was nothing political about it on either side of the Chamber.

Mr. McKeown. I grant that is true; I did not mean it from that standpoint.

Mr. Rainey. I want to say I voted for Doctor Crowther's motion to pay in full at that time at the rate of a dollar a day for those who did not go overseas, and $1.25 a day for those who did go overseas, and at that time we could have paid it. I would like to have you explain now how we can pay the men—not the $1 a day and the $1.25 a day, but the amount of the certificates to be paid 13 years from now.

Mr. VINSON. Right in connection with this colloquy, before you answer that question, I do not know whether my memory serves me right, or not, but as I recall, in 1924, when this bill came out of the committee and passed under a suspension of the rules of the House, it was a compromise measure, and I would like to know if any veterans organization O. K'ed this bill before its passage?

Mr. CROWTHER. I think they all agreed, Mr. Vinson—I think all who were here agreed that was perhaps the best possible thing that could be done.

Mr. VINSON. Before its passage?

Mr. CROWTHER. Yes.

Mr. RAINEY. That is my recollection.

Mr. McKEOWN. Now, Mr. Chairman, my plan is this: My proposal is that this committee formulate a bill that will authorize the banks of this country to take over this proposition; that is to say, that the national banks of the country and the State banks, members of the Federal reserve system, may pay in the money that the Government has loaned already on these certificates; then, if they wish, they may pledge the certificates for note-issue purposes to the amount of the money paid in. In other words, if the Government has a soldier's certificate for $1,000 and upon that certificate the Government has loaned $500, permit the Government to say to banker B over in Baltimore, or in Washington, or any other part of the country, "If you will pay $500 into the Treasury of the United States, I will give you the right to deposit this certificate for the note-issue privilege to the amount of $500, and out of that note issue to pay the soldier the balance due him less the amount of interest due on the $500, which I will let you have for the purpose of paying the costs of the note issue." Then the Government of the United States, would pay into the general fund $120,000,000 as the 5 per cent redemption fund; then each year the Government of the United States, instead of paying into the certificate fund in the Treasury an annual installment of $112,000,000, it will distribute that to the banks with which to retire their currency to that extent. And at the end of 1945, the currency will have then been retired and then the banker will get back the $500 from the Government.

In other words, that currency is not fiat money; that currency is just as good and sound as any other we have. It won't affect the gold reserves of the Federal reserve banking system; it won't affect their capacity to go ahead and operate as they are now operating under the Steagall-Glass bill to carry on the industry of the country, and you will, under that plan, furnish ample capital for inflation to the country with a method by which it can be properly retired. When they tell you that inflation is dangerous to the country, they forget the economic rule that is sound and has been sound from the English period to now, that circulation may go to the extent of $1 for every $25 of value. Now they talk about paper money being a bad thing. You can take the history of Scotland—Scotland does business altogether on paper money. All of the gold that was deposited in the bank of Scotland at the time the Scottish Bank was established was deposited in one fund, but the bank issues were made and they were circulated in Scotland——

Mr. RAGON. May I interrupt you there?

Mr. MCKEOWN. Yes.

Mr. RAGON. Now let us get your plan in a definite, understandable way here. You have touched some of the high spots of it, but I want to get just how it would operate. Suppose I am a certificate holder and I hold a certificate for $1,000.

Mr. MCKEOWN. Yes, sir.

Mr. RAGON. Now you are a Baltimore banker?

Mr. MCKEOWN. Yes, sir.

Mr. RAGON. How would you apply it? Would you issue me a new certificate?

Mr. MCKEOWN. No; I would not go to that expense. You have applied for and your certificate is down here as collateral for a $500 loan.

Mr. RAGON. With the Government?

Mr. MCKEOWN. With the Government, and you have the note of $500 and you have the collateral; your certificate is held by the Government as collateral.

Mr. RAGON. It is up for collateral for the $500 mortgage I have made.

Mr. MCKEOWN. Yes.

Mr. RAGON. Now what?

Mr. MCKEOWN. I go to the Government and pay the $500 and it turns over the certificate to me for the privilege of depositing——

Mr. RAGON. Let us use our bank illustration.

Mr. MCKEOWN. I am the bank.

Mr. RAGON. You are the bank?

Mr. MCKEOWN. Yes, sir.

Mr. RAGON. The Government now takes the certificates that they hold, mine together with others, and they say to the banker "You turn over to us $500 and we will give you this certificate?"

Mr. MCKEOWN. Yes, sir.

Mr. RAGON. And in 1945, we will give you $500 back for that certificate—that is, in round numbers.

Mr. MCKEOWN. Yes.

Mr. RAGON. In the meantime, under your plan you provide for the annual sinking fund of $112,000,000, or $120,000,000.

Mr. MCKEOWN. Yes.

Mr. RAGON. To be given out to these different banks that hold these certificates.

Mr. MCKEOWN. That have outstanding their note issues, for the purpose of retiring their note issues.

Mr. VINSON. In the meantime, you give the right to the bank to issue currency.

Mr. MCKEOWN. Yes, sir.

Mr. VINSON. For the balance due on the certificate.

Mr. MCKEOWN. Yes, sir.

Mr. RAGON. Let us not get off on that.

Mr. VINSON. Well, that is part of it.

Mr. RAGON. I know, and I am going to get to the currency feature in a minute. Now at the end of 1945, or in 1945 then the banker would return the certificate?

Mr. McKeown. Well it is already in the Government's hands, in the Treasury.

Mr. Ragon. I thought you were going to sell that certificate.

Mr. McKeown. It is the bank's certificate, but it is in the custody of the Treasury for this note issue until it is retired.

Mr. Ragon. Suppose the bank did not want to issue currency on it, or to issue notes on it, what then?

Mr. McKeown. If the bank did not want to avail itself of the privilege of issuing currency on it, it could take its own funds and pay the soldier off.

Mr. Ragon. In other words, you would make this certificate work, instead of the money that they put up, for the privilege of issuing bank notes?

Mr. McKeown. Yes, sir; in other words, give it the status of consols or Panama Canal Zone's.

Mr. Ragon. Or give it the status like many of them are doing now—putting up gold for it?

Mr. McKeown. Yes, sir.

Mr. Ragon. Give them that right.

Mr. McKeown. Give them the right to put it up for note-issue privileges.

Mr. Ragon. As to the note issues now, they are backed by a 40 per cent gold reserve.

Mr. McKeown. This does not affect the gold reserve. The note issue is backed by a 5 per cent redemption fund and the entire capital stock and resources of all of the banks that issue notes.

Mr. Ragon. What kind of a note would you issue, now?

Mr. McKeown. Just the same as they issue now on the consol bonds. In other words, to illustrate, suppose I have a bank, the First National Bank of Goldsberry and I have a capital stock of $100,000—now I can do this to-day—I have only a note issue out for $20,000 and I have $80,000 margin for note issue purposes, I can go and buy from any broker or anybody $50,000 worth of Canal Zone bonds or consols.

Mr. Ragon. Is there anything else you can buy? I would like to get away from consols.

Mr. McKeown. I can get consol bonds or Canal Zone bonds, 2 per cent bonds, and I can deposit them in there and that gives me the right to issue a note issue up to that amount. And so, with this system of mine, you will put back into the Treasury of the United States $1,400,000,000 at a time when it is needed worse than anything else and, instead of paying the soldiers' bonus being a burden on the Government, under my plan you will return to the Treasury $1,400,000,000 that will help lessen this great tax levy and will put more confidence in the Government of the United States.

Mr. Ragon. Have you any plan to require the banks to take those certificates? Suppose the banks do not want it?

Mr. McKeown. They are, of course, individuals and there is no compulsory method that you can force them to take it. But I will say to the gentleman if this plan is submitted as an alternative plan, so that the banks might avail themselves of it, with $28,000,000,000 on deposit now they will take it. The great difficulty to-day is the banker is afraid to loan his money, because the depositors may come and call for it, and here is a manufacturer asking for money here, but the banker is afraid to lend him money. But if you pass this kind of act, give the banker an opportunity to dispense these notes and get these deposits, the whole confidence will be worked out.

Mr. RAGON. Now take your State or my State, for instance—I have forgotten what the amount in your State is, but in my State it would be $25,000,000 which it would take to cash these certificates held by veterans in Arkansas. Now those bankers could not come even near touching taking that up and I assume the gentleman figures this would be taken up largely, or to a considerable extent, by individuals as well; but it would be impossible for the individuals and banks of the State of Arkansas to handle that.

Mr. VINSON. May I just say there those adjusted-service certificates would not bear interest, and if they were to replace consols that were bearing 2 per cent interest, it seems to me the bank may not want to take out consols bearing 2 per cent interest and take them in their vaults and save service certificates in lieu of consols. It seems to me that might be a weakness in your plan.

Mr. RAGON. It is not a question of what the bank would like to do; they would be glad to take it, but you could not get that much money.

Mr. MCKEOWN. Well if the gentleman will just let me make a little state nent off the record, to satisfy the gentleman from Kentucky (Mr. Vinson), I would like to make a statement off the record to show the attractiveness of this proposition to the bankers under the situation now.

Mr. VINSON. Why not put it on the record.

Mr. MCKEOWN. Well, I did not want to make it look too good. Il you use the $500 and the loan that has accrued for $500, the bank makes $500.

Mr. RAGON. What would you do—would you give the banks the accrued interest to date, or what would you do with that?

Mr. MCKEOWN. I would give the banks the accrued interest on the note, in order to cover the plate cost and printing cost in issuing these notes.

Mr. RAGON. The interest that has accrued to date, then, you would let the Government keep?

Mr. MCKEOWN. That is the interest that is due on the bonds. You see, there is a value to the certificate of about $622—the present value of a thousand-dollar certificate—and on that is borrowed $500. Now I was making the note issue limited to the amount paid into the Treasury; but you could safely give the note issue privilege up to $625 on the certificate. Then you call in those; you have a method by which it is contracted; you contract it each year; you call in just whatever Congress appropriates to that fund. You can call them in and if the country gets prosperous and Congress wanted to call them all in, they could appropriate the balance due and call them all in.

Mr. VINSON. Under your plan, you would have this payment of $112,000,000 annually into the sinking fund.

Mr. MCKEOWN. Yes; that goes to the banks instead of into the sinking fund.

Mr. VINSON. By 1945 there would have been enough money paid in and earned.

Mr. MCKEOWN. Yes.

Mr. VINSON. But if this $112,000,000 goes to the banks each year, then you have a lesser earning power on this sinking fund.

Mr. MCKEOWN. That is redeeming his note issue, that $112,000,000 each year.

Mr. VINSON. He has not any interest charge on that note issue.

Mr. MCKEOWN. No; there is no interest charge on the notes, because they circulate as a circulating medium.

Mr. RAGON. Now, let me see if I get this straight: In other words, the banker pays out his $500 right now.

Mr. MCKEOWN. Yes, sir.

Mr. RAGON. And he has not got a thing to show for it except the certificate.

Mr. MCKEOWN. That is all.

Mr. RAGON. Now, the next money he realizes is his "divvy" out of the $112,000,000 that comes from the Government each year.

Mr. MCKEOWN. Yes, sir.

Mr. VINSON. He gets the currency issued on that certificate.

Mr. RAGON. Wait a minute; let me get through.

Mr. VINSON. I beg your pardon.

Mr. RAGON. Now, that $112,000,000 is paid annually over 13 years.

Mr. MCKEOWN. Yes. The Government has said that that amount may vary; it may be increased. It is $34,000,000 short now, that sinking fund, or was at the time the other bonus was paid—$34,000,000 short of the amount that should have been in the Treasury.

Mr. RAGON. Then he is paid that $500; he gets it in 13 installments.

Mr. MCKEOWN. Something like $39.90 annually.

Mr. RAGON. Now, if he is paid $500 in currency for the note he gets, why he gets it two ways?

Mr. MCKEOWN. No, he issues his own notes; he issues his own liabilities.

Mr. RAGON. They are chargeable against him.

Mr. MCKEOWN. Yes.

Mr. RAGON. That is $500 now that he give the Government.

Mr. MCKEOWN. Gives the soldier; he pays $500 hard money in and the use of $500 of his notes. That is what the proposition is.

Mr. RAGON. Then he would have a thousand dollars if that $500 chargeable to him. Why is he not paying out $1,000?

Mr. MCKEOWN. He is paying it out all right, only the Government pays it in and cancels his notes; his notes are all canceled by the Government; not by himself—not out of his earnings; it is canceled by the payments of the Government and that really goes into his pocket.

Mr. RAGON. Now, when he issues that $500 of currency, is that chargeable to him?

Mr. MCKEOWN. Well it is just his obligation, like my note would be to the Government. Suppose the Government would give me the right to go down here to the Treasury and pay off $500 on one of those certificates individually, and then let me settle with the soldier for my individual note for $500, if he would take it, then I would get the payment annually to pay off my note that I gave the soldier, and then get my $500 back at the end of the period.

Mr. HILL. The gentleman pays back the $500 paid by the Government.

Mr. McKEOWN. Yes; because the Government paid $500 for the certificate—made a loan. I take up the loan against the certificate—the obligation.

Mr. HILL. The Government has already paid out $500 to the soldier.

Mr. McKEOWN. I pay that back.

Mr. HILL. Then the Government pays this $112,000,000 annually for 13 years, pays it back to the bank that issues notes for it.

Mr. McKEOWN. Yes.

Mr. HILL. And then pays this $500 note issued by the bank.

Mr. McKEOWN. No.

Mr. HILL. That is $1,500 the Government pays out.

Mr. McKEOWN. No; it only pays out a thousand dollars.

Mr. HILL. It has already paid out $500.

Mr. McKEOWN. No; the Government paid out $500 which it has gotten back and it is clear with the world when it gets it back, and it only pays out $1,000.

Mr. CROWTHER. May I ask a question right there.

Mr. RAINEY. Yes.

Mr. CROWTHER. How much money did you say that would put back in the Government—$1,400,000,000?

Mr. McKEOWN. Yes, sir.

Mr. CROWTHER. Then we would not need any tax bill at all; that is just the amount required to balance the Budget.

Mr. McKEOWN. That is what unbalanced it and if the banks want to balance this Budget without this tax, they can do it.

Mr. CHINDBLOM. Under your plan, the interest on the soldier's note, of course, would be canceled.

Mr. McKEOWN. Yes, sir; the note would be canceled; you cancel it. It seems like a very intricate proposition; but, gentlemen, as a matter of business, it is a simple proposition.

Mr. VINSON. Now, let us see: This $1,000 certificate with the $500 loan, that is recalled and you have $500 additional amount payable to the holder of the certificate.

Mr. McKEOWN. Yes.

Mr. VINSON. Now a banker owns the certificate.

Mr. McKEOWN. After he pays the first $500 that is loaned against it. You see, there is a note——

Mr. VINSON. He pays the loan and now, then, he has the certificate.

Mr. McKEOWN. Yes, sir.

Mr. VINSON. That certificate——

Mr. McKEOWN. Calls for a thousand dollars.

Mr. VINSON. Is good for a thousand dollars.

Mr. McKEOWN. Yes, sir.

Mr. VINSON. Now, you let him turn it over to the Treasury and have currency issued against it; is that your plan?

Mr. McKEOWN. For $500; not the full amount of the unearned balance, but just $500, in order to be safe.

Mr. VINSON. That certificate, then, is in the hands of the Government.

Mr. McKEOWN. Yes, sir; and I have a $500 note issue that must be canceled before I can ever get that certificate back. I have $500 of my notes against that certificate. I give the soldier my money against the notes. Now, in order to redeem that certificate, the

Government owes a thousand dollars, but it pays it in an annual amount of $112,000,000.

Mr. VINSON. Into a sinking fund?

Mr. McKEOWN. Into a sinking fund for the bank for the purpose of canceling that much of the paper that is outstanding from the bank. When that is canceled, the Government has no more claim against my certificate and there is $500 due on that certificate, because the Government has only paid $500 in installments of the money; because they could have taken the $500 I paid in and have gone on and used it for other purposes, and I am entitled to $500 of the amount due on the certificate in 1945.

Mr. VINSON. When they have paid off the full amount, they have paid off $1,000 on that certificate.

Mr. McKEOWN. They have paid off $1,000 on that certificate.

Mr. HILL. What are you going to do about the sinking fund for $500 that you pay the bank?

Mr. McKEOWN. You have not paid the bank that $500. That is paid in there and the Government can either hold it for the sinking fund, or the Government for its purposes at the present time might permit Congress to avoid the necessity of this tremendously heavy tax. While it is earmarked for sinking fund purposes, it is money in there, it is paid in, and they can claim that money is in the sinking fund and they can use it as they see fit in the Treasury, in shifting around, but it will be there.

Mr. HILL. I understood you to say that you would provide a sinking fund of $112,000,000 a year.

Mr. McKEOWN. That is already provided for.

Mr. HILL. With which to pay off the $500 that the banks have issued in the form of notes to the soldier.

Mr. McKEOWN. Yes, sir.

Mr. HILL. Now, how are you going to pay this other $500 you owe the bank?

Mr. McKEOWN. The other $500 is already paid into the Treasury by the banks; the bank has paid the money into the Treasury and has taken the certificate there. You do not tax it as a United States levy; it is paid in; the $500 is there.

Mr. HILL. As I understand, you give the bank a bonus of the accrued interest on these loans up to the time the banks take over the certificate.

Mr. McKEOWN. Yes; I might offer that as an inducement to them.

Mr. HILL. Suppose the soldier had borrowed $500 on his total certificate and that had run for one year.

Mr. McKEOWN. Yes, sir.

Mr. HILL. The interest on that to the Government would be $22.50.

Mr. McKEOWN. Yes.

Mr. HILL. Now the Government, instead of taking $500 from the bank, would take $477.50?

Mr. McKEOWN. No; I would let the Government have the full $500 and let the soldier pay the discount of $22.50 as that is due, because it is his obligation.

Mr. HILL. The bank issues notes for $500 and takes $477.50 and pays the soldier?

Mr. McKEOWN. Yes, sir; because that is his obligation; he gets the cash now.

Mr. RAGON. You would use this $112,000,000 to retire the notes issued on that certificate?

Mr. MCKEOWN. Yes, sir.

Mr. RAGON. And the Government then, at the end of 1945, would give you $500 for that certificate.

Mr. MCKEOWN. They would give me back my $500, yes, sir; that is what they owe and they would pay me the $500.

Mr. HILL. How about the interest that is being accumulated?

Mr. MCKEOWN. There is no interest being accumulated.

Mr. HILL. You make the certificate noninterest bearing from the time the banker puts it up as collateral?

Mr. MCKEOWN. Just cut it off there; just treat it as a certificate due for $1,000 in 1945.

Mr. CHINDBLOM. This $112,000,000 annual appropriation is based upon the theory it is going to be earning cumulative interest. Under your plan there would not be any such earning.

Mr. MCKEOWN. No.

Mr. CHINDBLOM. Then the Government would have to pay the full amount, instead of $112,000,000.

Mr. MCKEOWN. Well the $120,000,000—if you pay annually $112,000,000 into the banks, in 13 years you will just about have paid your billion four hundred million back.

Mr. CHINDBLOM. That $112,000,000 is not calculated to be sufficient to pay the certificates unless it is deposited and held for 13 years and accumulations are earned upon it at a 4 per cent compound interest rate.

Mr. MCKEOWN. If the bank gets the use of $112,000,000 each year for 13 years, it certainly can make enough money out of it to retire the balance, if any, due on that note issue—the outstanding note issue, and it would certainly be profitable enough to them to do it.

I will say to the committee this plan has been submitted to some of the best bankers of the country; one of the largest bankers in New York spent two hours with me the other day to try to see if there was anything "phony" about the proposition, but he could not find it. I have not been able to find it, and I have had some experts working on it.

Mr. VINSON. Of course, this $112,000,000 goes into a sinking fund that operates and works at compound interest in order to make the sum that would liquidate the certificates in 1945. Now, if you allocate that $112,000,000 to the banks and take up currency which is noninterest bearing, you have certainly the benefit of the increment, you might say, of your $112,000,000 annual payments compounded at 4 per cent annually.

Mr. MCKEOWN. Gentlemen, do not you think that a bank with $112,000,000 that the Government puts into their treasury—the Government got the payment of $112,000,000, out of which they cancel their own obligation, which they have not put a dime in; it does not cost them anything, and they cancel that—don't you think I could use that for 13 years in my bank and make more out of it than 4 per cent compound interest?

Mr. VINSON. You probably could; a banker could; but I am talking about the Government having enough money under your plan to retire the certificates in 1945.

Mr. McKeown. Well, my proposal is that the banker should earn it, instead of the Government earning it.

Mr. Vinson. The banker keeps it in his vault; he does not turn over the earnings on this $112,000,000, compounded annually, into the Treasury of the United States with which those adjusted certificates may be retired.

Mr. McKeown. No; he just gets $112,000,000 of his debt canceled and gets money into his bank—he gets money into his bank with nothing against it.

Mr. Vinson. And the Government is not earning anything on the $112,000,000 paid this year, compounded annually up until 1945.

Mr. McKeown. No. If you take 1945 and figure $112,000,000 you have around your $1,400,000,000 that you started to pay annually.

Mr. Chindblom. Then, as I understand it, your idea is that the banker, speaking of the "banker" as the collective bankers of the country——

Mr. McKeown. Yes, sir.

Mr. Chindblom. When the banker gets $112,000,000, he has to give credit to the Government for that amount of money with all the accretions and all earnings that will be earned up to 1945, compounded annually under the arrangement in the present law?

Mr. McKeown. Yes. He takes it up that way; he can make more out of it, too.

Mr. Chindblom. If he is willing to do that, then you substitute the banker for the Government of the United States.

Mr. McKeown. Yes, sir.

Mr. Chindblom. And make him earn the full value of the certificate by 1945.

Mr. McKeown. Yes.

Mr. Hill. You would not charge him up with the 4 per cent compound interest?

Mr. McKeown. No; you do not charge him anything, but just say "If this does not retire your notes, you take it out of your profits and retire your notes like you do now."

Mr. Hill. Then you do not answer Mr. Chindblom's inquiry in the affirmative.

Mr. McKeown. He said if this did not earn it—if the $112,000,000 put in the hands of the banker did not earn enough to discharge the Government's liability, that is, discharge the $500 due in 1945, why the Government is not to appropriate any money to finish it out.

Mr. Crowther. You just say to the banker "If you do not make it, you lose it?"

Mr. McKeown. That is all. He is not going to lose it, either; he will make it.

Mr. Eslick. Mr. McKeown, the record before us discloses there is approximately $1,000,000,000 in cash in the banks of the United States.

Mr. McKeown. How much?

Mr. Eslick. $1,000,000,000 in cash on deposit—I mean the actual, physical money.

Mr. McKeown. Oh, yes. There is $28,000,000,000 in the banks.

Mr. ESLICK. Deposits; but I am talking about cash in banks.

Mr. MCKEOWN. Yes, sir. You are speaking of the national banks?

Mr. ESLICK. All the banks of the country. I think that is the statement made to us here. Where would the banks get the actual physical money to pay into the Treasury in redeeming the payments already made by the Government?

Mr. MCKEOWN. Well, if they are good financiers, they certainly can take it over with $28,000,000,000 of deposits. It will be a gradual payment out anyway and, if they want to do it, Mr. Congressman—if they want to do it—they will find ample means by which to do it. And if it is attractive enough to them to do it, they will be in here wanting to do it. That is the only way you can get money out of a banker, is to show him it is attractive enough to take it out and show him he is going to make some money out of the transaction.

Mr. ESLICK. And you would leave it then to the banker's ingenuity and energy, if it is attractive enough, to dig up the money?

Mr. MCKEOWN. Yes, sir; he will get the money; if it is attractive enough to him to take it out, he will get it.

Mr. RAINEY. Are there any further questions? If not, thank you, Judge.

Mr. MCKEOWN. Thank you, gentlemen. I will say this, that when I get the returns from the opinions I have asked on this matter, I will be glad to furnish those to the committee.

Mr. RAINEY. We will be glad to have them.

Mr. MCKEOWN. Because it is not being treated lightly among the financial world.

Mr. RAINEY. I will say to the members of the committee that this statement Mr. Evans submitted contains much matter which is not germane and it is a very long statement. I have asked Mr. Hawley to read through it, which he has done and has marked the passages here which are germane to the questions we are considering. I have also submitted it to other members and, if there is no objection, there will be printed in the record the passages which Mr. Hawley has marked, in connection with the statement of Mr. Evans.

Mr. VINSON. Mr. Chairman, there seems to be some conflict of opinion as to what Mr. Harrison, head of the Federal Reserve System, meant when he made a certain statement about $3,500,000,000 in currency. The word "credit" was used and the word "currency" was used. I would like to have Mr. Harrison invited down here before the committee.

Mr. RAINEY. Without objection, the clerk will notify Mr. Harrison. That concludes our program for today and the committee will stand adjourned until 10 o'clock, tomorrow morning.

(The committee thereupon adjourned until to-morrow, Tuesday, April 26, 1932, at 10 o'clock, a. m.)

PAYMENT OF ADJUSTED-COMPENSATION CERTIFICATES

TUESDAY, APRIL 26, 1932

House of Representatives,
Committee on Ways and Means,
Washington, D. C.

The committee met at 10 o'clock a. m., Hon. Henry T. Rainey, presiding.

Mr. Rainey. The committee will be in order. We will hear General Hines.

STATEMENT OF BIG. GEN. FRANK T. HINES, ADMINISTRATOR OF VETERANS' AFFAIRS

General Hines. Mr. Chairman and gentlemen of the Committee, I desire to appear before the committee this morning, gentlemen, for the purpose of being helpful, if I can, in giving you some information relative to this matter of the bonus which is pending before you.

I might say in the beginning, Mr. Chairman, that I am sure that this committee, the Congress, the people of the Nation and myself are sympathetic toward the veteran. We desire to do everything that we can for him and no doubt we all realize to what extent we have gone in that regard. I need only summarize by saying that our expenditures for the month of February amounted to approximately $70,000,000 and they are running along at that rate, including all benefits of all kinds under the Veterans' Administration.

It seems to me that this question which is before you may be summarized in two very distinct parts: First, is it proper at this time to pay the balance due on the adjusted service certificates; and second, what effect would the payment of such a large sum of money have upon the business situation or the financial situation of the country?

Naturally, I feel that it is my business to deal with the first part of that problem and that you will have before you undoubtedly other representatives from the executive branch of the Government who are much more familiar with the financial angle of this problem than I am.

I have reached the conclusion that the Adjusted Compensation Act is probably more misunderstood throughout the country than any other act dealing with veterans' relief. I think probably the veterans are confused as to just exactly what Congress did and what they intended to do at the time this was before you.

It is rather striking that conditions at this time are very similar to those that existed when this matter was before the committee of Congress, commencing in 1920.

I have taken occasion, in order that the committee may have advantage of a brief review, to look over the past history of the legislation and see exactly how the problem was presented to this committee and what the organizations had to say about it at that time.

In summarizing the history, I might call attention to the fact that this matter was before Congress from 1920 to 1924, when the bill was finally enacted into law.

A review of the documents shows briefly, first: That Congress was not averse to passing adjusted compensation legislation throughout this period, provided large disbursements from the Treasury might be avoided; second, that Congress was averse to providing funds for adjusted service payment by a bond issue or by additional taxation; third, that the benefits provided under alternative plans were increased over the cash payment plan as an inducement to the veteran to preclude the acceptance of the latter plan; fourth, that Congress was not favorable to the cash payment plan because of the burden it would place upon the Treasury. In addition to meeting the expenses of the Government there were outstanding some $25,000,000,000 short term certificates and long-term bonds; fifth, the cost of a cash bonus was variously estimated between one and two billion dollars.

The bill finally enacted provided a means whereby payment on the certificates might be made over an extended period of time.

This fund was practically exhausted in the making of loans to veterans under the act as amended February 27, 1931.

Probably one of the most complete statements—and it will save time if I refer to that and not attempt to take so many of them—was the report made March 16, 1922, by Mr. Fordney, a member of the Committee on Ways and Means of the House, known as report No. 804 to accompany H. R. 10874. The following is quoted from that report:

Chief objections made to previous adjusted compensation bills were based upon the provisions contained therein for the payment of such compensation in cash to such of the veterans as might elect to take advantage in such manner. This plan would have required the expenditure of very large sums within a short time after the passage of the bill. To meet these expenditures various plans were suggested to raise the necessary revenue, which included taxation and bond issues. To all of these plans objections were raised on various grounds, and particularly by the Treasury to the issue of more bonds or Treasury certificates at the present time. (Your committee cognizant of the objections raised to these proposals, decided after careful consideration, to eliminate these objections by limiting such payments to men entitled to receive $50 or less.)

It was felt, however, that the soldiers who were in need should be given an opportunity to obtain aid and with this thought in mind the committee worked out a plan whereby the veteran accepting an adjusted-service certificate would be able to borrow on his note secured by the certificate from a bank, 50 per cent of the credit to which he was entitled.

The majority of the committee is of the opinion that the amount borrowed on these certificates will be comparatively small * * * it is believed the majority of the soldiers will not in any event ask for a loan upon the certificates unless they have some special need for the money. It is estimated by the committee and the Treasury that 70 per cent of the veterans will take the certificate plan.

The advantages of the bill were described as follows:

(1) No new taxation or issuance of new securities is at present required.
(2) It provides for the veteran in need a method of obtaining aid.
(3) The amounts required each year after July 1, 1923, are small compared to those which have heretofore been met and can be provided without any difficulties or derangement of our financial situation.

(4) The plan tends to promote saving habits amoung the veterans.
(5) It protects the veteran himself and his family from misfortune in the future, and
(6) It will create a class of home builders who will greatly increase the mass of property in the country.

The bill provided the following plans:

(1) Adjusted-service pay where the amount of credit is $50 or less.
(2) Adjusted-service certificate.
(3) Vocational training aid.
(4) Farm or home aid.
(5) Land settlement aid.

The adjusted-service certificate of Title V of the bill was referred to in part as follows:

This title provides for the issuing by the Secretary of the Treasury of an adjusted-service certificate to veterans choosing this option, which certificate will have a face value equal to the sum of his adjusted-service credit increased by 25 per cent plus interest thereon for 20 years at the rate of 4½ per cent per annum compounded annually (such value being approximately equal to three and fifteen-thousandths times the adjusted-service credit of the veteran). The certificate shall be dated October 1, 1922, and shall be payable to the veteran September 30, 1942, or in the event of his death to the beneficiary named.

Now we know, of course, gentlemen, that the plan was afterwards modified, but while this plan was before Congress, various representatives of service organizations appeared and I am sure that their statements will be of interest to the committee.

The statement made by Mr. Franklin D'Olier, national commander of the American Legion, at the hearings before the Committee on Ways and Means, House of Representatives, on several bills relating to soldiers' adjusted compensation, March 2, 1920, is as follows:

In accordance with resolutions passed at the national convention of the American Legion, its national beneficial legislation committee is now ready to submit recommendation for legislation covering four features as follows:

1. Land settlement covering farms in all States and not confined to a few States.
2. Home aid to encourage purchase of homes in either county or city.
3. Vocational training for all ex-service persons desiring it.
4. Adjustment of compensation or final adjustment of extra back pay based on length of service for those not desiring to avail themselves of any one of the previous three features.

The ex-service person to be given his option of any one and only one of the above four features, and only upon his application.

The American Legion asks for no bonus, wants no bonus—that sounds too much like a gift or a present from the Government. It merely asks the Government to assist the ex-service man in overcoming some of the financial disadvantages incidental to his military or naval service.

Mr. Hale, who was chairman of the subcommittee of the legislative committee of the Veterans of Foreign Wars at hearings before the Committee on Ways and Means, House of Representatives, on several bills relating to soldiers' adjusted compensation, March 3, 1920, the Sixty-sixth Congress, second session, made the following statement:

It is our thought that if Congress will enact a law granting $30 per month for each month or fractional part of a month served by the ex-service men and women it will be accepted by them as an expression of the country's appreciation and will at the same time not strain the Nation's resouices. In reaching this conclusion the Veterans of Foreign Wars have endeavored to establish a figure which will equitably represent the average monthly earnings which each ex-service man and woman should have been able to effect if they had been permitted to continue in civil life.

Secondarily the Veterans of Foreign Wars of the United States are interested in some plan that will enable the ex-service people to become property owners, not at the expense, but with the assistance of the Government. Some plan that will make the acquisition of a home reachable but totally removed from any charge of gratuity. Various measures have been proposed, so-called land settlement bills.

Our friends, the American Legion, have advocated a selective program. The Veterans of Foreign Wars emphatically dissent from this proposition—primarily because of its inequality, and secondly because it does not voice the wishes of the large majority of ex-service people interested in so-called soldier legislation.

On December 15, before the Committee on Finance, United States Senate, Col. Taylor, vice chairman national legislative committee of the American Legion, used these words:

The American Legion is composed of more than 2,000,000 men and women who have seen service in the World War. They are unanimous on this adjusted compensation bill, and at their recent convention in Cleveland, held September 27, 28, and 29, the delegates from every state throughout the country, after full discussion on the floor of the convention, adopted the following resolution.

Resolved, That the American Legion in national convention here assembled, gives its unqualified approval of House bill No. 14157, which passed the House of Representatives by a vote of 289 to 92 May 29, 1920, and which is now pending before the Senate, and which provides for the optional plan of either——

1. Adjusted service pay, based on length of service.
2. Adjusted service certificates maturing in 20 years, based on length of service.
3. Vocational training.
4. Farm or home aid.
5. Land settlement, for which 31 States have already made, through their State legislatures, provision for cooperation: And be it further

Resolved, That the American Legion, in national convention here assembled, commends and approves the action of the national executive committee and the national beneficial legislative committee in formulating and presenting this adjusted compensation legislation to Congress: And be it further

Resolved, That the American Legion, in national convention assembled hereby directs the national executive committee to take such action as it may deem necessary to insure the prompt passage of this bill.

I could go on; many other witnesses appeared before the committee advocating the plans that I have referred to and I call the committee's attention to this primarily to lay the ground work for this statement: That probably when it was finally agreed that we would allow these men a dollar a day for each day's service in the United States and a dollar and twenty-five cents a day for each day's service overseas and added to that 25 per cent for deferred payment, undoubtedly there was a definite understanding on the part of the service men and the Congress that those men—and of course, there was no option granted—that those men hwo had the credits of more than $50 would be given these certificates, that the certificates in effect was a paid up endownment policy, that this basic credit, service credit as it is called, plus 25 per cent would be used as a net single premium at the age of the veteran to purchase a paid-up endownment policy of a given face value. Now, this is where I believe the misunderstanding comes in in the minds of the veterans at this time.

When we issued those certificates, we did not print on their face as the face value, the original bonus which the Congress voted, which was the basic credit plus 25 per cent, but we printed on the face of those certificates, the face value of the certificate, 20 years forward.

So that the veteran, when he received the certificate and I think quite naturally unless he knew the previous history of it, reached the conclusion that the face value of the certificate was the amount of the bonus that was originally voted him.

That has brought about, I am confident, much of the misunderstanding on his part and on the part of the public generally.

I feel confident from a review of the history, and I am sure this committee probably is sufficiently familiar with it, that the 25 per cent added was purposely added in order to encourage the veteran not to take cash, even if an option had been give, but to give him something that would be of value later on in life.

It is stated many times in this testimony that I have looked over that the American Legion contemplated, as well as other service organizations, a campaign among the veterans to get them to accept the certificate. That was when they were talking about the optional plans. They contemplated a campaign among the veterans to accept the certificates rather than the smaller amount of the cash.

So that really the problem that we are considering now is whether, instead of paying the present value of the certificates, or the original bonus which Congress voted, we shall adopt the plan of paying them off at this time, which would be equivalent to increasing the original bonus by $1,600,000,000. That is exactly what it means if we pay these certificates off in full now.

There is one side of it to which I called attention last year and which to me is of considerable importance. Every day in the Veterans' Administration the widow of an ex-service man shows up, in some one of our offices. I have had them come to my own office and usually the last and only asset left by the veteran is his adjusted certificate. Recently I had one who came in and told me her husband had died only two days before. She was trying to find out what he had left. He had an adjusted-service certificate, but he had borrowed on it so that there was little left in it. He had borrowed the full 50 per cent. Anyway, there was some left and it helped her. The only other benefit then with which we could assist her was that of death compensation and we will, if proper, allow that. But it does seem to me that these certificates, if it is possible for the men to hold them—they are paid-up endowment policies—are always good and they stand in many cases as a great help to the family when the veteran goes.

Now, if it were so that we agreed to pay these men back in 1924 the face value of the certificates and not on the basis of 20 years hence, I think there would be considerable force in the argument that it should be now paid.

The situation among the service men in employment is very much like it was in 1920. In looking over this testimony, they indicated that some 600,000 veterans were out of employment. It would be my estimate now that we have probably at this time about 600,000 veterans out of employment, although the Legion told me the other day that in their campaign to place 1,000,000 veterans in employment they had succeeded in placing 610,000 persons up to date.

We known that in addition to those who are altogether out of employment, there are probably between 500,000 and 700,000 veterans who are on part time, like many others of our citizens. Naturally those veterans in the first group who are out of employment are seeking aid, and we should make every possible effort to see that they get employment. There is no question about that. But whether we would be doing them a real service by cashing in these certificates, even if we were in a position to do it, would seem to me to be very doubtful.

Mr. Chairman, when I was before the committee last year on the matter of the 50 per cent increase, I was asked what it would take, how much money it would cost to meet the 50 per cent loan value, and how many veterans would take advantage of it.

I doubt very much whether very many members of this committee or very many others agreed when I indicated that it would cost about $1,000,000,000 and probably 75 per cent of the veterans would take advantage of it. I wish to call your attention to just what has happened in that regard.

As of March 31, of this year, the total loans outstanding amounted to $1,386,828,621.21.

Mr. RAGON. Is that money advanced to them? What is that item?

General HINES. That item is the total loans outstanding as of March 31, 1932.

Mr. RAINEY. On these certificates?

General HINES. On the adjusted-service certificates. Part of it, of course, was borrowed before the last act and the balance after. I will give you the difference between the two.

Mr. RAINEY. Do you know how much the Government has borrowed in order to make these loans to the veterans?

General HINES. The Government had in the adjusted-service certificate fund a certain amount of money, approximately $700,000,000, or near $800,000,000, when the increase was made. The Government had in that fund Government securities which earned 4 per cent. They had to be converted into cash and in doing that necessarily the Government had to borrow money.

Mr. RAINEY. The Government also had in that fund bonds of the Fededral reserve bank, did it not?

General HINES. No; not in that fund, Mr. Chairman. That fund had really straight Treasury certificates which were issued by the Treasury to the Veterans' Administration to cover the amount which Congress had voted from time to time to invest in that fund, to redeem these adjusted-service certificates.

Mr. TREADWAY. May I ask the gentleman one question? Does that $1,300,000,000 include the amounts that have been loaned on the service certificates that are retained in the hands of banks? Is all of this what the Government has loaned?

General HINES. That includes $60,000,000 that are in the hands of banks.

Mr. TREADWAY. The amount that you estimate now as not having been turned in to your department is about $60,000,000.

General HINES. Yes.

Mr. TREADWAY. Held by local banks?

General HINES. Held by banks throughout the country.

Mr. TREADWAY. But that is included in your aggregate sum?

General HINES. That includes all the loans that we have any knowledge of as outstanding.

Mr. CHINDBLOM. This is all principal?

General HINES. No.

Mr. CHINDBLOM. Is the interest figured up to March 31?

General HINES. The interest is figured up to March 31. I will give you the details of that. They are made up in this way.

From the adjusted service certificate fund: The committee will remember that the adjusted service certificate fund is the fund established under this act, and from year to year Congress was to appropriate to that fund in order that at the end of the 20-year period the amount appropriated at the interest that it would yield would pay the face value of all these certificates. The principal total of loans outstanding March 31, 1932, amounted to $904,733,202.09. The accrued interest uncollected on the loans made from the adjusted service certificate fund on the same date amounts to $22,453,723.13.

So from the adjusted-service certificate fund direct loans plus interest amounts to $927,186,925.22.

Redemptions from the banks are made by this fund. The law so provides. We have redeemed from the banks loans which as of March 31, 1932, were of a principal amount of $36,505,559.38.

The accrued interest uncollected on those loans from the banks amounted to $691,997.68, making a total, then, on account of the amounts paid to the banks from this fund, of $37,197,557.06. So that the total amount from the adjusted-service certificate fund is $964,384,482.28.

Prior to the last act authorizing 50 per cent loans, the Congress authorized the Veterans' Bureau to make loans to veterans from the Government converted insurance fund. That fund is a trust fund made up of premium investments to cover payments of matured Government converted insurance held by some 630,000, veterans of the World War. Instead of investing the premium receipts in Government securities as required by the law, the Congress authorized that we could make loans to the veterans from that fund and we were doing that prior to the last act authorizing 50 per cent increased loans to veterans.

So that in order to get money to make loans, we had to convert Government securities in that fund into cash and then loan, using these certificates as collateral.

That fund as of March 31 had outstanding loans to veterans amounting to $349,474,159.08. There was accrued interest uncollected of $12,969,979.85, making a total of $362,444,138.93.

I call particular attention to that item because it is involved in any proposition to pay off the balance of the bonus certificates.

In other words, we would be certainly morally bound to put the Government converted insurance fund in as favorable position as it was before we made loans on adjusted-service certificates. In other words, if they were cashed, paid off, we would have the problem of converting—replacing would be a better word—this large sum of money in the Government's converted insurance in other Government securities.

It is doubtful whether we could make investments at this time which would be quite as favorable to that fund as those that we sold to make loans on these adjusted-service certificates.

Mr. Crowther. If you have those figures, General, would you mind giving us what the accumulated interest amounts to now on the Government loans; loans from banks that have accumulated and the converted insurance fund? I want those three amounts.

General Hines. It will be the sum of these three figures: $36,001,541.76, $4,020,499.14, and $50,337,008.05, or a total of $90,359,048.95.

I am coming to that a little later in a different form which I believe will be helpful to you.

Now, the bank loans not yet presented for redemption and outstanding are $60,000,000. The number of applications for loans received since February 27, 1931—that is the date of the act authorizing 50 per cent loans—was from 2,453,625 veterans, and the number of loans actually made was 2,451,998.

Now, that does not represent, gentlemen, the total number of loans that we have made from the beginning. We have made many more loans than that. The number of certificates in force as of March 31 is 3,539,507, having a face value of $3,513,692,937.

Mr. LEWIS. What date is that?

General HINES. March 31, 1932. Of that number there is pledged with the administration 2,529,744.

I have prepared for the information of the committee a statement which gives the basic information; I did it for the purpose of having before you these sums that I am reading that will probably assist you in following me, and we will not have to repeat these sums for the record each time.

I believe you will find on that statement all of the basic information that is needed to enable you to follow me with some of these other tables.

It is important at this point to consider just what the loan value of the certificates outstanding were prior to the time that you enacted the 50 per cent loan provision.

The loan value of adjusted certificates which would have been effective under legislation enacted prior to February 27, 1931, was $863,742,664. By the act of February 27, increasing the loan value arbitrarily, that is, not taking the loan value provided on the face of the certificates, but increasing it to 50 per cent, we increased the loan value of the certificates outstanding as of March 31, from the amount that I have just read, to $1,704,354,253.

In other words, if all the veterans who are eligible to borrow borrowed, they could borrow on their certificates $1,704,354,253. The difference between that amount and the amount that I have just read, of $1,386,000,000, indicates the amount that is still available to the veterans to borrow. It is our estimate that approximately 600,000 veterans who are eligible to borrow have not borrowed up to date on their certificates, out of the total outstanding. We estimate that approximately 200,000 are not eligible because of the 2-year limit. They must be outstanding two years before they are eligible.

So we do have a group of veterans who have not taken advantage of the last act of Congress increasing the loan value up to 50 per cent.

Mr. CHINDBLOM. That item of $1,386,000,000 is not on this sheet, is it?

General HINES. I doubt if it is, because that changes monthly. We are making loans continuously at a rate of between $10,000,000 and $15,000,000 a month now.

Mr. CHINDBLOM. But that was the amount on March 31?

General HINES. That was the amount outstanding in the loan from the adjusted-service certificate fund, the Government's converted insurance fund and from the banks.

Mr. CHINDBLOM. That is all loans?

General HINES. All loans outstanding.

Mr. CHINDBLOM. Will you state the exact amount again?

General HINES. Yes. It is given on the sheet, but independently. It is $1,386,828,621.21. It is made up of three amounts on the sheet, giving the amounts from various places.

Mr. CHINDBLOM. And that is inclusive of both principal and interest?

General HINES. Principal and interest; yes, sir.

Mr. LEWIS. General Hines, have you anywhere in your papers a statement of the amount of the adjusted bonus plus 25 per cent at the time the computation was made? Was that 1924 or 1925?

General HINES. 1924.

Mr. LEWIS. Have you the figure there?

General HINES. Yes, sir. I will give it to you right now. I will refer to it in this way:

The present value of the certificates on the basis of a net single premium as of December 31, 1931, was $1,879,331,854—the total amount of certificates outstanding at that time was $3,532,433,986. The estimated present value of the net basic credit was $1,728,121,245.

Mr. LEWIS. The last sum, then, was the amount that the Government then owed—the soldiers' bonus plus 25 per cent?

General HINES. No; that is not plus 25 per cent. That is just the basic credit. I am going to give you now the 25 per cent.

The estimated present value of the 25 per cent, adding one-twentieth for each lapsed year, would be $151,210,609. Added to the previous amount, that would give you a total of $1,879,331,854.

That is the basic credit plus seven-twentieths of the 25 per cent.

Mr. VINSON. That does not answer Mr. Lewis's question, I believe, General.

General HINES. The next table will give you the full 25 per cent, Congressman.

The estimated net amount of credit—let me give you that again—is $1,407,551,398. The estimated amount of the 25 per cent is $351,-887,851. The total of those is $1,759,439,249.

Mr. VINSON. What made the difference, General, between the $1,700,000,000 item and the $1,300,000,000 item?

General HINES. The $1,407,000,000 item?

Mr. VINSON. Yes; the $1,407,000,000.

General HINES. It is the 25 per cent added to the basic credit.

Mr. LEWIS. What year was that?

General HINES. That was in 1924.

Mr. CHINDBLOM. In order to make that clear, General, in the one case you allow the full 25 per cent basic credit, and in the other case you take seven-twentieths of the 25 per cent?

General HINES. I was trying to reach the present value.

Mr. VINSON. It may be that General Hines did not understand Mr. Lewis's question, but when he gave the figure of $1,700,000,000 Mr. Lewis asked him if that included the 25 per cent increase, and he said it did not.

General HINES. I said it did not; but I was reading from another table taking the reverse of the one I have just given you. The estimated amount of the net single premium plus the 25 per cent is the amount that I have just given Mr. Lewis.

Mr. LEWIS. Then the face values in 1945 are a little more than 200 per cent of the adjusted values in 1924?

General HINES. That is right; 200 per cent. It is twice as much. It is practically a difference of $1,750,000,000.

Undoubtedly it has been referred to before, Mr. Chairman, but it might be well to call attention again to the fact that in making payments to the veterans who had died previous to this enactment we made a cash payment without adding the 25 per cent, which would further seem to emphasize the fact that the 25 per cent was added for deferred payment. Likewise, if the dependents draw, they get the basic credit only in 10 quarterly installments.

I have referred to the adjusted-service certificate fund and its operation as based upon actuarial principles; that is, the amount if appropriated each year will redeem the maturing certificates and pay off the entire amount at the end of the 20-year period. Of course, actuarially, after increasing the loan value we have upset the workings of that fund. To just what extent it will be necessary later on to make adjustments by appropriations to the fund, if Congress took no action and allowed the certificates to go to maturity, is rather difficult to gauge at this time. But I have a table here, which I feel should go into the record, indicating the amount that must be appropriated each year to the adjusted-service certificate fund to meet the certificates at their maturity, both by death or the expiration of the endowment period.

Taking this year, the estimated amount required in the fund beginning the year 1932 was $945,912,408. The estimated amount of interest that would be earned on that, at 4 per cent, which is the basic interest rate for the fund under the law, would be $37,401,555. We estimate that the maturities due to death in 1932 will amount to $21,747,087.

This table, which I would like to insert in the record, Mr. Chairman, will show the amount that has to be appropriated each year, and the earnings of that fund, if it operates without further change.

Adjusted service certificates

Estimated amount certificates in force Dec. 31, 1931	$3,532,433,986
Estimated amount in fund Jan. 1, 1932	885,975,892
Estimated deficit existing Jan. 1, 1932	59,936,516

Year	Estimated amount required in fund beginning of year, including appropriation	Estimated amount appropriation beginning of year	Estimated amount interest earned at 4 per cent during year	Estimated amount death claims during year	Estimated amount certificates maturing during year
1932	$945,912,408		$37,401,555	$21,747,087	
1933	1,086,866,376	$125,299,500	43,032,812	22,092,162	
1934	1,232,632,190	124,825,164	48,855,354	22,496,685	
1935	1,383,354,026	124,363,167	54,875,391	22,938,488	
1936	1,539,263,329	123,972,400	61,101,047	23,474,288	
1937	1,700,437,748	123,547,660	67,536,601	24,045,452	
1938	1,867,091,120	123,162,223	74,188,743	24,745,111	
1939	2,039,339,514	122,804,762	81,064,345	25,461,794	
1940	2,217,496,335	122,554,270	88,172,616	26,361,884	
1941	2,401,481,227	122,174,160	95,510,720	27,426,450	
1942	2,591,563,366	121,997,869	103,089,996	28,626,964	
1943	2,787,576,935	121,550,537	110,903,652	29,971,257	
1944	2,990,376,919	121,867,589	118,985,926	31,457,523	
1945	3,091,748,673	13,843,351	27,136,276	8,307,064	$2,646,128,736
1946	474,784,397	10,335,248	16,063,572	5,276,787	141,113,410
1947	354,254,041	9,796,269	10,224,144	3,548,399	193,752,502
1948	175,892,200	8,714,916	6,227,980	2,255,031	38,130,363
1949	148,401,685	6,666,899	5,068,706	1,839,454	41,528,637
1950	114,034,612	3,932,312	3,419,137	1,384,433	55,727,920
1951	61,368,730	1,027,334	1,227,375	502,897	62,093,208

Now, we do know, from the operation so far, that it is earning at this time better than 4 per cent—and that is brought about by the interest rates that were established by the 2 per cent above the Federal rediscount rate, and the fact that law does contain a provision that when we redeem loans made by banks the rate of interest on those loans runs at 6 per cent. I have indicated informally, during the testimony of one of the other witnesses, that I felt that that rate of 6 per cent should be changed, and bills are pending to do that.

Mr. HAWLEY. What rate are you suggesting in place of the 6 per cent?

General HINES. Four and one-half per cent, to be in keeping with the present law. I have also a submission pending before the Comptroller General asking if he can construe the existing law so that we may only charge 4½ per cent. My legal department feels that the law is very clear, and the solicitor of the department can not so construe it. As to permit me to authorized the change. However, if the Comptroller General agrees that we can, we would make the interest adjustment back, and there would be no need to change that rate unless you change the entire rate.

Mr. LEWIS. While we are on the subject of the interest rate, what interest rate was used in ascertaining the face value in 1945, and was it compounded?

General HINES. Four per cent compounded annually.

Now, there is this distinction in computing the face value: They took the total credit plus 25 per cent and used it as a net single premium, just as though you went and bought a paid-up endowment policy and paid the full amount. Actually Congress appropriates to that fund annually, or was appropriating annually, and will continue to do so unless they are paid off; so that you are paying into the fund annually, and the interest is compounded annually, and not used as a single premium.

In reality the veterans are receiving on their basic credit not only the 4 per cent, but each year a proportion of the 25 per cent added to the basic credit. That is one way of looking at the interest earnings of the fund, as against the 4½ per cent that we are charging on the loans now. The law limits the bureau so that in no event can we charge the veteran more than 4½ per cent, regardless of what the Federal reserve rediscount rate is, except in the one instance of redemptions from the banks where 6 per cent is charged.

Mr. HILL. Right there, take the basic credit of a dollar a day, and a dollar and a quarter for overseas service, and add to that the 25 per cent. That is one single paid-up premium for a 20-year endowment policy?

General HINES. That is right.

Mr. HILL. On the basis of that total basic credit, including the 25 per cent, you compound the interest at 4 per cent annually?

General HINES. That is it is compounded in fixing the amount of the adjusted-service certificate; yes.

Mr. HILL. In the fund?

General HINES. Yes. But, you mean, to get the face value of the certificates?

Mr. HILL. Yes.

General HINES. Yes, that is right. It is 4 per cent compounded annually.

Mr. HILL. Then I understood you to say that in addition to that 4 per cent compounded annually you add, as an interest item, one-twentieth of the 25 per cent?

General HINES. Oh, no; I did not intend to convey that impression. What I intended to say was this; On this basic credit, Congressman, you add what amounts to about one and one-quarter per cent a year for the 25 per cent.

Mr. HILL. You add that in one lump sum, though?

General HINES. Yes.

Mr. HILL. It is not strung out over the period of 20 years?

General HINES. No; it is a single premium. It is not added each year.

Mr. RAGON. You and I would be justified in considering that, though, General, would we not? As I understand it, the 25 per cent is considered as applying to the deferred payment.

General HINES. You would only be justified in doing it in one respect. If you were to work out the present value of the certificates you would probably want to take the number of twentieths of that 25 per cent as the years have passed by.

Mr. RAGON. But I am speaking of deferred payment. Do you mean the time that is calculated in the 20-year period, or do you mean the time that expired between the cessation of hostilities and the passage of this legislation?

General HINES. No; I am considering the time from the time the certificate was issued up to the end of the 20-year period.

Mr. RAGON. The advantage of this 25 per cent was also based on the time that elapsed during the war, was it not?

General HINES. I have not so understood it, although I know that there are some who fee :that that was considered. In looking over the early reports and statements I did not find anything of that kind, although it may have been in the mind of Congress.

Mr. RAGON. Doubtless all those things were taken into consideration.

General HINES. Yes; I have no doubt they were trying to make these certificates attractive. They talked of 40 per cent originally, and finally boiled it down to 25 per cent.

Mr. RAGON. While you are on this interest rate, I would like to ask you some questions on that.

Mr. HADLEY. May I ask a question right along the line of what you have just asked?

Mr. RAGON. Yes.

Mr. HADLEY. If the period from the departure from the service up to the date of the certificate was a part of the consideration of the 25 per cent, then certainly the committee would have provided in that act that payment should be made to the deceased soldiers of the 25 per cent, would it not?

General HINES. Yes.

Mr. HADLEY. You stated a while ago that the law did not provide for cash for that 25 per cent to the deceased?

General HINES. No; in payments less than $50 we pay cash outright, with no increase of 25 per cent. That seems to me to be almost a conclusive fact before us, that the 25 per cent was added primarily for the deferred payment.

Mr. Hadley. The discussion of this point has arisen here because of a remark that I made in the record as to my recollection. I know the fallibility of human memory, and I may be mistaken, but I have a distinct recollection, as I stated before, upon that point. I was a member of the committee at the time; and the fact that has just been developed and reiterated by General Hines, to my mind, is conclusive support of the theory that the 25 per cent was an arbitrary addition which was made at the time by reason of the deferred payment from the date of the certificate.

Mr. Ragon. If that is true, there is something to the contention that was made, I believe, by Mr. Patman that the interest on this amount of money that is used as a basic settlement from 1918 up to 1924 was justified in full payment of this certificate.

General Hines. Of course, the cases which would appear to me to be the most meritorious would be the cases of the men who were killed in action, and it seems to me, if they had intended any adjustment for the time, that had elapsed from the armistice up to the date you made the enactment, undoubtedly you would have added it to that sum. Therefore the lump sum is not paid to those dependents, but it is paid over a period of 10 installments, but only on the basic credit.

Mr. Ragon. As I understood his argument, inferentially at least, it was that these certificates, if they were going to properly represent the compensation, should have been as of the date of the conclusion of the war; that we waited six or seven years before we did that; and therefore that the amount of interest on this sum, which had not been accounted for in any way, between the cessation of hostilities or the time of the conclusion of the war up to 1924 would be a sum sufficient to cover the amount of the unearned part of this certificate. So it seems, if that is correct, and that was the only theory it was based on, that there is more or less justification for it.

General Hines. It would be rather difficult, of course, for me to say what was in the minds of the committee. I do know—the record shows clearly—that they had before them at one time the proposition of increasing it 40 per cent instead of 25.

Mr. Hawley. Mr. Chairman, may I offer a little testimony? I was on the committee. My memory is that we made it 25 per cent because the amount of interest that was due on each dollar from the date of discharge and to the time that that act was passed would amount to 25 per cent and that is why we reduced it from 40 to 25. There seems to be a difference in memory, but that is my memory. I had quite an active part in it.

Mr. Ragon. I want to conclude my questions to General Hines on that interest rate. You borrowed from the insurance fund, I believe you stated, something approximating four or five hundred million dollars?

General Hines. The Government converted insurance fund of about three hundred and fifty or sixty million.

Mr. Ragon. What rate of interest has the Governmnt had to pay on that?

General Hines. The Government?

Mr. Ragon. Yes.

General Hines. Of course we had some investments in Government securities that yielded us a very good return, probably about

5 per cent at one time. At the time we came to Congress and asked authority, as I recall it, that fund was earning about 4.535 per cent. Is that right, Mr. Breining?

Mr. BREINING. It has always been sbove 4½ per cent.

General HINES. A little above 4½ per cent. At that time it was becoming difficult to get Government securities—and that is the only kind we could invest in—the rediscount rates at that time, as you may recall, were very high, so that it made it a good investment for that fund, because the law then simply provided that the loans to veterans on their adjusted service certificates would be 2 per cent above the Federal rediscount rate in the district in which the loan was made, and some of those at that time were running as high as 7½ per cent. Congress, however, when they made the 50 per cent provision, made it mandatory that no rate would be over 4½ per cent.

Mr. RAGON. What percentage of this amount that you converted for the purpose of loaning it to the fund was to release Government securities?

General HINES. It was all in Government securities, practically.

Mr. RAGON. All of it?

General HINES. All of it.

Mr. RAGON. The whole $500,000,000?

General HINES. Well, not $500,000,000; $360,000,000.

Mr. RAGON. $360,000,000?

General HINES. That was all in Government securities. There may have been small cash balances as premiums were coming in, but to all intents and purposes practically the whole amount was invested.

Mr. RAGON. And all of that was drawing interest at the rate of about 4.59 per cent?

General HINES. Over 4½ per cent. The average was over 4½; and the average now to that fund is running about 5.17, as of last year.

Mr. RAGON. Now, that $300,000,000 item is all that the Government has had to borrow, is it, for the meeting of these certificates?

General HINES. Oh, no.

Mr. RAGON. How much have you had to borrow, General?

General HINES. I will have difficulty, probably, in answering that in the exact amount, because that is handled by the Treasury. But we do know that in the adjusted certificate fund we had about $700,000,000 when we started to make loans. Is that right, Mr. Breining?

Mr. BREINING. It ran between eight and nine hundred million of Government securities which were sold.

General HINES. We will say about $800,000,000 that was invested in Treasury certificates maturing two or three years forward. In other words, the Congress was appropriating at that time approximately $112,000,000 per year to the adjusted service certificate fund, so that the amount in that fund earning 4 per cent interest—and all these certificates were bearing 4 per cent interest—would be the amount of reserve that we should have in the fund for the certificates then outstanding.

Now, when it became necessary under the 50 per cent act to convert those Treasury certificates into cash, we simply asked the Treasury Department to enable us to have so much cash available. We were calling on them, at one time at about the rate of a hundred million dollars a week, at the peak of the loans after the 50 per cent act was passed. The Treasury converted those notes into cash. They made many loans in that period, but in most instances the loans not only included the amount of cash which they needed for our needs, but probably for other needs of the Government. Just how much they borrowed to put in that fund I have no way of telling; but I do know that the entire amount had to be converted into cash in order to meet the loans, and in addition it was necessary, in the first part of this session, to come to Congress and ask for $200,000,000 more in order that I might continue the loans to the veterans; and you made that appropriation in the early days of this session of Congress.

Now, I have a statement of that fund as it stands now.

(The statement referred to follows:)

Adjusted service certificate fund as of March 31, 1932

INCOME	
Appropriated by Congress	$1, 096, 000, 000. 00
Interest collected in cash and by deduction (from all sources)	114, 236, 350. 89
Interest accrued but uncollected	24, 487, 360. 15
	1, 234, 723, 711. 04
EXPENDITURES	
Amount paid on matured certificates	127, 476, 431. 97
Net worth of fund	1, 107, 247, 279. 07
The net worth of the fund is represented by the following assets:	
Amounts due from veterans because of loans redeemed from banks	36, 505, 559. 38
Amounts due from veterans because of direct loans	904, 733, 202. 09
Interest accrued but uncollected	24, 487, 360. 15
Cash including Treasury investments (net)	141, 521, 157. 45
	1, 107, 247, 279. 07

Mr. RAGON. What I am trying to get at is this: I am trying to find out, if I can, what the Government lost, if anything, as would be evidenced by the interest rates they had to pay on funds that they borrowed to meet this 50 per cent loan.

General HINES. I do not believe the Government has suffered any loss up to date in that fund.

Mr. RAGON. You say they had to borrow $360,000,000 from the insurance fund at a rate of practically 5 per cent?

General HINES. Well, mind you, the converted insurance fund, on its own initiative, is making these loans to the veterans. That fund is not borrowing money from the Government.

Mr. RAGON. No; that is true.

General HINES. That is premiums paid in on the life-insurance policies.

Mr. RAGON. But the Government had to pay them something in order to get this fund, did they not?

General HINES. No; maybe I can make that clear, Congressman, if you will just give me a minute.

Like any commercial insurance company, we had in the converted insurance fund investments that were purchased by premiums paid by the policyholders of that company—that is what it is—say 630,000 veterans who were policyholders of the United States Government insurance. We had that invested in all kinds of Government securities—Liberty bonds, some of the new Treasury issues, and so on—and the life insurance fund was earning on an average of over 4½ per cent.

We requested Congress, because the veterans were having great difficulty in getting loans from the banks, as you may recall, to permit us to loan to veterans on their adjusted service certificates, along with the banks—not exclusively, but along with the banks—taking the veteran's note and the adjusted service certificate as security. Now, in order to get cash to do that, we had to ask the Treasury to sell our other Government investments that were in that fund; and up to the amount that we have loaned we have sold other Government securities and put the funds into notes of veterans secured by their adjusted service certificates.

Now, the point that I was making was not that the Government had lost anything on that; but if you pay out the bonus, $362,444,000 would go to that fund to redeem the certificates we now hold. We would then be faced with the reinvestment of that large sum of money in other Government securities in order to have a reserve for the policyholders of that fund. My thought was that we would have difficulty in investing that in as good securities and to as great advantage to the fund as it was before we converted it into loans to veterans.

Mr. RAGON. This insurance fund, General, I suppose is practically all invested in Government securities?

General HINES. It has to be in Government securities or bonds of the Federal Land Banks.

Mr. RAGON. Now, when you took out of that insurance fund these securities, you had to cash them in somewhere, did you not?

General HINES. We had the Treasury sell them; yes.

Mr. RAGON. The Treasury sold them. Now, that money that you got went, I suppose, in identity, to the Veterans' Bureau?

General HINES. It went back to the fund, and from that fund we loaned to the veterans.

Mr. RAGON. You loaned to the veterans?

General HINES. That is right.

Mr. RAGON. Now, what rate of interest, if any, did the Veterans' Bureau, or that particular fund, have to pay to the insurance fund for the use of this money?

General HINES. All that that fund received for the use of that money was the rate of interest that the veteran is paying on his loan from the fund.

Mr. RAGON. That is just what I am driving at. In other words, the fund for the insurance is set aside as a trust fund?

General HINES. That is right.

Mr. RAGON. Now, the fund that you paid the veteran's loan with was another fund, I assume under your jurisdiction.

General HINES. Yes, sir.

Mr. RAGON. And you simply took out of this trust fund for the retirement of the insurance of the veteran $360,000,000 and put it over into this fund to pay this loan with, and gave the rate of interest that the veteran had to give on this loan back to this fund?

General HINES. No; I have not quite made myself clear yet. There are two distinct funds. Let me put it this way: There are three sources from which veterans can obtain loans on their adjusted-service certificates: First, the Government's converted-insurance fund, which is the trust fund made up of premiums paid in by veterans that hold commercial forms of Government insurance. That is the first fund. The second is the Government's adjusted-service certificate fund—the fund authorized under the adjusted-service certificate act to redeem all of the certificates issued, either when they mature by death or when they mature at the end of the 20 years. The third place where the veteran can make loans is from the banks themselves.

Now, loans were being made from all three sources at the same time, and the interest that they obtained originally was a rate fixed by the interest rate on commercial paper in the Federal reserve district where the loan was made, plus 2 per cent. The Government's converted-insurance fund got the same rate if they made a loan to a veteran; and the banks were on the same basis.

Now, when the law was amended in February, 1931, increasing the loan value to 50 per cent, Congress at that time said that in no case will the rate of interest be more than 4½ per cent. That meant then that even if the rate in a Federal reserve district was 5½ per cent, neither the Government's converted-insurance fund nor the adjusted-service certificate fund, except on redemptions, nor the banks could charge more than 4½ per cent; and the interest was adjusted yearly at the next maturity date, or the anniversary date, rather, of any of those loans.

Now, this is the situation that I was trying to make clear, and which undoubtedly has confused you a little, Congressman.

I was speaking of paying off the face value of the certificates as they exist now. In this Government insurance fund we have $362,-444,000 loaned on certificates of the vaterans—their notes with the certificate as security; so that if it was paid off, the Government would have to pay into this fund that amount of money and redeem those certificates. Then we would have the problem of reinvesting that money in other Government securities in order that the trust fund would have the proper reserve.

Mr. RAGON. You think that you might lose some money on that?

General HINES. Yes.

Mr. RAGON. By reason of the disadvantages of investment?

General HINES. Because of the disadvantages. I just mention that because there might have to be some adjustment made by Congress. No one can tell at this time what it would be.

Mr. RAGON. General, what does this interest rate of 4½ per cent amount to annually on the amount that you have loaned to date?

General HINES. It would be in ratio to the amount outstanding as loans.

The adjusted service certificate fund as of March 31 stood in this manner: The amount appropriated to that fund by Congress up to that date was $1,096,000,000; the interest collected in cash and by deduction from securities and loans was $114,236,350.89; interest accrued but uncollected, $24,487,360.15. So, in round numbers, the amount of income to that fund from interest so far is about $138,000,000.

Mr. RAGON. What is the annual interest derived from the veterans on this 50 per cent loan at 4½ per cent interest?

General HINES. It will run just about that amount.

Mr. RAGON. About $138,000,000?

General HINES. Annually it will average somewhat less than 4½ per cent on the outstanding loans.

For 1933 we estimated, at 4½ per cent for the amount outstanding which I have given—taking as a basis $1,350,000,000, in round numbers—it would amount to $60,750,000.

Mr. RAGON. That would be your annual interest charge?

General HINES. That would be the interest for that year. Now, mind you, it compounds annually.

Mr. RAGON. Yes.

General HINES. For the next year, 1934, it would amount to $63,483,750.

Mr. RAGON. In other words, it would cost the Government, if we were to cancel this interest of 4½ per cent, just what figure annually?

General HINES. From 1932 up to 1945, if you were to cancel all the interest, it would cost the Government $1,016,708,521.

Mr. RAGON. That would be practically a hundred million a year?

General HINES. That is right; just about.

Mr. VINSON. You mean that is the interest between this date and 1945?

General HINES. Yes, sir; $1,016,708,521.

Mr. VINSON. Now, what interest has accrued between the date of the issuance of the certificates and to-day?

General HINES. That was the amount I gave you awhile ago. The interest accrued and uncollected in the adjusted service certificate fund amounts to about $23,000,000, and in the Government's insurance fund $13,000,000 more; and then on the banks—you have not estimated that, have you, Mr. Breining?

Mr. BREINING. There is no way of telling.

Mr. VINSON. About $50,000,000?

General HINES. About $33,000,000.

Now, there is one thing that I should call your attention to, as long as you are on that particular item; because I am sure that a little later some one will ask the question.

I have a table here that is very interesting, and should go in the record, which shows the earnings of this fund if the interest rate is changed.

(The table referred to follows:)

Estimated interest earnings on loans on adjusted service certificates, showing amounts at rates 4½, 4, 3½, 3, 2½, and 2 per cent and the decrease of earnings at rates below 4½ per cent, calculated on $1,350,000,000 as at March 31, 1932

Accumulated earned interest to March 31, 1932, on loans on adjusted-service certificates:	
On loans paid from U. S. Government life insurance fund	$50, 250, 000
On loans paid from adjusted-service certificates fund	39, 750, 000
Total earning accumulated to March 31, 1932	90, 000, 000

ESTIMATED EARNINGS BOTH FUNDS FOR LOANS FOR CALENDAR YEARS 1932-1945 ESTIMATED AT RATES INDICATED

Year	4½ per cent	4 per cent	3½ per cent	3 per cent	2½ per cent	2 per cent
1933	$60, 750, 000	$54, 000, 000	$47, 250, 000	$40, 500, 000	$33, 750, 000	$27, 000, 000
1934	63, 483, 750	56, 160, 000	48, 903, 750	41, 715, 000	34, 593, 750	27, 540, 000
1935	66, 340, 518	58, 406, 400	50, 615, 381	42, 966, 450	35, 458, 593	28, 090, 800
1936	69, 325, 842	60, 742, 656	52, 386, 920	44, 255, 444	36, 345, 060	28, 652, 616
1937	72, 445, 504	63, 172, 362	54, 220, 462	45, 583, 108	37, 253, 687	29, 225, 668
1938	75, 705, 552	65, 699, 258	56, 110, 178	46, 950, 601	38, 185, 029	29, 810, 177
1939	79, 112, 302	68, 327, 225	58, 082, 315	48, 359, 119	39, 139, 654	30, 406, 384
1940	82, 672, 356	71, 060, 317	60, 115, 196	49, 809, 893	40, 118, 127	31, 014, 513
1941	86, 392, 612	73, 902, 729	62, 219, 227	51, 304, 190	41, 121, 099	31, 634, 801
1942	90, 280, 279	76, 858, 838	64, 396, 900	52, 843, 315	42, 149, 126	32, 267, 499
1943	94, 342, 892	79, 933, 192	66, 650, 792	54, 428, 615	43, 202, 854	32, 912, 847
1944	98, 588, 322	83, 130, 519	68, 983, 569	56, 061, 473	44, 282, 926	33, 571, 104
1945	77, 268, 592	64, 841, 797	53, 548, 489	43, 307, 480	34, 042, 493	25, 681, 894
Total	1, 016, 708, 521	876, 235, 293	743, 491, 179	618, 084, 688	499, 642, 398	387, 808, 303

DECREASED AMOUNTS

1933		$6, 750, 000	$113, 500, 000	$20, 250, 000	$27, 000, 000	$33, 750, 000
1934		7, 323, 750	14, 580, 000	21, 768, 750	28, 890, 000	35, 943, 750
1935		7, 934, 118	15, 725, 137	23, 374, 068	30, 881, 925	38, 249, 718
1936		8, 583, 186	16, 938, 922	25, 070, 398	32, 980, 782	40, 673, 226
1937		9, 273, 142	18, 225, 042	26, 862, 396	35, 191, 817	43, 219, 836
1938		10, 006, 294	19, 587, 374	28, 754, 951	37, 520, 523	45, 895, 375
1939		10, 785, 077	21, 029, 987	30, 753, 183	39, 972, 648	48, 705, 918
1940		11, 612, 039	22, 557, 160	32, 862, 463	42, 554, 229	51, 657, 843
1941		12, 489, 883	24, 173, 385	35, 088, 422	45, 271, 513	54, 757, 811
1942		13, 421, 441	25, 883, 379	37, 436, 964	48, 131, 153	58, 012, 780
1943		14, 409, 700	27, 692, 100	39, 914, 277	51, 140, 038	61, 430, 045
1944		15, 457, 803	29, 604, 753	42, 526, 849	54, 305, 396	65, 017, 218
1945		12, 426, 795	23, 720, 103	33, 961, 112	43, 226, 099	51, 586, 698
Total		140, 473, 228	273, 217, 342	398, 623, 833	517, 066, 123	628, 900, 218

General HINES. For instance, suppose instead of charging 4½ per cent, we reduce that to 4 per cent. Then over the same period, where I said it would cost $1,016,000,000, the earnings would only be $876,235,293.

Mr. RAGON. Have you got a figure there for 3 per cent?

General HINES. Yes. For 3 per cent it would be $618,084,688. I have it from 4½ to 2 per cent; and the table also shows the decreased amount of earnings under each one.

Mr. RAGON. Have you anything lower than 3 per cent?

General HINES. Yes; I have it at 2½ and 2 per cent. At 2 per cent the earnings would be $387,808,303. In other words, the difference there between the 4½ and the 2 per cent would be $628,900,218.

Mr. RAGON. Now, General, under the present contract, on this 50 per cent loan, suppose a man has a certificate upon which he has borrowed $500. That is usually the $1,000 certificate?

General HINES. That is the average; yes.

Mr. RAGON. Now, in 1945 can you give us any figure with exactness as to the amount that he would have coming to him on his certificate? We have had lots of guesses around here, and I would like to get an exact figure, if I can, on the $1,000 certificate.

General HINES. Yes; I have a table that shows the amount of cash to the veteran and interest charged, giving rates of 3, 3½, 4, and 4½.

Taking the average certificate of $1,000, at the age of 33, dated January 1, 1925, the 50 per cent loan having been made March 1, 1931—which many of them were, of course—in 1945, if the veteran is paying 3 per cent—some of them, of course, are paying that, but the average is over 4 per cent, so I had better take 4 per cent—in 1943 he would still have $30.66; that is, providing he made no payment of interest.

Mr. RAGON. How much?

General HINES. $30.66. In 1944 he would have $35.64. On January 1, 1945, when the certificate would mature, he would have, in round numbers, $70.

Mr. RAGON. That is at the rate of 4 per cent?

General HINES. That is at the rate of 4 per cent. At the rate of 4½ per cent he would have $13.98 in 1944 and $66.25 in 1945.

In other words, on March 1, 1931, when we made the loan to the veteran, the reserve value of his certificate was only $250.43. The actual loan value was $225.38. We loaned him $500. As a matter of fact, the certificate would not have a $500 loan value until about 1938, when a loan value of $535.73 exists under the reserve as set up under the law.

Now, the interest that the veteran would pay would be, during that period, at 4 per cent, $363.70.

I would like at this point to give you an example which I think will be helpful; and if the clerk will distribute that sheet to the committee, I think they would be glad to have it.

Here is an example that may be taken which gives you the operation of the act, I think, very well.

Suppose we had a veteran who had 178 days' service in the United States, at $1 a day. That is in excess of the 60 days for which the cash bonus has already been paid. He would get a credit of $178. He had 176 days overseas at $1.25 a day. That would give him a credit of $220. His total net basic credit would then be $398. Now, add to it in round numbers the 25 per cent, or $100, would give him a gross credit of $498. Using that as a single premium, it would buy him a $1,000 adjusted-service certificate or a paid-up endowment policy for $1,000.

The present value of that certificate on December 31, if it were issued January 1, 1925, would be $542. The amount outstanding as a lien on December 31, 1931, on the basis of the full loan value being immediately borrowed under the amendment of February 27, 1931—he borrowed $500; the rest we have taken as the accrued interest which would make it $519, so that the difference between $542 and $519, or about $23, is the equity in it at this time. The insurance value of the policy is worth about $22. The loan value under the original act, of course, would have been only $263.87.

That is a fair example. I have other tables which take the basic credit at various ages and work it out, which tables I would beglad to put in the record.

Mr. RAGON. General, what I am trying to do is to find out if there is some way whereby this interest can either be forgiven or reduced.

It seems to me, and I think the committee is friendly to that idea, that these men are being hit entirely too hard by this interest rate. If I understand you correctly, the money with which you made this loan to the soldiers, about $800,000,000 came out of a sinking fund into which we put $112,000,000 annually.

General HINES. Yes. You have appropriated up to date about $1,096,000,000 to that fund.

Mr. RAGON. That money was set aside for the purpose of finally paying off this certificate?

General HINES. That is right.

Mr. RAGON. In order to have the money with which to make this loan, you supplemented that fund with $366,000,000 that you got out of a fund set aside for the payment of the war-risk insurance?

General HINES. Yes. That was the old war-risk insurance converted.

Mr. RAGON. In other words, the veteran has been paid out of his own funds set aside for this purpose, save and except the $366,000,000?

General HINES. It may not be the same veterans, Congressman. Of course, I have no way of telling.

Mr. RAGON. No; I do not think we have any way of telling, but $800,000,000 comes out of the fund that was set aside to retire his certificates.

General HINES. That is his fund; yes.

Mr. RAGON. And the $366,000,000 is not his fund for that purpose at all?

General HINES. No. That belongs to the policyholders of the Government insurance.

Mr. RAGON. You invest the $800,000,000, in round figures, or you had it invested until you paid it out, in various securities, and so forth?

General HINES. Yes.

Mr. RAGON. It seems to me you are charging the fellow 4½ per cent interest on his money that was set aside for a certain purpose; that is, you are not doing it but we are doing it.

General HINES. The way it looks to me is this, Congressman. Congress started out on the theory that they would appropriate from year to year sufficient to the adjusted-service certificate fund, which is a special fund, to redeem these certificates, so much money so that they would always have in that fund sufficient money working to earn the difference between the basic credit plus 25 per cent and the face value of those certificates.

Now, if we do anything to interfere with the earnings of that fund—it is based on four per cent; if it should earn less than 4 per cent, it would not mature the face value of the certificates, if our actuarial calculations are correct.

Mr. RAGON. In other words, what you do is, you take this $112,000,000 annually and put it into the Treasury. You do that from 1925 up until 1945 and the interest at four per cent on that amount you think will pay off those certificates?

General HINES. Yes; that plus that which was already in the fund would pay them off at maturity and would meet the losses in the fund, that is maturities by death, as they occur.

Mr. RAGON. The $112,000,000 would not be sufficient to retire the fund?

General HINES. No. Some years we should have appropriated more. We hit on $112,000,000, but I think the last time we asked for an appropriation we asked for about $147,000,000, before we passed the 50 per cent loan provision and the fund lacked at that time, in 1931, about $35,000,000 of having sufficient money in it to be actuarily correct for the number of certificates outstanding; so that the amount invested would mature the certificates in 20 years.

Mr. RAGON. Here is $200,000,000 that this Congress has appropriated for this further purpose, not earmarked by any interest charge at all.

General HINES. It was appropriated to that fund for the purpose of loaning it to veterans on their certificates.

Mr. RAGON. There is no interest charge in connection with that amount adverse to the Government?

General HINES. No. But it was invested in interest-bearing obligations.

Mr. RAGON. So on that $200,000,000, you will be charging the veteran 4½ per cent compounded annually?

General HINES. Yes. And that part of it that we have already loaned—we have not exhausted that. I think we have probably $141,000,000 still in the fund.

Mr. VINSON. If you did not take into consideration the interest earned, you would have to have a larger amount added to the fund, General?

General HINES. That is true.

Mr. RAGON. This $200,000,000 is added to the fund.

Mr. VINSON. It is the income to this fund through the years that finally reaches the sum that will liquidate the indebtedness?

General HINES. That is correct, plus the interest which commences to work, too. In other words, the interest here accrues and we compound that.

It is quite interesting to note just how much of this is being paid. I have an idea from the amount of interest that is being paid that the veterans have already concluded that you are going to forgive the interest because there is not an effort being made to pay interest.

Mr. VINSON. Financial conditions might have something to do with that.

General HINES. That has something to do with it.

Mr. RAGON. It has a lot to do with it. Take the veterans in my State. I know that they will not pay the interest, because they can not do it—most of them.

Mr. VINSON. Some veterans can not pay that interest or any other interest.

General HINES. I have with me this morning and intend to read it to you, or give you such part of it as you wish, our study of what the veterans did with the amounts that they borrowed, as best we could determine. I had it worked up primarily because there have been so many misstatements as to what they did with the money, and whether they needed it. I would be glad to give it, if you want to have it at this point.

Mr. HILL. Just before you get to that, General, let me ask you this question. On this last sheet that was passed around, on which you have just been commenting, you calculate that the present value of the certificate on December 31, 1931, is $542.

guarantee to the country that you will not go right on doing it, which is the history of other countries.

Mr. VINSON. Referring to the securities that the Treasury has recently issued, I believe you say they aggregate $450,000,000?

Secretary MILLS. I said that we sold $450,000,000 last Monday.

Mr. VINSON. How much of that was one year term.

Secretary MILLS. $225,000,000 were 1-year certificates and $225,000,000 were 2-year notes.

Mr. VINSON. And the rate of interest on the 1-year certificates was 2 per cent?

Secretary MILLS. Two per cent.

Mr. VINSON. And on the 2-year certificates it was 3 per cent.

Secretary MILLS. Three per cent.

Mr. VINSON. You discussed the balancing of the Budget, Mr. Secretary. At the present time, do you believe that the House bill balanced the Budget for 1933?

Secretary MILLS. I think it will if you gentlemen put through the national economy program and do a few other little odds and ends of that character.

Mr. VINSON. Will it require the complete picture of the national economy program to justify your reaching the figure of $208,000,000 savings in expenditures that you stated to the Senate Committee could be made?

Secretary MILLS. I think you ought to have at least $200,000,000 of economies. I think you probably ought to have more, but you ought to have at least $200,000,000 of economies.

Mr. VINSON. That is all.

Mr. ESLICK. Mr. Secretary, you have spoken of printing press money as fiat money. If you could limit the issue to $2,400,000,000, and there were no further issue, would that be fiat money?

Secretary MILLS. Yes, it certainly would. We had $18,000,000 of free gold in the Treasury on April 25, the latest date for which the figures are available; you would therefore have practically nothing back of your additional $2,400,000,000 of currency.

Mr. HAWLEY. What effect would the passage of any of these measures pending before the committee have upon the gold stocks of the country?

Secretary MILLS. I can not measure the consequences of the passage of this bill.

Mr. HAWLEY. It would cause gold to go out of the country?

Secretary MILLS. Yes; not only cause gold to go out of the country, but cause gold to go into hiding in the country.

If the Congress of the United States is going to start printing paper currency, the people of this country are going to tuck away gold until the Congress of the United States gets its feet on the ground again. But it is not going to happen, Mr. Hawley. Nothing will persuade me that the Congress of the United States is going to vote to start the printing presses going.

Mr. HAWLEY. I asked the question because that matter has been discussed very much in the course of the hearings.

Secretary MILLS. I say to you that in my judgment the consequences are incalculable. I do not know what would happen if this bill passed. I know that it would be a major disaster.

General HINES. Yes.

Mr. HILL. Is that value calculated on what you call the basic credit of $398 plus the allowance of 25 per cent, which amounts to $100, spread over a period of 20 years?

General HINES. Yes. It is the earned part of the 25 per cent up to that date.

Mr. HILL. If you consider the $100 as part of the basic credit and simply made it $498, what would be the present value on that basis?

General HINES. It would amount to about $623, instead of $542. That would be giving the full 25 per cent.

Mr. RAGON. How much is that? $623?

General HINES. Yes.

Mr. RAGON. And the present value is $542?

General HINES. Yes. We have a complete table showing the whole total with that calculation which I shall be glad to put in the record, if you would like to have it.

Mr. RAGON. Without objection, put it in the record.

General HINES. It shows the face value, the basic credit of 25 per cent and then there is a table showing the proportional part for each year, so that you can look at it or work it out in any way you please.

(The table referred to follows:)

Adjusted-service certificate issued January 1, 1925, at age 33, for $1,000

[Reserves on a net single premium basis—Am. 4 per cent]

(1) End of year	(2) Reserve on portion purchased by net basic credit	(3) Reserve on portion purchased by 25 per cent increase	(4) Reserve on face amount of certificate	(5) One-twentieth of reserve on 25 per cent increase for each year of duration	(6) (2)+(5)
1	410.46	102.61	513.07	5.13	415.59
2	423.54	105.89	529.43	10.59	434.13
3	437.24	109.31	546.55	16.40	453.64
4	451.57	112.89	564.46	22.58	474.15
5	466.55	116.64	583.19	29.16	495.71
6	482.22	120.56	602.78	36.17	518.39
7	498.58	124.64	623.22	43.62	542.20
8	515.78	128.95	644.73	51.58	567.36
9	533.75	133.44	667.19	60.05	593.80
10	552.56	138.14	690.70	69.07	621.63
11	572.27	143.07	715.34	78.69	650.96
12	592.92	148.23	741.15	88.94	681.86
13	614.56	153.64	768.20	99.87	714.43
14	637.26	159.32	796.58	111.52	748.78
15	661.09	165.27	826.36	123.95	785.04
16	686.10	171.53	857.63	137.22	823.32
17	712.41	178.10	890.51	151.39	863.80
18	740.07	185.02	925.09	166.52	906.59
19	769.23	192.31	961.54	182.70	951.93
20	800.00	200.00	1,000.00	200.00	1,000.00

Mr. CHINDBLOM. That present value, however, is based upon the theory that the adjusted-service credit plus 25 per cent was a single premium?

General HINES. That is right.

Mr. CHINDBLOM. To be invested for 20 years at the rate of 4 per cent.

General HINES. Correct.

Mr. CHINDBLOM. However, and as a matter of fact, in the financial operations of the Government, that single premium was never paid It was broken down into 20 annual premiums.

General HINES. That is right.

Mr. CHINDBLOM. Represented by the annual appropriations that are made, of approximately $112,000,000. So that from the point of view of actual money available for the payment of these adjusted-service certificates, that single premium does not now exist and never has existed in cash or in credits, in the Treasury of the United States.

General HINES. No. You would have to appropriate more money to reach that at this time, although the fund was very close to the necessary reserve in February, 1931, when we increased the loan value.

Mr. HILL. Could not the same thing be said of the net basic credit of $398 as used in your illustration here?

General HINES. Certainly, exactly.

Mr. CHINDBLOM. It applies to both theories. You take the full 25 per cent or seven-twentieths of the 25 per cent premium and add it to the adjusted-service credit. In both cases the fact is that so far as the Treasury is concerned, so far as its financial operations are concerned, that single premium never has existed.

Mr. HILL. No; it is simply an acknowledgment of an obligation in that amount.

Mr. CHINDBLOM. It was the basis upon which the final face value of the certificate was determined.

Mr. VINSON. That is, it was used as a means of computation?

Mr. CHINDBLOM. Yes; as a means of computation.

General HINES. Of course, in the consideration of this problem, gentlemen, I think maybe the endowment feature of the policy has been lost sight of. You very seldom hear if referred to. But there is all through this whole operation a certain insurance risk that the Government is carrying. In other words, a number of veterans have already died and their policies have matured. In that case, of course, the fund has not carried it for the full 20 years and we have had to pay the face value.

Mr. HAWLEY. In your computations did you not take into consideration that a certain number would die?

General HINES. Yes, we did actuarily. That was worked out. But I just felt that we should keep somewhat in mind that there is an insurance risk traveling along with the other problem.

Mr. CHINDBLOM. How much of that insurance has been redeemed? In other words, how much has been paid out on account of death losses?

General HINES. Up to March 31, 1931, the number of certificates that have matured was 126,955. The value of the certificates maturing was $127,476,431.

Mr. CHINDBLOM. There is no other method of maturing except by death of the veteran?

General HINES. No other way.

Mr. RAGON. Then when this man pays 4½ per cent interest on this loan compounded annually, he is taking care of the death loss in effect, is he not?

General HINES. No.

Mr. VINSON. General Hines, were you the director of the bureau at the time of the passage of the 1924 act?

General HINES. Yes, I was, Congressman.

Mr. VINSON. That is my recollection.

General HINES. That is correct. I came in March 1, 1923.

Mr. VINSON. You used the term "basic credit" on one memorandum. There is also the term "service credit" used in the adjusted compensation law.

General HINES. That is correct.

Mr. VINSON. That adjusted service includes the pay per day plus the 25 per cent credit, does it not?

General HINES. The law uses the words adjusted service credit which is $1 a day for home service and $1.25 a day for overseas service. When you take the service credit and add to it 25 per cent, that is known then as the net single premium used to fix the amount of the certificate.

Mr. VINSON. Mention was made that if a veteran was killed in action the beneficiaries under the statute would merely secure the service credit. That is correct, is it not?

General HINES. He would receive the $1 a day or the $1.25 a day without the 25 per cent added.

Mr. VINSON. He does not get the 25 per cent added?

General HINES. That is correct.

Mr. VINSON. In other words, he merely receives the basic pay without the 25 per cent additional.

General HINES. That is correct.

Mr. VINSON. Is that true in case of the death of the veteran prior to the time that he files an application for a certificate?

General HINES. If he dies before he files the application?

Mr. VINSON. Yes.

General HINES. Yes, it is true.

Mr. VINSON. In other words, not only if he dies during the war, prior to November 11, 1918, but if he were to die at this time——

General HINES. And did not file an application.

Mr. VINSON. Not having filed an application for his certificate, he would merely receive payment in accordance with the number of days in the service multiplied by either $1 a day for domestic service or $1.25 a day for service overseas?

General HINES. Yes.

Mr. VINSON. And the 25 per cent credit would not be considered in arriving at the sum due the beneficiary?

General HINES. If he died before he filed an application, it applies the same way as though he died in the service.

Mr. VINSON. I thought that the other day we had an expression of the attitude of the committee in regard to what this 25 per cent actually was intended to cover. Now we seem to have some eminent authority on both sides of the question. Did you appear before the committee at the time that bill was being prepared.

General HINES. No, I did not. The bill had passed beyond the committee. I had a representative present in the final stages. I did not testify.

Mr. VINSON. Have you looked up the hearings on the bill?

General HINES. Yes; I read quite extensively from the statements that were made to the Committee on Ways and Means by the representatives of the service organizations.

Mr. VINSON. With regard to the 25 per cent credit?

General HINES. Yes, I did.

Mr. VINSON. Let us pass that for a moment, General.

General HINES. It is in the hearings. I have some more quotations from testimony here that I did not want to put in the record at this time.

Mr. VINSON. The basic foundation of the Act was adjusted service pay, as I understand it.

General HINES. The basic feature of the act was the service credit, I take it.

Mr. VINSON. That is, adjustment of service pay.

General HINES. Yes. I think the intention of Congress was to make some adjustment of the difference in pay that was paid these men in the service as against their earning power if they had remained at home.

Mr. VINSON. If it is adjustment of pay, would not the debt or the obligation of the Government go back to the time when the services were rendered, or at least to the time when the veteran severed his relations with the service?

General HINES. It would seem to. Of course, many of these men went out of the service soon after the Armistice, although the official date of the ending of the war was July 2, 1921.

Mr. VINSON. If it is a matter of adjusted-service pay and it is a debt or an obligation that was finally recognized by Congress, it would seem logically to relate back to the time of the service or the date of discharge of the soldier. Would you suggest that interest would not be logically and properly computed from that given date?

General HINES. The Congress apparently started to consider this in 1920, really before the official date of the end of the war, which was July 2, 1921. So I feel that probably the fact that there was no legislation passed at that time is responsible for it being dated three years after the end of the war. Many of those men were in the service up to 1921. There is no way for me to say what was in the minds of the committee with reference to that.

Mr. VINSON. I am asking you what you would think would be logical and fair and just, if you considered it on the basis of adjustment of service pay and if it is a debt or an obligation of the Government. Do you not think it would be fair to consider the charge of interest as relating to the time when the debt was incurred?

General HINES. I would not, if that were the only plan that was before Congress, but apparently the Congress had before it several plans of assisting these men to be rehabilitated, including the cash payment for adjustment of compensation, land settlements, and all sorts of plans.

Apparently after considering those, they determined that the only plan that they could put into effect was this adjusted service certificate plan. Having determined upon that, they naturally had to determine upon two things: First, what rate per day should we give the men as an adjustment of pay, and second, what other addition should be made for the other factors involved?

I have no doubt that they gave some consideration to the time that these men had been out of service. Whether the 25 per cent was to include all of that that should have been given to them, there is no way for me to tell. The members of the committee who served on the committee at that time probably know much more than I do about it.

Mr. VINSON. In that connection, I was thinking that possibly the 25 per cent had been finally determined upon in executive session. I have not had an opportunity to read the hearings to find out.

Mr. CROWTHER. May I interrupt the gentleman there?

Mr. VINSON. Yes. I would like to get some information on it.

Mr. CROWTHER. I was a member of the committee at that time, and, if I remember correctly, that bill was prepared by a subcommittee—was it not, Mr. Hawley?

Mr. HAWLEY. Several subcommittees.

Mr. CROWTHER. Several subcommittees; as and I think I remember it clearly, the discussions afterwards indicated that that 25 per cent was a matter of compromise. The previous date of service was considered, and also the matter of deferred payment was considered.

Mr. VINSON. Was the compromise effectuated in the executive sessions of the committee?

Mr. CROWTHER. I rather think it was, yes. But it was discussed in the general committee when they made their report.

Mr. HAWLEY. We did just as we did in the preporation of the recent revenue bill. The actual preparation of the bill was in executive session.

Mr. VINSON. I see.

General HINES. I have here a statement which is rather significant; I am not sure whether it will help you very much—it may. It is a statement by Col. John Thomas Taylor, who was the vice chairman of the national legislative committee of the American Legion, made during the course of testimony given before the committee on the days, January 31, February 1, 2, 3, 4, 5, 6, and 7, 1922.

Mr. Taylor first gives some information about the number of men out of employment and confirms what I stated previously to the committee, that there were between 600,000 and 900,000 men out of employment. In this statement, in answer to questions by Mr. Hawley, he says this:

Mr. TAYLOR. I think that the bill as framed at the present time makes the cash sufficiently unattractive to induce the men to take the other features. At the time we were considering this legislation there was hardly any way that we could arrive at really what would be the proper amount to place these men even on a stepping stone to their former economic conditions. So in the Army we stopped at the figure of a dollar a day, due to the fact that the men received $30 a month, and they got their clothing and their food, and various other things were provided for them by the Government, which brought their wages up to what was then probably ordinary living wages—that is, prior to the war—the intent being that the men in the Army should receive about the same daily wage that the ordinary laboring man receives, and we felt that the sum of $1 a day would be a fair amount to assist that man getting back on his feet, that $1 a day was increased to $1.25 for overseas service by this committee. If you will recall, we made no distinction between home and foreign service, and this committee very wisely followed the precedent established in all military affairs, that men going away into foreign service get increased compensation, which is perfectly right and just.

Mr. HAWLEY. Well, they had that law for the men overseas, is that it?

Mr. TAYLOR. Yes; that is right, and the legion has no objection to that. At that time we were very, very careful in our study, and we considered that $1 a day was just about the right amount, because that would give to each man about $400 and we felt that that was about the very lowest sum that would assist this man in properly getting back on his feet.

Now, we set out with that idea at that time. There has been a sort of sweetening of the other options so as to make them more attractive, because we are interested in the practical features of the bill.

We are interested in this legislation, not in the nature of a hand-out—no; but because it affords an opportunity for the man to get back on his feet.

Mr. VINSON. But, as I understand from the gentlemen who served on the committee at that time, the 25 per cent was agreed upon as a compromise, in executive session?

General HINES. Yes. They originally reported out to Congress a bill that carried 40 per cent and 4½ per cent interest. This was changed to 25 per cent and 4 per cent interest.

Mr. TREADWAY. Perhaps I can help clear this up. I can recall one feature to which I believe the general referred this morning at the beginning of his testimony, that the 25 per cent additional in the final bill was granted in an effort to persuade the men to retain the insurance feature, because at one time there was the possibility of options—was there not, General?

General HINES. Yes. They thought of offering them cash, adjusted-service certificates, land settlement—there are five different plans and they were originally to have options.

Mr. TREADWAY. In writing out the insurance certificate, was not the object in the mind of the committee and in the mind of the advisers of the committee an effort to show the men themselves the advantage of the retention of the insurance feature?

General HINES. That is correct, and the service organizations agreed to carry on a campaign to urge the men to take that, if they were given an option.

Mr. TREADWAY. Does not that answer our colleague's inquiry, to a very large extent?

Mr. RAGON. Gentlemen, let me suggest this. This is the third time this question has been brought up, even this morning.

Mr. VINSON. I would like to say, it may be the third time, and if it were the thirtieth time, I feel I have a right to get this information.

Mr. RAGON. I am sorry you were not here when the General first touched on this. I am making the suggestion not in any criticism of the questions that are being asked, but if we are to get on with the hearing, we must proceed. If we are going to stay on this one subject, we will not get to anything else. That has been brought up before the Committee several times.

Mr. VINSON. I thought I had the matter very clear in my own mind until the gentleman from Massachusetts a moment ago brought up another angle which upset the apple cart once again.

General HINES. I read into the record, Congressman, evidence given by the National Commander of the Legion, indicating that it was their thought that we should sweeten up this proposition.

Mr. VINSON. I understand that, but as I understood it from you and from Doctor Crowther of New York and the gentleman from Oregon, Mr. Hawley, the 25 per cent idea in the adjusted service certificates was agreed upon in executive session. Consequently Mr. John Thomas Taylor could not have been directing his testimony to that feature of it at the time he testified in the open sessions of the committee.

Mr. HAWLEY. If I may interrupt the General, all that testimony was given before we took up the final plan of the bill. There is no doubt that the testimony was offered at that time, but it would not be applicable to what occurred afterwards.

General HINES. Of course not, and I would not attempt to say what happened in executive session, Mr. Chairman. I have no idea.

Mr. RAGON. I will ask the clerk if Mr. Taylor is on the list of witnesses to appear before the committee?

The CLERK. His name has been on the calendar for two weeks.

Mr. RAGON. He is the representative of the American Legion here. Every other organization has appeared here and frankly given their stand on this question. I suggest that the clerk notify Mr. Taylor that he hold himself in readiness to appear before the committee.

General HINES. Mr. Chairman, there are just two other features——

Mr. VINSON. Before you get away from that point, I would like to direct some attention to the questions that have been asked in regard to the value of the service credits to veterans at the time of the passage of the 50 per cent loan act. It has been stated to us by one gentleman that it was his understanding that they were valued at about 51 or 52 per cent at the time and prior to the passage of that act.

General HINES. You mean the loan value that they could borrow?

Mr. VINSON. The value of the certificate to the veteran?

General HINES. Twenty-two and a half per cent was the loan value.

Mr. VINSON. That was my recollection.

General HINES. That is correct.

Mr. VINSON. And, in fact, I procured a certificate at the time of the examination and it so stated, but I wanted to have your statement.

General HINES. That is correct; it was about 22½ per cent in that year.

Mr. VINSON. In other words, the Government was not obligated at the time of the passage of the 50 per cent loan amendment to pay either 51 or 52 per cent, or any sum in excess of 22½ per cent?

General HINES. That is correct. Each certificate carries a table giving the loan value each year after the second year.

Mr. VINSON. Now in regard to this life insurance fund, $362,000,000-plus, you say you fear if it were paid that the income might not be as favorable to the fund at this time as it was——

General HINES. At the time we made the investment in certificates.

Mr. VINSON. At the time we made the sale of bonds, yes.

General HINES. You can pretty nearly answer that by taking the record of Government securities and what we have invested in Government securities at this time——

Mr. VINSON. When was the change made in the fund—the date—that you would compare to the present time?

General HINES. About 1925 or 1926. Mr. Breining tells me it is 1927.

Mr. VINSON. And you say at this time Government securities are of such a price that you are fearful the fund would be at a disadvantage, that is, would earn a lesser rate than it was earning back there at that time?

General HINES. Yes; because the securities in which that amount is invested, many of them were secured below par; many of them were very excellent investments, particularly Liberty bonds. I recall in one instance where we had a considerable profit in that group of securities.

Mr. DICKINSON. To what extent did the Treasury or the Govern ment, have to go into the market and sell securities, and at what rate of interest, in order to secure money to make these loans?

General HINES. Well they secured money for our purposes along with other Government purposes. I am not sure just what they paid on our particular money, but I know they borrowed, during the year they made these extensive loans, pretty close to a billion dollars or more, and those rates, some of them, have been very low, less than 3 per cent, and some of them 3⅛ per cent. Now just what loans the Treasury has tagged as being money for our use, I have no way of telling. I think the Treasury people, when they appear, will be able to tell you that.

Mr. DICKINSON. But to the extent that the Government charged a high rate of interest, it would be a profit to the Treasury, would it not?

General HINES. Well there is no profit to the Treasury, Congressman. The fund itself at this time is earning better than 4 per cent; the adjusted service certificate fund. So that if it continued to maturity, to the end of 20 years at that rate, there might be a balance in that fund as against any necessity for increasing the appropriation. But the Treasury as such has not received any benefits between the difference in the rate of interest which the fund is receiving from the veterans and the rate they paid on the money they borrowed. It might later on have some effect on the amount of the appropriation which we would have to make to that fund.

Mr. DICKINSON. General, did you see, about the time this 50 per cent loan was authorized, the statement in the press as coming from the Treasury that if all ex-service men holding certificates had borrowed, or would borrow, the Treasury would be the gainer, or have a profit of some $70,000,000 annually?

General HINES. No; I do not recall any statement of that kind.

Mr. DICKINSON. You do not recall any statement of that kind?

General HINES. No, sir; I do not.

Mr. DICKINSON. I recall reading a statement something like that.

General HINES. There have been a number of statements in reference to the effect the bonus had on borrowings, and so on. I have already indicated that the operation was simply one of converting at least up to $800,000,000 of Government securities in that fund into cash. The real appropriation that you made which probably affected the deficit was, first, the $112,000,000 last year which was appropriated ahead of time, and the $200,000,000 that you appropriated this year.

Mr. DICKINSON. One further question on another subject that was referred to—the number of ex-service men who have gotten their certificates within the two years, on which they can not borrow.

General HINES. Yes, sir.

Mr. DICKINSON. Are you friendly to legislation, which I think will be introduced, by which they will be permitted to borrow?

General HINES. I can see no objection to that, Congressman. The only thing it does is it upsets the actuarial status of the fund and it does grant a man a loan on a certificate that has not the loan value that he would be able to obtain. Actuarially, it is unsound. As a matter of expediency, if it would be helpful—and it would certainly be helpful probably to 200,000 veterans—I can not see that it would seriously affect the fund, although it will cost more money; I am sure of that.

Mr. DICKINSON. I have run across a number of Members of Congress who have a great many veterans who were not aware in some instances, of their right to borrow and within a comparatively recent period have incurred an indebtedness and made an application for a loan; but, because of the two years' provision, they were not able to get the loan.

General HINES. I have a little data here on that very subject that would be well to put in right now. The estimated number of certificates in force December 31, 1931, which have not a loan value on that date, are as follows: Estimated number and amount of adjusted-service certificates that will mature in 1931, that is, the loan value will mature in 1931, about 198,000, having a face value of $140,000,000 and odd thousands; those that will become available for loans in 1932, 87,371; in 1933, 109,584. So that this year 87,000 will obtain a loan value and next year 109,000 more will be eligible for loans, even if no change is made in the law.

Mr. DICKINSON. Thank you.

Mr. HILL. I would like to ask you just a couple of questions, General. You spoke some time ago about the insurance feature. In calculating the present value of the certificate of a veteran, do you make any deduction for insurance protection?

General HINES. Yes, sir.

Mr. HILL. Do you take into consideration the age of the veteran in calculating the value?

General HINES. We do. We take the age and the basic credit and use it on the American Experience Table of Mortality at 4 per cent, and with that as a single premium give a face value to the certificate.

Mr. HILL. When these certificates are first issued to the veterans, is the age a factor in determining the face or maturity value?

General HINES. Yes, sir; it is a factor.

Mr. HILL. It is a straight-out insurance proposition?

General HINES. It is a straight-out insurance proposition; it is really a paid-up endowment policy and only lacks one feature and that is the cash-surrender value. There is no table of cash-surrender values, although there is a loan value entered right on the certificate.

Mr. HILL. Then a man 30 years of age taking one of these certificates would have a higher maturity value than a man 40 years of age taking out a certificate for the same amount?

General HINES. Exactly; under the American Experience Table of Mortality, he would have.

Mr. LEWIS. General Hines, I would like to ask you to prepare a table assuming the Government owed the soldier $400 on January 1, 1920, and then showing for each succeeding year up to 1945 the amount of that $400 plus 4 per cent compounded annually.

General HINES. Yes, sir; we will be glad to put that in.

Mr. LEWIS. You understand what I want.

General HINES. Yes; you wish, assuming that the soldier had a credit in 1920 of $400——

Mr. LEWIS. Yes.

General HINES. You would like to know the value, year by year, from 1920 to 1945 at 4 per cent interest compounded annually.

Mr. LEWIS. Yes. That is a clear debtor and creditor relation.

General HINES. Yes. We will work that out and put it in our hearing.

(The table referred to follows:)

Table showing amount of $400 at compound interest 4 per cent per annum for each year from January 1, 1920, to January, 1945

	Interest	Principal		Interest	Principal
January—			January—Continued.		
1920		$400.00	1934	$26.63	$692.59
1921	$16.00	416.00	1935	27.70	720.29
1922	16.64	432.64	1936	28.81	749.10
1923	17.30	449.94	1937	29.96	779.06
1924	17.99	467.93	1938	31.16	810.22
1925	18.71	486.64	1939	32.40	842.62
1926	19.46	506.10	1940	33.70	876.32
1927	20.24	526.34	1941	35.05	911.37
1928	21.05	547.39	1942	36.45	947.82
1929	21.89	569.28	1943	37.91	985.73
1930	22.77	592.05	1944	39.42	1,025.15
1931	23.68	615.73	1945	41.00	1,066.15
1932	24.62	640.35			
1933	25.61	665.96	Total	666.15	

General HINES. Now, Mr. Chairman, shall I proceed? There are two other features I was going to take up, or I can come back tomorrow, if you wish.

Mr. RAINEY. Well we have 20 minutes remaining; suppose you proceed for that time.

Mr. CHINDBLOM. Mr. Chairman, while the general is looking for his papers, although we have had a great deal said about the 25 per cent credit that was added to the adjusted service pay, I have before me the report of the Committee on Ways and Means, on the first World War adjusted compensation bill submitted to the House on May 21, 1920, that contained a 40 per cent credit over the adjusted service pay, and I find this language in that report:

> The final expense to the Government, if all of the veterans accepted Title III—

That is the one for adjusted service certificates—

> * * * would be very much greater than under the cash system; but it is felt it will be of so much more benefit to the veterans that it should be very popular with them.

That is in the report of the committee submitted by Mr. Fordney on May 21, 1920, on the first World War adjusted compensation act.

General HINES. May I proceed now, Mr. Chairman.

Mr. RAINEY. Yes, sir.

General HINES. Because of the constant inquiries for information pertaining to the subject of what the veterans did with the money borrowed under the 50 per cent act, I think in fairness to them and to all of us, we should give you the benefit of the study made by the Veterans' Administration. I have indicated generally to Congressman Patman the result and probably it has been available; but the details have not heretofore been given out.

First, we endeavored to get this data from our field offices after contacting the service organizations and the various agencies in the field. The data, in the main, was collected from sources which it might be claimed were favorable to the veterans, but it was called for in such form that it is felt it represents a fairly accurate picture of the matter. It was especially desired to learn the relative per cent of the veterans, who made loans, who were actually in need of such funds, either for the usual necessities of life due to unemployment, abnormal business conditions, or other adverse circumstances. The study was made for the purpose of determining the actual facts as nearly as possible with no desire to reach any conclusion other than what the figures actually showed. A study of them will not result in all reaching the same conclusion, but it is felt that the administration has dealt fairly and impartially with the question.

The various managers obtained the data on which their estimates were based through contacts with the veterans personally and by questionnaires, from representatives from veterans' organizations, veterans' welfare boards and commissions, the American Red Cross, financial institutions, business organizations, automobile dealers, business and merchandising firms, and other similar organizations.

At the time the study was completed loans had been made in the amount of $804,435,325 to approximately 2,000,000 veterans. An analysis of the estimates of the various managers indicating the conditions prevailing in the territory over which they have jurisdiction, when combined, indicate that for the country as a whole the funds obtained through loans were used as follows:

First. That $281,552,364, or 35 per cent of the total amount was loaned to approximately 700,000 veterans who used such funds for investments, deposits in savings accounts, purchase of automobiles, and for purposes resulting in no practical benefit to themselves or dependents. It may be said that the analysis does not reveal that there was any great need impelling this group actually to borrow the funds.

Second. That $265,463,657, or 33 per cent of the total, was loaned to approximately 660,000 veterans who used the funds primarily for personal and family necessities, but who either were not unemployed or considered in necessitous circumstances.

Third. That $257,419,304, or 32 per cent of the total amount, was loaned to approximately 640,000 veterans who were considered to be in actual need of such funds for personal and family necessities due to unemployment or other adverse circumstances.

Now to put it another way, Mr. Chairman, and probably a simpler way, would be to say that the average percentage of veterans obtaining loans for personal and family needs was 65 per cent; the percentage of veterans who used the funds secured for investment purposes, 20 per cent; percentage of veterans who used the funds secured for purchase of automobiles and purposes undetermined, about 8 per cent; percentage of veterans who utilized the funds in such a way as to receive no practical benefits therefrom, 7 per cent.

Now it should not be interpreted that this first group of 700,000 veterans, or 35 per cent of the total, did not put their funds to good advantage; but the study that I was trying to get information on was whether there was an actual necessity for the loans, rather than whether they borrowed them and placed them in savings banks, or made proper investments. So that I would say a general analysis of the proposition is that a very small percentage wasted their funds; that a small part of the whole actually had to borrow; in other words, about 660,000, I should say, out of the 2,000,000 were really in urgent circumstances and needed to borrow.

Now if the committee desires the details given in the various areas, I will be glad to put this report in the record; but that is a summary of a mass of information.

Mr. RAINEY. You have that permission; we will be glad to have you do it.

General HINES. Mr. Lewis, I can give you the answer to your question now, but not in the form of a table that has been worked out. Starting with 1920 at 4 per cent, compounded annually, in 1932, that would be $640.35; in 1945, twenty-five years, $1,066.15.

Mr. LEWIS. If you will extend the table, I will appreciate it.

General HINES. We will put the table in.

Mr. LEWIS. You will extend the table on through and put it in the record?

General HINES. Yes, sir.

Mr. VINSON. Does that include the 25 per cent?

General HINES. That is the straight $400 at 4 per cent, compounded annually for 25 years. (The report referred to is on file with the committee.)

General HINES. Now, Mr. Chairman, there is not anything further I desire to say on this question except to indicate that I have here, and will be glad to take up, if the committee so desires, the various bills that have been submitted to us and give an estimate of the cost. Some 56 bills have been introduced in the House in various forms, all the way from paying the face value, to forgiving interest, and paying the present value and various forms. I would not attempt to analyze all of the 56, but I could, if the committee so desires, either start now or come again to-morrow and give you an analysis of typical bills under the various plans that have been suggested.

Mr. RAINEY. You have 10 minutes remaining and to-morrow we have a very crowded docket. Suppose you continue for the remaining time.

General HINES. H. R. No. 1, which was introduced by Mr. Patman, contemplates, first, full payment at face value of all adjusted-service certificates immediately; second, remission of interest that would accrue under the present act after October 1, 1931; and, third, provision is made for payment to estates of the veterans instead of designated beneficiaries when application has been made by the veteran for payment of the face value, and certain provision is also made for the filing of claims made by the veteran but not filed prior to the date of his death.

The face value of the certificates outstanding as of January 31, 1932, when we analyzed this bill, amounted to $3,513,175,864. The total outstanding indebtedness at that time was $1,351,226,561.91, which would leave an amount due the veterans at face value of $2,161,949,302.

The amount to be reimbursed the United States Government insurance fund would be $356,532,493.77; amount to reimburse banks at that time, $75,000,000.

Total amount to be paid out from the adjusted-service certificate fund would be $2,593,481,795.86. Adding the interest to be remitted on the adjusted-service certificate fund, $12,671,575.46, that would make a total of $2,606,153,371.32.

Less the unexpended available balance in the fund as of January 31, 1932, $183,327,357.16, this bill then would require an additional appropriation of $2,422,826,014.16.

The next bill is known as H. R. 24, by Congressman Clancy, and the only change effected by this proposed bill would be to stop the charging of interest after the date of the passage of the act. Assuming an estimated amount of the outstanding loans on December 31, 1931, at $1,300,000,000, that bill would cost the amount I stated previously, about $1,003,854,922.

Mr. RAINEY. Have you the bill introduced by Judge McKeown of Oklahoma? He just submitted a memorandum to us.

General HINES. I think I have. I have one here, H. R. 7108, by Mr. McKeown.

Mr. RAINEY. I wish you would explain that so the committee can understand it.

General HINES. This is known as H. R. 7108, and the apparent intent of the proposed bill is to refund all interest collected on the loans made under the amendment to the act dated February 27, 1931. It would also have the effect of discontinuing future interest charges. The bill would affect the investment of the United States Government insurance fund and would provide for reinvestment of the amount now invested for the fund on loans on veterans adjusted-service certificates. If interest is to be discontinued, specific provision should be made to discontinue the interest now required to be charged by section 502 of the act.

Mr. RAINEY. Did you hear Judge McKeown's statement?

General HINES. No, I did not; but Mr. Breining did. On the bill that I have referred to, we estimated the cost of that would be $1,033,344,000.

Mr. Breining has just handed me this bill authorizing the Treasury Department to transfer adjusted-service certificates to banks upon the payment to the Treasury of the United States of the amount of the Government loan upon the certificate, with the right of the bank to deposit such certificate in the Treasury, with the privilege of issuing their notes to the amount of the present value of the certificates, and out of this bank note issue to pay the balance due on the certificates, less the amount of interest due the Government on loans.

Mr. VINSON. Have you had an opportunity to study that, General?

General HINES. What is that?

Mr. VINSON. Is that the first time you have seen that?

General HINES. This is the first time I have seen it. We have not analyzed it, but I think I can see exactly what the plan is there. If I interpret it correctly, it would be to permit the banks to take the adjusted-service certificates at their face and use them as security for the issue of money; in other words, I assume those certificates would be used very much the same way as the 40 per cent gold reserve plus 60 of Government securities in the hands of a bank, and the banks would retain those.

Now there is the administrative difficulty, of course, at the outset, that I see, and that is what plan is proposed for the purpose of redeeming these certificates that are now in the hands of banks, those in the hands of the Government converted insurance fund, and those now in the adjusted-service certificate fund. We have, as I have indicated, about 2,500,000 of those certificates in our possession, already pledged. It seems to me this is more a question which the Treasury people ought to answer in the matter of the inflation of currency; because it is a straight proposition of using the certificates, that have a loan value now of $1,704,000,000, as security for the maturity value of $3,500,000,000.

Mr. VINSON. Of course in addition to the face value of a billion dollars, you would have whatever the value of the certificates is that are in lien, would you not?

General HINES. Well we have already advanced money up to more than their reserve value.

Mr. VINSON. If that lien were liquidated, of course then you would turn loose the value of those certificates.

General HINES. Yes; you would do that. Now, as a matter of fact, I understand this to mean also that the fund which is to redeem those certificates would be maintained intact and would continue to function for the full 20 years. It seems to me it is a matter of handling Government finances that is a little bit beyond me and which the Treasury ought to give some consideration to.

Mr. CROWTHER. That contemplates distributing the $112,000,000 among the banks and the banks, in the first place, paying the Government's lien to them; before they get possession of the certificate, they have to pay the Government the $500 on the $1,000 certificate; then they are to have notes charged against the balance, less interest on the loan, say, for two years—national-bank notes; then the Government is to distribute this $112,000,000 sinking fund among the banks and it puts the burden of earning the 4 per cent compound interest for the rest of the value on the bank instead of on the Government. That is all.

General HINES. The natural question would arise in my mind, what is the bank to receive for doing all this administrative work and handling this—just the advantage of issuing more money?

Mr. CROWTHER. Yes; and then I think Mr. McKeown plans to give them the interest on the loan—let them have the whole of the interest for the two years.

Mr. VINSON. I am inclined to think the banks would not be particularly hostile to the plan; that they would get well paid.

General HINES. Probably not. Of course there is no question but what the certificates are good. They bear the name of the United States and would be redeemed; but, at the present time, they would not have the value of the currency which you would issue against them, under this plan.

Mr. RAINEY. I think the committee would like to have you continue your analysis of the bills in the record, if you are willing to do it, particularly the Thomas bill.

(General Hines's analysis of the Thomas bill follows:)

The bill provides for payment of the face value of all adjusted-service certificates immediately, less the loan indebtedness on such certificates, and for cessation of interest charges on loans after the date of passage of the proposed bill. For the purpose of providing funds, the bill authorized the issue of bonds to be distributed by the Administrator of Veterans' Affairs to the Federal reserve banks, which banks would be authorized to issue Federal reserve bank notes to pay drafts of the Administrator of Veterans' Affairs drawn against such banks.

There is appended a statement showing the amount of funds that would be required and the additional cost to the United States due to acceleration of payment from 1945 to 1932. The statement also includes an estimate of the amount of interest on 30-year bonds at 2 per cent as provided in the act.

No comment is offered concerning the basic economy of issuing currency in the manner provided for in the bill. It is believed that such comment should emanate from the Treasury Department.

While the proposed bill provides for payment of interest on amounts due the United States Government life-insurance fund, no provision is made for payment of interest on amounts due banks and it is believed that banks will be entitled to interest as provided by the present act for the full terms of the contracts between such banks and the veterans, the present act being necessarily a part of such contracts.

With regard to the method of handling bonds set forth in the act, this is believed to be impracticable. The handling of bonds should be left entirely to the Treasury Department and checks should be drawn by the Administrator of Veterans' Affairs on the Treasurer of the United States as is the present practice, the Treasury Department then should be authorized to distribute bonds in whatever manner may be appropriate. The administrative cost of drawing checks on various Federal reserve banks and providing bonds for each bank to cover the checks drawn would be tremendous.

[S. 3874, S. 4350 (Senator Thomas)]

Estimated amount required as of January 31, 1932

Face value of outstanding certificates	$3, 513, 175. 864. 00
Indebtedness of veterans under present Act	1, 351, 226, 561. 91
Total amount due veterans	2, 161, 949, 302. 09
Amount to be reimbursed to United States Government life-insurance fund	356, 532, 493. 77
Amount to be reimbursed to banks	75, 000, 000. 00
Total amount to be paid from adjusted service certificate fund	2, 593, 481, 795. 86
Less unexpended balance available in fund Jan. 31, 1932	183, 327, 357. 16
Additional appropriation required	2, 410, 154, 438. 70

Additional cost on account of advance of payment from 1945 to 1932

Face value of outstanding certificates as at Jan. 31, 1932		$3, 513, 175, 864. 00
Deduct:		
Present value of certificates calculated on basic credit applied on single net premium basis	$1, 728, 121, 245. 00	
Plus earned portion of the 25 per cent additional credit granted on account of deferred payment (7 years)	151, 210, 609. 00	
Net present value of outstanding certificates		1, 879, 331, 854. 00
Added cost on account of accelerated payment		1, 633, 844, 010. 00
Estimated interest on 30-year bonds under proposed bill at 2 per cent compounded annually		1, 955, 506, 712. 00

Mr. HAWLEY. General, have you a statement of how much the States and municipal subdivisions of the States have provided in the way of relief of veterans?

General HINES. Yes, sir; I have.

Mr. HAWLEY. How much is it?

General HINES. In round numbers, about $520,000,000. In June, 1930, a rather comprehensive study was compiled on this question of benefits and reliefs extended to veterans by various States. Governors and other departments of all States were contacted for the information solicited. The report shows that from April, 1917, to June, 1930, as far as could be determined from the figures submitted, it is shown that 19 States have given $351,291,853 as a bonus; $39,034,112 emergency relief; $7,543,221 for educational benefits, and $10,450,278 for expenses of administration; also burial benefit of $1,590,314.

The total of all benefits definitely reported for all veterans including bonuses and administrative expenses, but excluding loans, was shown to be $519,791,190. In addition to the above, it was indicated that expenditures for State soldiers homes and hospitals amounted to $68,221,461 and, for other homes, memorials, and so forth, $4,957,738, also loans amounting to $56,890,196. I have that analyzed in detail, but that is a summary of it. Fifteen States have reported State pensions of $95,618,496 on account of veterans of all wars.

Mr. RAINEY. I think we would like to have that in the record, to show what the States have done.

General HINES. The summary I have shows it by States and in detail.

Mr. HAWLEY. General, how much has the Government of the United States already paid on account of veterans of the World War, for all purposes?

General HINES. Approximately $6,000,000,000.

Mr. HAWLEY. Approximately $6,000,000,000?

General HINES. $6,000,000,000 up to date and, as best I can estimate, if we continue at our present rate without increasing, somewhere by 1945 we will probably expend $21,500,000,000, which will equal the cost of our participation in the World War; just about.

Mr. HILL. You mean that much additional?

General HINES. No; that would be the total in 1945, if we continue as we are going now. Without any other addition than the annual increases of the loans authorized by laws already on the statute books, I think by 1945, our expenditures would just about equal those of our participation in the World War—$21,500,000,000. We have spent for veterans of all other wars previous to the World War, up to date, $8,000,000,000.

Mr. HAWLEY. Did you ever read General Sharman's comment on hostilities?

General HINES. Yes; I agree with him.

Mr. HAWLEY. And the after effect is as expensive as the operation?

General HINES. We are practically financing another war, of course, and it is a subject which merits very careful consideration and I am sure the Congress will give that.

Mr. CHINDBLOM. When you say the cost of our participation in the World War was $21,500,000,000——

General HINES. That is our net.

Mr. CHINDBLOM. You mean outside of our contributions to foreign nations?

General HINES. Yes. I am not taking into account any of the indebtedness or loans made after the armistice, or anything like that.

Mr. RAINEY. Was that in addition to that?

General HINES. Yes; that is all in addition to that.

Mr. CHINDBLOM. Yes; our national debt at one time was $26,000,000,000.

Mr. Rainey. Are there any further questions? If not, thank you, General Hines.

Study Indicative of the Disposition Made by Veterans of the World War of the Funds Obtained Through Loans Secured on Adjusted Service Certificates Under the Provisions of the World War Adjusted Compensation Act as Amended February 27, 1931, and of the Employment Status of the Veterans Obtaining Such Loans

August 28, 1931.

The report is based upon information submitted by the managers of the 54 Veterans' Administration field stations located in the various States and in the District of Columbia, and upon data obtained from the Department of Commerce, Bureau of the Census, revealed by a study of the 1930 census. The information submitted has been combined and tabulated as indicated in the attached exhibits.

Exhibit A contains extracts from the communications received indicating the sources from which the data were obtained and the general impressions formed by the managers. It is shown that contacts were made with veterans, personally and by questionnaire, representatives of veterans' organizations, veterans' welfare boards and commissions, the American Red Cross, civic associations and social agencies, local newspapers, financial institutions, business organizations, automobile dealers, business and merchandising firms, chambers of commerce, real estate dealers, postmasters, city and county tax collectors, and police officials. Communications received from veterans in connection with their applications for loans were reviewed.

Exhibits B and C contain tabulations of percentage estimates submitted indicative of the per cent of veterans who used their loan funds for—

(A) Personal and family necessities.
(B) Investments and deposits in savings accounts.
(C) Purchase of automobiles—purpose undetermined.
(D) Expenditures resulting in no practical benefits and of the employment status of veterans obtaining.
(A) Per cent of veterans obtaining loans who were unemployed.
(B) Per cent of veterans obtaining loans who were employed.

ANALYSIS OF ESTIMATES SUBMITTED BY MANAGERS OF VETERANS' ADMINISTRATION FIELD STATIONS

The following represents the combined percentage estimates submitted by the various field stations under the headings indicated. The combination is by Veterans' Administration areas, each area representing approximately 12 States.

Purpose for which funds were used (percentage estimates)

	Personal and family necessities	Investments and deposits in savings accounts	Purchase of automobiles, purpose undetermined	Expenditures resulting in no practical benefits	Total
Eastern area	71.6	14.3	7.1	7	100
Central area	62.9	24.5	7.4	5.2	100
Southern area	66.1	15.4	9	9.5	100
Western area	60.3	27.5	6.4	5.8	100
General average	65	20	8	7	100

The total amount of loans made to veterans under the act, as amended February 27, 1931, up to and including July 11, 1931, was $804,435,325. This amount was loaned to approximately 2,000,000 veterans of the World War. Accepting the percentage estimates indicated above as being reasonably accurate and assuming that the per cent of veterans who expended the funds for the purposes indicated received a corresponding per cent of the total funds loaned, the use of the funds obtained through loans would be apportioned as follows:

Use of funds	Per cent of veterans obtaining loans	Number	Amount of loans obtained
Personal and family necessities	65	1,300,000	$522,882,961.25
Investments and deposits in savings accounts	20	400,000	160,887,065.00
Purchase of automobiles—purpose undetermined	8	160,000	64,354,826.00
Expenditures resulting in no practical benefits	7	140,000	56,310,472.75
Total	100	2,000,000	804,435,325.00

The managers of the various field stations have also submitted estimates as to the percentage of unemployment among the veterans who obtained loans on their adjusted-service certificates under the act, as amended. In this study special consideration was given to the veterans using funds for personal and family necessities which represented 65 per cent of the total. The combined estimates submitted, grouped by Veterans' Administration areas, indicating the employment status of veterans obtaining loans are as follows:

	Per cent unemployed	Per cent employed	Total
Eastern area	46.4	53.6	100
Central area	41.7	58.3	100
Southern area	38.1	61.9	100
Western area	34	66	100
Total	40	60	100

An analysis of the unemployment data submitted further indicates that 32 per cent of the veterans obtaining loans were unemployed and in distressing circumstances, and that 8 per cent of the veterans obtaining loans were unemployed, but not in distressing circumstances, making a total of 40 per cent of unemployment.

The following tabulation represents the employment status of veterans obtaining loans expressed in terms of the use made of such funds and the amount so used:

	Per cent of total	Number	Amount of loans obtained
Use of funds, veterans unemployed:			
Personal and family needs—			
Distressing circumstances	32	640,000	$257,419,304.00
Nondistressing circumstances	8	160,000	64,354,826.00
Total unemployed	40	800,000	321,774,130.00
Use of funds, veterans employed:			
Personal and family needs	25	500,000	201,108,831.25
Investments	20	400,000	160,887,065.00
Purchase of automobiles	8	160,000	64,354,826.00
Expenditures resulting in no practical benefit	7	140,000	56,310,472.75
Total employed	60	1,200,000	482,656,195.00
Grand total	100	2,000,000	804,435,325.00

In evaluating the estimates indicated above it is believed that consideration should be given to the fact that on March 31, 1931, at which time the largest number of loans were being made, there were 440,464 World War veterans receiving benefits in the form of disability compensation or disability allowance. There were other veterans who were receiving benefits in the form of hospitalization and domiciliary care, etc. If the ratio of unemployment amongst these veterans is approximately the same as that amongst male wage earners within the veteran age group, which is estimated to be 11.7 per cent, and if it may be assumed that all unemployed veterans obtained loans, then approximately 50,000 of the 800,000 unemployed veterans who obtained loans were receiving monetary benefits from the Government at the time the loan was made. The number of unemployed and not in receipt of monetary benefits from the Government would be, therefore, 750,000 which represents 37½ per cent of the total number of veterans obtaining loans, the amount involved being $301,663,246.87.

ESTIMATES BASED UPON ANALYSIS OF INFORMATION OBTAINED FROM THE DEPARTMENT OF COMMERCE

A comparative study relative to unemployment amongst veterans has been made based upon information released by the Department of Commerce, Bureau of Census, in connection with the census taken in April 1930, and upon employment estimates released by the department during the spring of 1931.

The census of 1930 indicated that the total number of wage earners unemployed was 3,187,647, of which number 1,279,654 were male wage earners within the age group 30 to 54.

The Secretary of Commerce in a statement dated March 21, 1931, estimated that the total unemployment at that time was 6,050,000. If the same ratio prevailed at that time between the total unemployment and the males unemployed within the age group 30 to 54, the males unemployed in that group in 1931 would be 2,428,721. It is estimated that approximately one-third of the male population or 20,712,360 are within the age group 30 to 54. The per cent of unemployment within that group would be, therefore, 11.7.

The number of living male World War veterans is estimated to be 4,292,329. It is believed that approximately all of such veterans are within the age group 30 to 54. Assuming that the male World War veterans are unemployed in the same ratio as other male wage earners within that age group, the total number of male veterans unemployed in the spring of 1931 would be 502,202, which number represents approximately 25 per cent of the total number of veterans obtaining loans under the adjusted compensation act, as amended.

If it may be assumed that this 25 per cent of the veterans received 25 per cent of the total loans made, then the amount loaned to unemployed veterans would be $201,108,831.25 This would leave, under this analysis, a total amount loaned to veterans who were employed of $603,326,493.75. On this basis the distribution of funds loaned would be apportioned as follows, as compared with the apportionment based upon the estimate submitted by the managers of the various field stations of the Veterans' Administration:

	Per cent of total	Number	Amount of loans obtained
Unemployed:			
Personal and family needs—			
Distressing circumstances	20	400,000	$160,887,065.00
Nondistressing circumstances	5	100,000	40,221,766.25
Total unemployed	25	500,000	201,108,831.25
Employed:			
Personal and family needs	40	800,000	321,774,130.00
Investments	20	400,000	160,887,065.00
Purchase of automobiles	8	160,000	64,354,826.00
Expenditures resulting in not practical benefit	7	140,000	56,310,472.75
Total employed	75	1,500,000	603,326,493.75
Grand total	100	2,000,000	804,435,325.00

As previously indicated in this submission, it is estimated that approximately 50,000 veterans who obtained loans were receiving monetary benefits from the Government. The above analysis indicates that 500,000 of the veterans who obtained loans were unemployed. The number unemployed and not in receipt of monetary benefits from the Government would be, therefore, 450,000, which represents 22½ per cent of the total number of veterans obtaining loans, the amount involved being $180,997,948.12.

COMPARISON OF THE ANALYSES OUTLINED ABOVE

A comparison of the two studies outlined above reveals that between 25 and 40 per cent of the veterans obtaining loans, or between 500,000 and 800,000 were unemployed, and that they received loans amounting to between approximately $200,000,000 and $320,000,000. Of this number it is shown that between 400,000 and 640,000 were in distressing circumstances, and that this number received loans in an amount between approximately $160,000,000 and $260,000,000. The funds obtained by the unemployed were expended primarily for personal and family necessities.

It is also shown that between 60 and 75 per cent of the veterans obtaining loans, or between 1,200,000 and 1,500,000 were employed, and that they obtained loans in an amount between approximately $480,000,000 and $600,000,000. These funds were used for personal and family necessities, investments, purchase of automobiles and expenditures resulting in no practical benefit.

It is further indicated that by deducting the number of veterans receiving monetary benefits from the Government at the time the loans were made from the estimated number who were unemployed, as revealed by the two studies outlined above, the number of veterans obtaining loans who were unemployed and not in receipt of monetary benefits from the Government would be between 750,000 and 450,000 and that they obtained loans in an amount between approximately $301,000,000 and $180,000,000.

It has been estimated that approximately one million wage earners are unemployed in normally prosperous times. It is estimated that of this number approximately 60,000 are World War veterans. In determining the number of veterans unemployed due to abnormal industrial and economic conditions, the estimates indicated above would be correspondingly reduced. By making this deduction, the number of veterans obtaining loans who were unemployed as a result of abnormal industrial and economic conditions and not receiving monetary benefits from the Government would be between 690,000 and 450,000 or between 34¼ per cent and 19½ per cent of the total number of veterans obtaining loans, the amounts involved being between $277,530,187.12 and $156,866,888.37.

In view of the fact that the estimated unemployment of 6,050,000 made by the Secretary of Commerce on March 21, 1931, was based upon a special census of unemployment in 19 of the larger cities taken in the latter half of January, 1931, during which month unemployment normally reached a seasonal peak, and at the time which probably represented the highest point of abnormal unemployment due to the business depression, it is probable that the per cent of unemployment amongst veterans obtaining loans based upon such estimates more nearly represents the true unemployment conditions amongst veterans than does the estimates submitted by the managers of the various field stations of the Veterans' Administration.

In connection with this study it may be observed that with the passage of the amendment to the adjusted compensation act, February 27, 1931, it was expected that the distribution of funds to be obtained through loans under the amendment would appreciably improve business conditions. This study reveals that a large portion of the funds obtained were used by the veterans to liquidate indebtedness previously incurred rather than placed in trade channels which would stimulate business. This fact, it is believed, may be considered as one of the primary reasons why the release of such funds did not stimulate business activities to the degree which might have been reasonably expected.

[Extracts take from communications submitted by managers of the various field stations relative to the disposition made by veterans of funds secured through loans on their adjusted-service certificates]

EXHIBIT A

Phoenix, Ariz.; communication dated May 28, 1931:

"It may be of interest to note that we have 806 certificates in this office on which previous loans have been made from 1927 to 1931, on which additional loans up to 50 per cent have not been taken advantage of."

Little Rock, Ark.; communication dated June 5, 1931:

"We have * * * secured certain information by way of directly inquiring from the veterans what disposition they made of the money secured by way of loans. * * * Then, too, we have made a similar inquiry from department and post officials of the American Legion and the director and assistant director of the Arkansas Service Bureau."

Los Angeles, Calif.; communication dated June 25, 1931:

"This is predicated on conclusions resulting from an analysis of correspondence, personal contacts, discussions with officers of service organizations, city and county tax collectors, stock and bond brokers, financial and loan organizations and general merchandising firms. * * * We find that many have opened or replenished saving accounts, but that many of these accounts, particularly new ones, have been subjected to heavy withdrawals. * * * This report is based on study of reports gathered from every community of any consequence in the entire regional territory."

San Francisco, Calif.; communication dated June 25, 1931:

"A great many people have been contacted both in and outside of this office. * * * Correspondence has been studied. The veterans' welfare board has also been contacted, as well as automobile agencies and other business concerns in and around San Francisco."

Denver, Colo.; communication dated June 30, 1931:

"The above information was secured by personal contact of individuals, service organizations and questionnaires sent out by service organizations, and is based upon 15,000 loans made to date by this office. * * * Under the heading 'Purchase of automobiles,' the majority bought secondhand cars paying all the way from $200 to $600."

Newington, Conn.; communication dated May 28, 1931:

"There was indication that the money would be spent in the best possible manner in a majority of the cases, for personal and family necessities which have been brought about through unemployment conditions in this State."

Washington, D. C.; communication dated May 27, 1931:

"Due to the situation of this office in the National Capital, the larger number of loans made were in territories other than that covered by this office. * * * Many men in high positions with larger salaries, business men, such as lawyers, doctors, owners of automobile concerns, Members of Congress, etc., were among those requesting loans. * * * In the main, the reasons given for requests for loans were, payment of notes due, unpaid bills, obtaining seed, and other farm necessities, sickness and hospitalization of relatives, expected additions to the family, unpaid rent, payment on property, taxes, initial payment on home, payment on loans made on insurance policies, etc."

Jacksonville, Fla.; Communication dated June 3, 1931:

"I delayed answering your inquiry long enough to make practically the same inquiry you made to me of six level headed, dependable friends in various sections of the State. * * * Personally I was opposed to the extra loan before the bill passed, and I have not changed my opinion. The extra funds loaned on adjusted-service certificates have not, and will not, solve any real economic problems."

Atlanta, Ga.; communication dated June 10, 1931:

"A questionnaire was prepared * * *. About 330 questionnaires were sent out (to veterans obtaining loans). * * * 169 had been returned at the time the data contained in this letter were assembled. * * * Questionnaires were sent out by the Joseph N. Neel, jr., Post, No. 3, asking for a report of expenditures. * * * The 117 replies received by the post were tabulated (and made a part of the report).

"It is believed that the above information is sufficient to establish the fact that there was an actual need on the part of the veterans for such funds."

Boise, Idaho; communication dated June 18, 1931:

"The estimates submitted herewith represent the opinions of the various staff employees of this office, together with various officials of the American Legion of this State and also interested bankers who have first hand knowledge of the actual purposes for which such funds have been expended."

Hines, Ill.; communication dated July 1, 1931:

"The following are answers to the questions on the questionnaires sent to postmasters (more than 800). The survey is a bona fide one and has not been influenced by any ex-service organization and none of the participants in the survey except when a postmaster might have been an ex-service man, * * *. Information as to the result of the survey has not been divulged and it is felt that no good would accrue if information were generally released."

Indianapolis, Ind.; communication dated May 29, 1931:

"The information furnished was secured from record correspondence, contacts made with veterans, from the American Red Cross, the American Legion, and Veterans of Foreign Wars."

Des Moines, Iowa; communication dated June 15, 1931: No general comment.

Wichita, Kans.; communication dated June 5, 1931:

"The above is as accurate a check as we could possibly make on 1,000 cases and I believe this will hold true through the 10,000 loans made by this office."

Louisville, Ky.; communication dated July 2, 1931:

"I have made a rather careful study of such expenditure by contacting the local service organizations, local newspapers, various personnel in the office concerned and my own personal observations during the past three months. * * * It is my personal opinion, however, that the amount of money which was spent unwisely, and from which no practical benefit was obtained, has been greatly exaggerated."

New Orleans, La., communication dated June 9, 1931:

"The information furnished above has been secured through the Legion, Disabled Veterans, Red Cross, and other social agencies throughout the State, as well as banks and credit managers of the larger institutions. In the rural districts especially, the funds derived from these certificates have been put to a splendid use in refinancing the farmers. In the larger cities on account of the unemployment situation these loans have been a great benefit to them, as well. I believe the orgy of spending, as some people thought, did not materialize.

"A few automobiles were purchased and in some instances to my knowledge they were practically necessary. About the only positions open at the present time are for salesmen on commission basis, and automobiles are made necessary for them to compete with other men in similar lines of work. Some trucks were purchased for the purpose of conveying the farm crops to the markets, others were purchased for contract work on State highways."

Portland, Me., communication dated June 18, 1931:

"It has been possible for me to personally visit practically every section of this State making contacts with varied representative groups of people—such as ex-service groups, business men, bankers, merchants, real estate dealers, and automobile dealers. I attenpted to make a survey of this latter group (for instance veterans domiciled at National Soldiers' Home, Eastern Branch, Togus, Me., but due to the fact that many domiciled veterans departed for their homes on receipt of their adjusted-compensation loan and temporarily reside in other areas, the disposition of their funds is not known. However, it has been shown that the per cent of such type of veterans who utilize the loan funds for any practical benefits exceeds that as represented by the nondomiciled class."

Baltimore, Md., communication dated June 8, 1931:

"The above estimates have been made through knowledge obtained from a review of correspondence received, from personal contact in the negotiation of loans, and from data assembled by newspapers and veterans' organizations.

"It has been our experience to receive applications from numerous veterans engaged in professional pursuits and men of standing in the community, to whom the payment of the sum represented by the borrowing value of their certificate could not, through any stretch of the imagination, have meant a great deal."

Boston, Mass.; communication dated June 24, 1931:

"The review of correspondence * * * personal contacts * * * and contacts * * * with doctors, lawyers, bankers, stock brokers, automobile dealers and houses that make a specialty of selling equipment and household furnishings on the installment plan, together with general knowledge of local conditions, reveals the following information:

" 'The business depression, lack of employment which has been prevalent throughout this territory for the last one and one-half years, have caused many veterans to be without work. * * * The commissioners for soldier relief in some cities and towns made an attempt to cut off the relief funds which were provided for veterans and their families when they knew the veterans had adjusted compensation certificates upon which they had not borrowed. * * * In some instances this method was followed through to completion, but in a great many other cities * * * it was not looked upon with favor by the veterans or those interested in their welfare and, as a consequence, it was abandoned.

" 'Where purchases of automobiles were made, in majority of cases second-hand cars were purchased and were considered a family or business necessity.' "

Detroit, Mich.; communication dated May 27, 1931:

"Our estimate (for personel and family necessities) may seem high to you, but the thought of Michigan since the automobile came into common use stands out among the Commonwealths in the country as a manufacturing center, and the automobile industry is at a very low ebb as compared with production of other years. There have unquestionably been many dire need cases as a result of this condition."

Minneapolis, Minn.; communication dated June 19, 1931:

"The report submitted herein is based on survey which covers all loans made by veterans in 57 individual communities in the State of Minnesota. The figures are a composite of the separate towns obtained through personal observation, review of correspondence and individual contacts."

Jackson, Miss.; communication, undated, received in bureau July 6, 1931:

"This survey * * * includes contacts with the veterans themselves, correspondence with veterans, contacts with service organizations, chambers of commerce, banks, merchants, and a general estimate of the situation. This State has been experiencing a severe economic depression. In 1927 it experienced the greatest Mississippi flood, * * * last year the State was a heavy sufferer from drought. * * * Some 70 banks and financial institutions in the State were forced to close their doors. * * * A great percentage of our ex-service people are also rural. Some were without funds and without means of financing their crops for the coming year, and at no other time could the passage of the amendment to the adjusted compensation act have relieved more actual suffering and want among our ex-service population."

St. Louis, Mo.; communication dated May 26, 1931:

"In the rural communities in this section of the country the veterans were greatly handicapped by the drought situation, and a large percentage of those in need can be classed among these. There are a certain class of individuals who believe that it is necessary to make application for their loans as they are available, with the idea in mind that if they do not receive their money now there is a possibility of their not receiving it at all.

"For the purchase of automobiles, part of this might be classed as needed, inasmuch as those who have purchased automobiles and were behind on their payments had to secure the loan in order that they might not lose it. Other loans, however, were for the purchase of machines outright."

Kansas City, Mo.; communication dated June 15, 1931:

"I addressed letters to and received replies from 16 banks in the rural communities, 6 active Red Cross chapters, 8 Legion officials scattered throughout the area, 3 of the men who are serving as liaison representatives here in the regional office, and 3 bureau employees."

Fort Harrison, Mont.; communication dated May 29, 1931:

"Information is furnished that the account office has reviewed correspondence files in approximately 1,000 cases and has made contact with a number of local bankers, automobile dealers, Red Cross officials, and State representatives of the American Legion and Veterans' Welfare Commission. * * * It is the general consensus of opinion of those persons contacted that the funds secured from loans on certificates were spent in much the same manner as the general public spends the money ordinarily secured from wages, business, or investments. * * * These automobile purchases were principally second-hand cars and about one-half were trucks and touring cars which would be used for business purposes."

Lincoln, Nebr.; communication dated May 26, 1931:

"I can only state my own opinions as I have formed it by discussion with veterans, merchants, landlords, etc., at the time loans were being made in great numbers."

Reno, Nev.; communication dated June 17, 1931:

"The above report is an estimation only, but the figures have been derived from a careful survey of contacts made with local commercial enterprises and individuals who came in touch with men receiving loans on their adjusted-service certificates."

Manchester, N. H.; communication dated June 2, 1931:

"However, through a review of correspondence and contact with veterans and veterans' organizations, the following conclusions have been reached."

Somerset Hills, N. J.; communication dated June 12, 1931:

"All employees who might possess knowledge as to the use made of money have been contacted and it is the consensus of opinion that the veterans should be grouped as follows:"

Albuquerque, N. Mex.; communication dated May 29, 1931:

"At the time the amendment to the adjusted compensation act was before Congress it was my belief that it would be a mistake to make available the 50 per cent loan on the adjusted-service certificates. * * * I am now thoroughly convinced that the great majority who secured loans on adjusted-service certificates used the money to good advantage."

Buffalo, N. Y.; communication dated May 29, 1931:

No general comment.

New York City, N. Y.; communication dated June 9, 1931:

"The following estimate includes the report submitted by the American Legion, Veterans of Foreign Wars, Disabled American Veterans, American Red Cross, and the employees of the New York regional office."

Charlotte, N. C.; communication dated June 1, 1931:

"You are advised that it is the opinion of this office that these funds have been generally spent for necessities and well conserved. The following is the best estimate that can be made, based upon contact of veterans' welfare, World War ex-service organizations, and a review of the correspondence available."

Fargo, N. Dak.; communication dated June 1, 1931:

"The report is based upon a review of correspondence, personal contact with veterans, interviews with veterans' organization officials and others who assisted in the completion of loans, contact with representatives of business houses and police officials. Many veterans presented statements indicating that they engaged in farming and intended to use the funds derived from their loans for the purpose of purchasing seed and agricultural equipment to continue their farming operations. In general there has been noted a marked absence of any criticism resulting from loans made to veterans. The only criticism heard was that it was unfortunate for the veterans to be obliged to borrow on a security which they might need in the future as badly as they needed it at the time it was given. Merchants, bankers, and professional men, particularly those located in smaller towns, have been quoted freely in their praise of the stimulation to business. * * *

"They all (automobile dealers) expressed disappointment over the failure to obtain increased business as a result of the loans on adjusted-compensation certificates. Nearly all of them stated that there was no variation from the normal sectional demand noticeable this year."

Cincinnati, Ohio; communication dated June 4, 1931:

"In our survey we contacted the following personnel and institutions: All staff members of the regional office, all liaison officers on duty here, our representatives at Dayton and Columbus, Ohio, State service officer of the American Legion, numbers of banks, loan companies, and business houses and Mr. E. A. Lampe, liaison officer and representative of the Middletown Civic Association.

"A representative of the Cincinnati office stationed at Dayton, Ohio, made the following comments relative to the veterans at the National Military Home, Dayton: 'It has brought about a marked improvement in the home in that it has allowed many men who had no inclination to stay in the home continuously to get out, with somewhat of a disability to meet the general public and with some confidence in their ability to get a job and to learn how to make a living. * * * The tendency of the men to buy machines (automobiles) was especially noticed in the inmates of the National Military Home, those men being particularly without responsibility of a home or the need of anyone to claim their attention.'"

"The purchase of automobiles" includes not only the purchase of new machines but also the liquidation of balances due on previously purchased automobiles and the purchase of used cars with trade-in. Our information indicates that most of the purchases were for used cars. A few cases came to our attention where the machines purchased were for the use of veterans in connection with their various activities.

Cleveland, Ohio; communication dated June 11, 1931:

"Contact has been made with the soldiers' relief commission where the information is secured that to the best knowledge of the secretary of that commission practically 85 per cent of the men who secured loans used this money to pay old debts and for daily needs."

Oklahoma City, Okla.; communication dated June 11, 1931:

"I addressed letters to the several posts of the legion in this State and also to other ex-service organizations. * * * Up to this time I have received replies from 114 posts that are so distributed as to be representative of practically all of this regional area. * * * The reports were, in practically all cases, made by local service officers who asisted in making out the applications for loans.

* * * I feel that the result of this survey clearly establishes the fact that, so far as this regional area is concerned, there was an actual need for such funds on the part of the veterans."

Portland, Oreg.; communication dated June 4, 1931:

"In conclusion, it is believed the foregoing, which is based upon personal observation and the observation of persons upon whom the undersigned can rely for information, discloses the fact that the money was utilized for the interest of the veteran and his family in one or more of the ways outlined, and I can assure you that in many cases the undersigned personally came in contact with, the money meant the difference between the children being properly clothed and fed and able to go to school or not enjoying this privilege. * * * As far as this office can ascertain, it is estimated that banks in this State have made approximately 2,000 loans.

"At the present time there are perhaps nearly 3,000 cards showing previous loans to veterans who have not borrowed to date because of this new opportunity."

Philadelphia, Pa. (manager); communication dated May 29, 1931:

"It is absolutely impossible to obtain any accurate idea of the per cent of veterans obtaining loans who were actually in need of such funds for personal and family necessities. * * * I would say that far less than 1 per cent made stock purchases in our particular district. Considerable of the money has been deposited in savings accounts and no doubt is rapidly being used up for the necessities of life. * * * I doubt very much if the amount of money used in this respect (purchase of automobiles) would approximate an alarming total. * * * It is my opinion that practically none of the money has been wasted and used in an impractical way. * * * In conclusion let me further state that all of us have been tremendously and solemnly impressed with the great need for assistance of a financial kind amongst veterans and their families and we all feel, to a man, that the amount of money disbursed has done a tremendous amount of good."

Philadelphia, Pa. (acting regional manager); communication dated June 13, 1931.

"It has been found to be extremely difficult to estimate how veterans used their loans by percentages, but after much inquiry I find that wide divergences of opinion are attributable to differences in what constitutes necessities. * * * I present the following estimates as a consensus of opinion of representative employees of this region." (See tabulation.)

Pittsburgh, Pa.; communication dated May 26, 1931.

No general comment.

Providence, R. I.; communication dated May 26, 1931.

No general comment.

"Two dealers in this city told me that during the month of March they sold approximately 1,200 used cars."

Columbia, S. C.; communication dated June 10, 1931.

"Based on contacts made with veterans at this office, correspondence relative to loans and information secured from several sources throughout the State, * * * it is believed that the majority of veterans used their loans for worthwhile benefits to themselves and their families. This office has definite information that in a great number of instances (for instance farmers) were enabled to buy fertilizer necessary to carry on farming operations for the current year, when no other source from which they could borrow funds was available."

Sioux Falls, S. Dak., communication dated June 19, 1931:

"In South Dakota practically all farmers depend upon loans at seeding time and the loans were made available at the proper time to utilize this money for that purpose. Fifty per cent of the veterans in this State, it is believed, used their money for the purpose of purchasing seed, live stock, farming equipment, etc. * * * We found some who had no idea that it was costing them 4½ per cent interest to obtain money. * * * It was apparent * * * that the majority of the men did not realize that it was to cost them practically the rest of their certificate if they failed to repay the loan, or they were under the impression that it would be only a short time before the rest of the value of the certificates would be paid to them and the interest canceled. Automobiles in this country where the distances are so great and the population mostly a farming population, can almost be classified as a necessity."

Nashville, Tenn., communication dated June 13, 1931:

"I am perfectly cognizant of the fact that in the drought areas of this State many veterans have utilized this fund for the purpose of financing their crops for the present calendar year. In these localities cotton farmers were entirely out of funds. * * * Our information is gained from contact with veterans, through service organizations and through reports transmitted to us by individual and various social service organizations. In addition we have gone through our correspondence file and have taken a cross section of these loans aggregating several hundred cases."

Dallas, Tex., communication dated May 29, 1931.

"A considerable number of ex-service and welfare organizations, as well as business organizations, have been contacted and based upon the view point of these organizations, as well as our own contacts with the men, it is believed that the following average percentages will apply. (See tabulation.) There were 75 counties in this regional area that were certified by the Red Cross as being in the drought-stricken area. * * * The unemployment situation in this territory has been in a very acute stage for several months.

San Antonio, Tex.; communication dated June 8, 1931:

"My estimate of the number actually in need is based primarily upon the number who secured statements from service organizations to the effect that they were in straitened circumstances and were emergency cases."

Salt Lake City, Utah; communication dated June 15, 1931:

"The report indicates that the data submitted was based upon review of correspondence, survey of automobile agencies, contact with veterans and veterans' organizations."

Burlington, Vt.; communication dated June 15, 1931:

"This report was based upon review of correspondence, contacts made with veterans at the office and contacts made with the officials of the American Legion and the American Red Cross."

Richmond, Va.; communication dated June 10, 1931:

"This report is based upon the observation of the manager and a canvass of the American Legion Posts in the State."

Seattle, Wash.; communication dated June 19, 1931:

"Contacts have been made with social agencies, county, and city relief departments and leaders of veterans' organizations. Correspondence has also been reviewed and contacts had with individual veterans. Unemployment is general throughout the region, the existing depression affecting severely the major industries of lumbering, fish shipping, and farming. The situation is particularly acute in the lumbering district."

Charleston, W. Va.; communications dated May 29 and June 12, 1931:

"This report is based upon contact with veterans, investment houses, General Motors Acceptance Corporation and American Legion officials.

"The General Motors Acceptance Corporation could trace to loans extended, to include the purchase of cars of all makes both new and old, about 1800 or 1900 cars purchased from these funds.

Milwaukee, Wis.; communication dated June 15, 1931:

"This office issued a form letter, containing the manner of disposition indicated in your letter, to 500 veterans whose names were taken from our calendar file on loans in a hit and miss fashion. We also requested an estimate from John F. Mullen, director of the pension, bonus, and rehabilitation division of the Adjutant General's Office of the State of Wisconsin. We also conducted survey from correspondence on file at this station, using the first 500 letters in which any manner of disposition was indicated. The report indicates the results individually and collectively of these three studies. "The results of the survey conducted would indicate that in the main, funds secured through loans on adjusted compensation certificates were used for worthy purposes."

Casper, Wyo.; communication dated June 22, 1931.

"I mailed questionnaires to men in all parts of the State whose judgment could be relied upon and who were in position to know of conditions in their communities. I believe the data obtained is fairly accurate and shows that easily 75 per cent of the funds borrowed were used for necessities, while the other 25 per cent could easily have deferred borrowing indefinitely."

Birmingham, Ala.; communication dated July 2, 1931.

"Letters of inquiry were addressed to all post commanders of the American Legion, to active chapters of the American Red Cross and to a representative group of bankers throughout the State. The information obtained by means of correspondence and through these contacts, together with our personal knowledge of conditions, enables me to now make what appears to be a fairly accurate report. * * * The Legion post commanders in nearly all instances, stated that in their opinion from 90 to 100 per cent were actually in need of the funds. The estimates of bankers and Red Cross officials range from 50 to 85 per cent. All seem to be of practically the same opinion that only a very small percentage of the funds was wasted; all appear to be of the opinion that a very small percentage was used for the purchase of automobiles; and the opinions expressed were unanimous in that this distribution of funds proved of great benefit to the economic and business conditions of the different communities in the State. * * * From the information now at hand, it appears that the men living outside of the city used practically all the money received on their certificates to tide them over during this crop production season. Those not engaged in agriculture and out of employment because of the depression, used their money to pay house rent, buy groceries, medical supplies, etc."

Exhibit B

Tabulation of percentage estimates indicated in reports submitted by managers of the various field stations relative to the disposition made by veterans of funds secured through loans on their adjusted-service certificates

[Key to tabulation attached]

(A) Column A represents the per cent of veterans who used such funds for personal and family necessities, including purchase of clothing, food and furniture, payment of overdue bills, for rent, groceries, and clothing, and payment of hospital and doctors' bills.

(B) Column B represents the per cent of veterans who used such funds for the purchase of securities and stocks, and for deposit in savings and building and loan association accounts.

(C) Column C represents the per cent of veterans who used such funds for the purchase of automobiles.

(D) Column D represents the per cent of veterans who used such funds in such a way as to receive no practical benefits therefrom.

(E) Column E represents the per cent of veterans who used such funds for other purposes such as investment in business enterprises, purchase of seed, fertilizer, farm implements, and livestock; reinstatement of Government life insurance or old-line insurance, payment of loans secured on life insurance policies; purchase of homes, improvement of homes, payment of mortgages, payment of bank loans, payment of taxes and securing legal assistance.

Explanatory note: The field stations as a whole submitted their reports in accordance with the key to the tabulation indicated above. In a few instance, however, there appeared, from contents of the reports, to be some overlapping.

The stations starred—

Under column A include certain expenditures for personal and family necessities which should have been reported in accordance with the classification under column E.

Under column B, include certain expenditures under purchase of securities and stocks, etc., which should have been reported under column E.

Under column D include certain expenditures under no practical benefits received, which should have been reported under column A.

Under column E include certain expenditures under expenditures for other purposes which should have been reported under column A.

The variations, however, appear to offset each other and therefore do not materially affect the general average for the country as a whole, under the several expenditure classifications.

State	Station	A	B	C	D	E
Alabama	Birmingham	*80	5	2	5	8
Arizona	Phoenix	65	8	2	10	15
Arkansas	Little Rock	80	10	5	5	--------
California	Los Angeles	57	7	5	2	29
	San Francisco	79	10	3	3	5
Colorado	Denver	25	7	5	2	61
Connecticut	Newington	80	10	2	2	6
Delaware (reported with Philadelphia, Pa.).	--------	--------	--------	--------	--------	--------
District of Columbia	Washington	92	2	.5	1	4.5
Florida	Jacksonville	50	5	20	25	--------
Georgia	Atlanta	62	10	4	--------	24
Idaho	Boise	72	10	2	1	15
Illinois	Hines	52	6	12	10	20
Indiana	Indianapolis	75	15	5	1	4
Iowa	Des Monies	55	15	10	10	10
Kansas	Wichita	55	8	5	--------	32
Kentucky	Louisville	60	10	20	5	5
Louisiana	New Orleans	70	10	10	10	--------
Maine	Portland	80	5	5	10	--------
Maryland	Baltimore	*60	15	5	15	--------
Massachusetts	Boston	75	*15	8	2	--------
Michigan	Detroit	81	3	7	2	7
Minnesota	Minneapolis	87.8	2.4	1.6	.4	7.8
Mississippi	Jackson	*80	10	7	3	--------
Missouri	St. Louis	75	5	2	5	13
	Kansas City	53	7	10	11	19
Montana	Ft. Harrison	50	*10	15	5	20
Nebraska	Lincoln	55	*42	2	1	--------
Nevada	Reno	60	--------	10	10	20
New Hampshire	Manchester	50	20	15	10	5
New Jersey	Somerset Hills	60	10	15	15	--------

State	Station	A	B	C	D	E
New Mexico	Albuquerque	65	5	5	10	15
New York	Buffalo	70	8	10	2	10
	New York	85	5	4	2	4
North Carolina	Charlotte	60	15	15	5	5
North Dakota	Fargo	60	5	2	2	31
Ohio	Cincinnati	60	7	12	6	15
	Cleveland	75	5	5	10	5
Oklahoma	Oklahoma City	80.8	4.4	4.5	2.7	6.4
Oregon	Portland	50	5	5	10	*30
Pennsylvania	Philadelphia	80	10	3	2	5
	Pittsburgh	96	1	1	1	1
Rhode Island	Providence	30	20	20	20	10
South Carolina	Columbia	65	5	15	2	*13
South Dakota	Sioux Falls	15	10	15	10	50
Tennessee	Nashville	*81	*12	4	2	1
Texas	Dallas	75	8	6	3	8
	San Antonio	10	15	15	*50	10
Utah	Salt Lake City	80	2	2	1	15
Vermont	Burlington	75		5	3	17
Virginia	Richmond	55	11	11	10	13
Washington	Seattle	*60	20	7	8	*5
West Virginia	Charleston	85	1	1	10	3
Wisconsin	Milwaukee	84.2	9	1.8	4.7	.3
Wyoming	Casper	60	4	15	6	15
General average		65	9	8	7	11

Tabulation of percentage estimates indicated in reports submitted by managers of the various field stations relative to the employment status of veterans who secured loans on their adjusted-service certificates

[Key to attached tabulation]

(A) Column A represents the per cent of veterans obtaining loans who were unemployed and who were considered to be in distressing circumstances due to need for food and clothing, impaired credit resulting from inability to pay rent, grocery, furniture, and clothing bills, and sickness resulting in doctor and hospital bills, etc.

(B) Column B represents the per cent of veterans obtaining loans who were unemployed and who were considered to be in moderate circumstances.

(C) Column C represents the per cent of veterans obtaining loans who were unemployed.

(D) Column D represents the per cent of veterans obtaining loans who were employed full time or part time but unable to provide personal and family necessities due to inadequate income, poor management, living beyond income, etc.

(E) Column E represents the per cent of veterans obtaining loans who used such funds for personal and family necessities as described in Exhibit B.

Explanatory note: Column A plus column B, equals column C. Column C plus column D, equals column E.

Tabulation of percentage estimates employment status

State	Station	A	B	C	D	E
Alabama	Birmingham	15	5	20	60	80
Arizona	Phoenix	45	15	60	5	65
Arkansas	Little Rock	60	10	70	10	80
California	Los Angleles	40	8	48	9	57
Do	San Francisco	11	4	15	64	79
Colorado	Denver	9	2	11	14	25
Connecticut	Newington	38	12	50	30	80
Delaware [1]						
District of Columbia	Washington	25	7	32	60	92
Florida	Jacksonville	30	6	36	14	50
Georgia	Atlanta	42	4	46	46	92
Illinois	Hines	30	2	32	20	52
Idaho	Boise	17	10	27	45	72
Indiana	Indianapolis	40	10	50	25	75
Iowa	Des Moines	19	9	28	27	55
Kansas	Wichita	25	10	35	20	55
Kentucky	Louisville	35	5	40	20	60
Louisiana	New Orleans	50	10	60	10	70
Maine	Portland	12	11	23	57	80
Maryland	Baltimore	16	5	21	39	60
Massachusetts	Boston	54	4	58	17	75
Michigan	Detroit	56	12	68	13	81
Minnesota	Minneapolis	45	4	49	38	87
Mississippi	Jackson	29	8	37	43	80
Missouri	St. Louis	57	12	69	6	75
Do	Kansas City	21	19	40	13	53

[1] Reported with Philadelphia.

Tabulation of percentage estimates employment status—Continued

State	Station	A	B	C	D	E
Montana	Fort Harrison	35	5	40	10	50
Nebraska	Lincoln	25	15	40	15	55
Nevada	Reno	30	10	40	20	60
New Hampshire	Manchester	25	10	35	15	50
New Jersey	Lyons	30	10	40	20	60
New Mexico	Albuquerque	30	15	45	20	65
New York	Buffalo	52	5	57	13	70
Do	New York	53	9	62	23	85
North Carolina	Charlotte	20	10	30	30	60
North Dakota	Fargo	15	5	20	40	60
Ohio	Cincinnati	26	11	37	23	60
Do	Cleveland	41	4	45	30	75
Oklahoma	Oklahoma City [2]					
Oregon	Portland [3]					
Pennsylvania	Philadelphia	55	2	57	23	80
Do	Pittsburgh	63	19	82	14	96
Rhode Island	Providence	23	4	27	3	30
South Carolina	Columbia	22	1	23	42	65
South Dakota	Sioux Falls	5	5	10	5	15
Tennessee	Nashville	50	2	52	29	81
Texas	Dallas	30	9	39	36	75
Do	San Antonio	6	1	7	3	10
Utah	Salt Lake City	30	5	35	45	80
Vermont	Burlington [2]					
Virginia	Richmond [3]					
Washington	Seattle	42	6	48	12	60
West Virginia	Charleston	45	15	60	25	85
Wisconsin	Milwaukee [3]					
Wyoming	Casper	14	14	28	12	40
General average		32	8	40	25	652

[1] Reported with Philadelphia.
[2] Reports not received from regional manager at date of tabulation.
[3] Reports received not subject to analysis in terms of the reports received from other stations.

The total amount of loans to veterans under the adjusted compensation act, as amended February 27, 1931, up to and including July 11, 1931, was $804,435,325. This amount was loaned to approximately 2,000,000 veterans. Based upon the percentage estimates contained in Exhibit B and the percentage estimates indicated above, the distribution of the funds loaned was as follows:

	Per cent of total	Number	Amount of loans obtained
Veterans unemployed.			
Distressing circumstances	32	640,000	$257,419,304.00
Nondistressing circumstances	8	160,000	64,354,826.00
Total unemployed	40	800,000	321,774,130.00
Veterans employed·			
Personal and family needs	25	500,000	201,108,831.25
Investments	20	400,000	160,887,065.00
Purchase of automobiles	8	160,000	64,354,836.00
Expenditures resulting in no practical benefit	7	140,000	56,310,472.75
Total employed	60	1,200,000	482,656,195.00
Grand total	100	2,000,000	804,435,325.00

Exhibit C

Tabulation of percentage estimates indicated in reports submitted by managers of the various field stations relative to the disposition made by veterans of funds secured through loans on their adjusted-service certificates

[Key to tabulation attached]

In this tabulation field stations are grouped according to the areas established by the Veterans' Administration, namely, eastern area, central area, southern area, and western area.

The group representing each area has been arranged so as to indicate the percentage estimate of expenditures in one area as compared with like expenditures in the other areas.

The first sheet represents the comparative expenditures for personal and family necessities, etc.

The second sheet represents the comparative expenditures for purchase of securities and stocks, etc.

The third sheet represents comparative expenditures for automobiles.

The fourth sheet represents comparative expenditures resulting in no practical benefits.

The fifth sheet represents the comparative expenditures for general investment purposes.

Combined Tabulation of Percentage Estimates Under Key to Tabulation

Item A.—*Per cent of veterans who used such funds for personal and family necessities, including purchase of clothing, food and furniture, payment of over due bills, for rent, groceries and clothing and payment of hospital and doctors' bills.*

	Per cent of total
Eastern area:	
Pittsburgh	96
Washington	92
New York	85
Charleston	85
Philadelphia	80
Newington	80
Portland, Me	80
Boston	75
Burlington	75
Buffalo	70
Baltimore	60
Somerset Hills	60
Richmond	55
Manchester	50
Providence	30
General average	71. 6
Central area:	
Minneapolis	87. 8
Milwaukee	84. 2
Detroit	81
Indianapolis	75
St. Louis	75
Cleveland	75
Louisville	60
Fargo	60
Cincinnati	60
Lincoln	55
Des Moines	55
Wichita	55
Kansas City	53
Hines	52
Sioux Falls	15
General average	62. 9
Southern area:	
Birmingham	80
Nashville	81
Oklahoma City	80. 8
Little Rock	80
Jackson	80
Dallas	75
New Orleans	70
Columbia	65
Atlanta	62
Charlotte	60
Jacksonville	50
San Antonio	10
General average	66. 1
Western area:	
Salt Lake City	80
San Francisco	79
Boise	72
Phoenix	65
Albuquerque	65
Seattle	60
Casper	60
Reno	60
Los Angeles	57
Fort Harrison	50
Portland, Oreg	50
Denver	25
General average	60. 3

Combined average per cent of total 65

ITEM B.—*Per cent of veterans who used such funds for the purchase of securities and stocks and for deposit in savings and Building and Loan Association accounts*

Eastern area:	Per cent of total
Providence	20
Manchester	20
Baltimore	15
Boston	15
Richmond	11
Newington	10
Somerset Hills	10
Philadelphia	10
Buffalo	8
New York	5
Portland, Me	5
Washington	2
Charleston	1
Pittsburgh	1
Burlington	0
General average	9

Central area:	Per cent of total
Lincoln	42
Indianapolis	15
Des Moines	15
Louisville	10
Sioux Falls	10
Milawukee	9
Wichita	8
Cincinnati	7
Kansas City	7
Hines	6
Cleveland	5
Fargo	5
St. Louis	5
Detroit	3
Minneapolis	2. 4
General average	10

Southern area:	Per cent of total
Charlotte	15
San Antonio	15
Nashville	12
Little Rock	10
Atlanta	10
New Orleans	10
Jackson	10
Dallas	8
Jacksonville	5
Columbia	5
Birmingham	5
Oklahoma City	4. 4
General average	9. 1

Western area:	Per cent of total
Seattle	20
San Francisco	10
Boise	10
Fort Harrison	10
Pheonix	8
Los Angeles	7
Denver	7
Albuquerque	5
Portland, Oreg	5
Casper	4
Salt Lake City	2
Reno	0
General average	7. 5

Combined average per cent of total 9

ITEM C.—*Per cent of veterans who used such funds for the purchase of automobiles*

Eastern area:	Per cent of total
Providence	20
Manchester	15
Somerset Hills	15
Richmond	11
Buffalo	10
Boston	8
Portland, Me	5
Baltimore	5
Burlington	5
New York	4
Philadelphia	3
Newington	2
Pittsburgh	1
Charleston	1
Washington	. 5
General average	7. 1

Central area:	Per cent of total
Louisville	20
Sioux Falls	15
Hines	12
Cincinnati	12
Des Moines	10
Kansas City	10
Detroit	7
Indianapolis	5
Wichita	5
Cleveland	5
St. Louis	2
Lincoln	2
Fargo	2
Milwaukee	1. 8
Minneapolis	1. 6
General average	7. 4

Southern area:	Per cent of total
Jacksonville	20
Charlotte	15
Columbia	15
San Antonio	15
New Orleans	10
Jackson	7
Dallas	6
Little Rock	5
Oklahoma City	4. 5
Atlanta	4
Nashville	4
Birmingham	2
General average	9. 0

Western area:	Per cent of total
Fort Harrison	15
Casper	15
Reno	10
Seattle	7
Los Angeles	5
Denver	5
Albuquerque	5
Portland, Oreg	5
San Francisco	3
Boise	2
Salt Lake City	2
Phoenix	2
General average	6. 4

Combined average per cent of total 8

ITEM D.—*Per cent of veterans who used funds in such a way as to receive no practical benefits therefrom*

Eastern area:	Per cent of total
Providence	20
Somerset Hills	15
Baltimore	15
Manchester	10
Portland, Me	10
Richmond	10
Charleston	10
Burlington	3
Newington	2
Buffalo	2
New York	2
Boston	2
Philadelphia	2
Washington	1
Pittsburgh	1
General average	7

Central area:	Per cent of total
Kansas City	11
Hines	10
Des Moines	10
Sioux Falls	10
Cleveland	10
Cincinnati	6
Louisville	5
St. Louis	5
Milwaukee	4. 7
Detroit	2
Fargo	2
Indianapolis	1
Lincoln	1
Minneapolis	. 4
Wichita	0
General average	5. 2

Southern area:	Per cent of total
San Antonio	50
Jacksonville	25
New Orleans	10
Little Rock	5
Charlotte	5
Birmingham	5
Jackson	3
Dallas	3
Oklahoma City	2. 7
Columbia	2
Nashville	2
Atlanta	0
General average	9. 5

Western area:	Per cent of total
Phoenix	10
Reno	10
Albuquerque	10
Portland, Oreg	10
Seattle	8
Casper	6
Fort Harrison	5
San Francisco	3
Los Angeles	2
Denver	2
Boise	1
Salt Lake City	1
General average	5. 8

Combined average per cent of total 7

ITEM E.—*Per cent of veterans who used such funds for other purposes such as investment in business enterprises, purchase of seed, fertilizer, farm implements and livestock; reinstatement of Government life insurance or old line insurance, payment of loans secured on life insurance policies, purchase of homes, improvement of homes, payment of mortgages, payment of bank loans, payment of taxes and securing legal assistance*

	Per cent of total
Eastern area:	
Burlington	17
Richmond	13
Buffalo	10
Providence	10
Newington	6
Manchester	5
Philadelphia	5
Washington	4. 5
New York	4
Charleston	3
Pittsburgh	1
Somerset Hills	0
Portland, Me	0
Baltimore	0
Boston	0
General average	5. 3
Central area:	
Sioux Falls	50
Wichita	32
Fargo	31
Hines	20
Kansas City	19
Cincinnati	15
St. Louis	13
Des Moines	10
Minneapolis	7. 8
Detroit	7
Louisville	5
Cleveland	5
Indiana polis	4
Milwaukee	. 3
Detroit	0
General average	14. 5
Southern area:	
Atlanta	24
Columbia	13
San Antonio	10
Dallas	8
Oklahoma City	6. 4
Birmingham	8
Charlotte	5
Nashville	1
Little Rock	0
Jacksonville	0
New Orleans	0
Jackson	0
General average	6. 3
Western area:	
Denver	61
Portland, Oreg	30
Los Angeles	29
Fort Harrison	20
Reno	20
Phoenix	15
Boise	15
Albuquerque	15
Salt Lake City	15
Casper	15
San Francisco	5
Seattle	5
General average	20

Combined average per cent of total 11

Tabulation of percentage estimates contained in reports submitted by managers of the various field stations indicative of the per cent of veterans who obtained loans on their adjusted-compensation certificates who were unemployed.

In this tabulation field stations are grouped according to areas established by the Veterans' Administration, namely, eastern area, central area, southern area, and western area.

The group representing each area has been arranged so as to indicate the percentage estimate of unemployment in one area as compared with the unemployment in the other areas.

Tabulation of percentage estimates contained in reports submitted by managers of the various field stations indicative of the per cent of veterans who obtained loans on their adjusted-compensation certificates who were unemployed

	Per cent of total
Eastern area:	
Pittsburgh	82
New York	62
Charleston	60
Buffalo	57
Philadelphia	57
Newington	50
Boston	58
Lyons	40
Manchester	35
District of Columbia	32
Providence	27
Portland, Me	23
Baltimore	21
General average	46. 4
Central area:	
St. Louis	69
Detroit	68
Indianapolis	50
Minneapolis	49
Cleveland	45
Louisville	40
Kansas City	40
Lincoln	40
Cincinnati	37
Wichita	35
Hines	32
Des Moines	28
Sioux Falls	10
General average	41. 7

	Per cent of total
Southern area:	
Little Rock	70
New Orleans	60
Nashville	52
Atlanta	46
Dallas	39
Jackson	37
Jacksonville	36
Charlotte	30
Columbia	23
Birmingham	20
San Antonio	7
General average	38. 1
Western area:	
Phoenix	60
Seattle	48
Los Angeles	48
Albuquerque	45
Fort Harrison	40
Reno	40
Salt Lake City	35
Casper	28
Boise	27
Fargo	20
San Francisco	15
Denver	11
General average	34
Average percentage unemployed, all areas	40

(The committee thereupon adjourned until to-morrow, Wednesday, April 27, 1932, at 10 o'clock a. m.)

PAYMENT OF ADJUSTED-COMPENSATION CERTIFICATES

WEDNESDAY, APRIL 27, 1932

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D. C.

The committee met at 10 o'clock a. m., Hon. Henry T. Rainey presiding.

Mr. RAINEY. The committee will come to order.

Mr. Secretary, the committee will be glad to hear from you this morning.

STATEMENT OF HON. OGDEN L. MILLS, SECRETARY OF THE TREASURY

Secretary MILLS. Mr. Chairman and gentlemen of the committee, I will appreciate it if I can complete my statement without interruption, and I will then of course, be glad to answer any questions.

Mr. RAINEY. You will have that right.

Secretary MILLS. Mr. Chairman and gentlemen of the committee, the measure now before you is designed to pay an obligation not due, in money that is not honest. The adjusted-service certificates do not mature until 1945. To pay them at their face value to-day, less the amount that has been borrowed on them, would, in effect, almost double the payment provided for by the adjusted service compensation act, and would involve an immediate cost to the Government of about $2,400,000,000. In other words, the Government is to pay almost twice the amount it undertook to pay.

The United States Government has made generous provision for the dependents of those who gave their lives to their country, for the care of the wounded, disabled, and sick veteran, and for his dependents. We are spending annually about a billion dollars, or about one-fourth of our total expenditures, for the benefit of our veterans. I have the deepest sympathy for the veteran out of work, as I have for all who can not find employment. But there is no evidence to indicate that the veterans as a class are suffering more than any other group of individuals in the country. Moreover, anything that is harmful to the country is harmful to the veteran. He, together with every other citizen, must be profoundly injured by any measure which destroys and defeats all that we have sought to accomplish, in so far as it lies within the power of the Government, to create conditions favorable to a recovery in employment and in industry.

The Government is confronted with an enormous deficit. To preserve unimpaired the public credit—and I know of nothing more important to the country—the entire people, in a period of unprecedented depression, are being asked to take on a colossal burden of additional taxation.

Under these circumstances, nothing will persuade me that the men who 15 years ago stood ready to give their lives to their country in the crisis of war, are to-day, in a crisis which, in so far as human misery and suffering in this country are concerned, far exceeds anything experienced during the war years, really seeking this huge grant of $2,400,000,000, the effect of which will be to impair public and private credit, to destroy confidence, and to prolong this terrible depression.

In saying this, I am not speaking just as Secretary of the Treasury, but as one who helped to call together and to organize that convention of the A. E. F. in Paris that gave birth to the American Legion; who participated in the organization of the Legion in my own State; who served as a State commander; and who presided over the first convention in the State of New York.

If these obligations were due to-day, then, no matter what the cost, the United States Government on behalf of the people of the United States would honor them. If these obligations are due, they ought to be paid in honest dollars. If they are not due and their payment is inimical to the public credit and the public welfare, it can not be sanctified by the use of dishonest dollars.

The financial position of the Government is not such as to permit the Treasury to meet this demand. We are faced with an enormous deficit. The Congress is finding it difficult enough to bring the Budget into balance through decreased expenditures and increased taxes. This committee knows that. No additional $2,400,000,000 can be raised by taxation. Taking into consideration all of the elements of the existing situation, no such sum can be borrowed except at excessive cost, with serious embarrassment to the Government in meeting its unavoidable obligations and with damage to the public credit.

The passage of this bill would, in my judgment, deal such a severe blow to public confidence as to make the consequences almost incalculable. Let us not forget the critical days through which we have been living and are still living. In order to bolster up our entire private credit structure, upon which the business and commercial life of this Nation depend, we have been obliged to put back of it the credit of the United States Government. Let us not forget that in September and October, and again in December and January, banks in every section of this country were failing by the score, bringing disaster to individuals and to industry alike; that over a billion and a quarter dollars of currency was being hoarded; and that we have witnessed a contraction of credit accompanied by a reduction in prices and a restriction of business activity unparalleled in the economic history of this country.

What does all this mean? It means that fear has gripped the American people to such an extent as to destroy their confidence and paralyze their normal activities and enterprise. We have been gradually overcoming that fear. In the last few weeks the foundations have been solidified, the ground under our feet has become firmer, banks have stopped failing, and currency is coming out of hoards. The day must come when credit will expand, prices will rise and business and employment will turn upward.

To select this particular moment to destroy our hopes of a balanced budget and to deal a smashing blow to national confidence, is to me simply incomprehensible.

The proponents of this measure fully recognize that the cost can not be borne by any legitimate means. They seek, therefore, to avoid the consequences of their action by resorting to a device which, far from averting the dangers which I have described, multiplies them many times. They would discharge what they say is a solemn obligation of the United States Government, not by raising the funds through taxation, not by drawing on the public credit, not by payment of an honest dollar, but by setting the printing presses to work printing dishonest dollars.

This device is the direct descendant of the practices of dishonest and unscrupulous princes and sovereigns, who robbed and defrauded their subjects by debasing their currency.

It has been resorted to time and again, and I know of no instance where it has failed to bring retribution and disaster.

There is no reason that I can conceive of to justify the Government of the United States resorting to the printing press to meet its obligations. This is a question that transcends in importance the payment at face value to-day of adjusted-service certificates, or their nonpayment. It involves the courage, the character, and the financial integrity of the United States. I can imagine a poor, bankrupt people, at the end of their resources and as a last act of desperation, resorting to the debasement of their currency. But for a great, powerful nation, probably the strongest nation economically not only in the world to-day, but that has ever existed in the world, that even in a period of deep depression has not begun to call upon its ultimate reserves and resources, deliberately to adopt this insidious and essentially dishonest device, would to my mind be worse than an act of financial bankruptcy. It would constitute moral bankruptcy.

Let us not be deluded by the idea that this scheme can be carried through without cost. On the contrary, the initial cost would be indefinitely multiplied in its ultimate effects and must be borne by everyone.

If there is one lesson in economic history on which all are agreed, it is the extreme difficulty of stopping an inflationary process of this kind short of such complete debacle as reduces the currency to worthless paper. Postwar inflation reduced the franc from 19 cents to 2 cents; postwar inflation reduced the mark from 24 cents to zero. In the case of Germany particularly, it brought the economic life of the country to a state of complete prostration and brought economic ruin to practically all classes of her population. And yet, both in the case of France and of Germany, they were driven to this course by forces which were, or seemed at the time, so irresistible as to make it impossible to stand up against them.

In our case it is proposed, after five successive tax reductions, at a time when our taxes are applied at the lowest rates they have been since the war, before we even make an effort to draw on our available national resources, before we resort, not even to the war-time tax levies, but to the rates that prevailed in 1924, under which we lived and prospered—it is proposed, and you gentlemen are asked to resort to the printing press.

Let us have no illusion on one point at least. If it is legitimate and proper and wise to pay the adjusted-service certificates by printing currency, then it is legitimate and proper and wise to meet all the other obligations of the Government by the same process. Why bother with a revenue bill? Why compel the Treasury on quarter-days to sell certificates, notes, and bonds to the public? All we have to do, according to the gentlemen who urge the passage of this measure, is to buy the paper and the ink and tell the engravers and printers to go to it. Under these ideal conditions you can, of course, make some savings. You do not need a Secretary of the Treasury or a large staff in the Treasury Department. All you need is a first-class production manager. Ultimately, of course, you will need quite a sales force to keep your currency in circulation.

That may sound funny, but in the course of the last decade in several countries that I could mention, bales of currency have been peddled on the streets as the result of the very course which you gentlemen are invited to embark on.

I know it will be said that we can arrest the movement long before it goes to such lengths. But what reason is there to believe that any government that is sufficiently mad and improvident to embark on such a course would have the character to stop, particularly as all experience shows that once such a movement is started the forces that urge it forward grow constantly greater and more remorselessly persistent?

It is represented, of course, that during the beginning of an inflationary process, even the crude inflationary process by way of the printing press, certain classes in the community do benefit. But their benefits are fleeting at best, and it can not be emphasized too strongly that large classes of the community—savers, bondholders, insurance policyholders, salaried persons, all recipients of fixed incomes, and to a very large extent wage earners, since wages rise more slowly than prices—are not even initially benefited. In the end all classes are heavy losers, and the farmer, if our experience counts for anything, among the heaviest of all.

In so far as the Treasury is concerned, inflation of this character is fatal to its budgets. The experience of all nations is that inflation, once begun, perpetuates the deficit and operates to augment it. The recurrent deficits of the French and German Governments while inflation was in full swing are cases in point. The real value (gold value or purchasing power) of Government receipts diminishes so rapidly during the tax period that they become inevitably unequal to the procurement of the goods and services necessary for the Government to function. On the other hand, the established sources of taxation tend gradually to dry up and new bases must be found, which are necessarily less satisfactory and productive and always more difficult to reach. Thus during a period of inflation both of these circumstances—rapidly rising expenditures and decreased revenues—tend to produce continuing deficits, and, hence, to perpetuate the inflation.

In so far as our present situation is concerned, there is no currency shortage. It is true there has been credit contraction on a large scale, but there exist ample reserves on which to base a credit expansion adequate to meet all of our actual and potential needs. The problem is to put credit to work. The Government can not bring this about by forcing out fiat currency. It can assist very greatly by putting its own house in order and taking such measures that in the eyes of the whole world Federal credit will stand as a pillar of unassailable strength.

How can private credit expand as long as the public credit remains in doubt? This is fundamental. It is the very essence of the problem with which we are wrestling.

No one is more anxious than I am not only to arrest this excessive credit contraction but to set in motion forces that will lead to credit expansion. But these results can best be obtained by having the Government in its own sphere pursue a wise, honest, and sound policy, and leave it to the great credit agencies of the country, not only the private but the semipublic institutions, to meet this problem, the solution of which is essential to the recovery of the Nation.

The key to it all is confidence. Destroy confidence and you dry up credit and paralyze enterprise. No measure was ever drafted better calculated to destroy confidence than the one now before you. Enact it into law and you will stifle all hope of an early economic recovery and write the most lamentable chapter in American financial history.

Mr. RAINEY. Are there any questions?

Mr. RAGON. Mr. Mills, I understand that the Treasury this year will offer for sale certain securities. How much will that issue be?

Secretary MILLS. We made an estimate in January that over and above refunding operations we would sell between January and June 30 approximately $1,500,000,000 in new securities; and I think that estimate is approximately correct. Now, you will also remember that we said that if we could pass the tax bill and reduce the cost of Government, we would balance the Budget, so that on June 30 next we would stop borrowing. That is what we have been shooting for for so many months, you will remember.

Mr. RAGON. In that case we would have to sell that many securities by June 30, 1932. Do you anticipate any necessity for a sale in 1933, for any reason?

Secretary MILLS. In the year 1933, if we do what we all have set out to do, the only securities we would have to sell would be for refunding purposes.

Mr. RAGON. How much is that?

Secretary MILLS. And the sinking fund would be a wash transaction. I do not know what the maturities are next year. I will put those figures in the record. It is a very large sum.

Government obligations outstanding on April 27, 1932, which will have to be refunded during the fiscal year 1933

Total Treasury bills	$621, 870, 000
Total Treasury certificates	2, 557, 090, 400
Total Treasury notes	600, 446, 200
Grand total	3, 779, 406, 600

Mr. RAGON. As you have well said here, the proponents of the present bills seem to have a twofold purpose: First, the payment of these certificates, and, second, an inflation of currency. It has been maintained here by them that inflation at this time is a desirable thing. Of course you take the contrary attitude.

Secretary MILLS. I have not said that arresting the process of deflation was undesirable. I think it is very desirable. I think it is very desirable that we should expand credit, though I would not call that inflation in view of the tremendous contraction of credit that has taken place. But I do not know a more unjustifiable method of doing it than to start printing dishonest money. I am not quarreling with anyone who wants to stop the deflationary process and expand credit. But I am quarreling with any man who wants to adopt what is essentially a dishonest device—to start printing fiat currency.

Mr. RAGON. Do you think that some inflation of our currency might be desirable?

Secretary MILLS. It is not a question of inflation of currency, Mr. Ragon. There is adequate currency. It is a question of expansion of credit. There is no difficulty in obtaining all of the currency that is needed. There is no shortage of currency in the United States. There is ample currency. The currency is so ample that we have been able to supply anywhere from a billion and a quarter to a billion and a half for hoarding purposes. There is plenty of currency in the country. There has been an enormous contraction of bank credit, due in the first instance to the normal liquidation which follows a period of great speculative expansion, and due in the second place to a succession of events which began last May and carried through practically to the present day and which have destroyed confidence and tended to produce a vicious circle of deflation, contraction of credit, falling prices, and restricted business activity.

Mr. RAGON. Your idea, then, is that we are not in need of expansion of currency so much as we are of credit?

Secretary MILLS. Exactly.

Mr. RAGON. The Federal Reserve Board, operating under the Glass-Steagall bill, has been issuing, I believe, at the rate of about twenty-five million a week. They increased that last week to $193,000,000, I believe. What effect do you think that will have on the expansion of credit?

Secretary MILLS. I think that the program of the Federal Reserve Board will have a most decided effect.

Mr. RAGON. Do you think that will have the effect of accomplishing any purpose that was proposed under this legislation?

Secretary MILLS. You mean in the way of arresting deflation?

Mr. RAGON. Yes.

Secretary MILLS. And ultimately expanding credit to meet the needs of business?

Mr. RAGON. Yes.

Secretary MILLS. I do, most decidedly; provided, of course, we do not have a further succession of shocks. You can create all the credit facilities in the world, Mr. Ragon, but if people are scared to death they are not going to use the credit. A part of this problem is to restore confidence, and one of the worst features of this bill is that it hits confidence right between the eyes.

Mr. HAWLEY. Mr. Secretary, the question has been raised here concerning the interest paid by the veterans upon the loans on their certificates, that some adjustment of that should be made. What is your opinion?

Secretary MILLS. I do not want to speak for the Government life insurance fund. After all, that is a fund which belongs to the veterans. I am not entirely clear as to how much that fund actually needs to earn; and a large amount of that fund is invested, as you know, in loans on these certificates. But otherwise the basic interest rate is 4 per cent, because that is the rate that is needed to keep the fund solvent. It may be that Mr. Breining and these other experts will correct me, but, as I understand it, what we did was treat the original amount provided for in 1925, increased by 25 per cent, as invested at 4 per cent compound interest, the total amount of which is to be paid to the veteran in 1945. Therefore, if you use the fund and loan it at less than 4 per cent, that fund will become insolvent, in that it will not be adequate to meet the obligations when they fall due in 1945.

Mr. BACHARACH. Mr. Secretary, this has occurred in reference to these certificates: If a man goes to a bank and borrows his money, he pays 6 per cent. The Veterans' Bureau purchases them, and still the man has to pay 6 per cent; whereas if he goes direct to the Veterans' Bureau to borrow the money he only has to pay 4½ per cent.

Secretary MILLS. That does not seem right to me.

Mr. BACHARACH. That is the question that Mr. Hawley had particularly in mind.

Secretary MILLS. I do not see how he can be paying 6 per cent to-day, because, as I remember the law, there was a limitation to the effect that they should not pay more than 2 per cent above the rediscount rate at the Federal reserve banks. That would make it 5 per cent in New York at this time.

Mr. BACHARACH. Of course, the boy in the city would probably write directly to the Veterans' Bureau, because there is more organization there, and they can tell him how to go about it; but some country fellow who lives in a spot where there is no means of getting this information must borrow his money through a bank at 6 per cent, which to me is manifestly unfair.

Secretary MILLS. Mr. Bachrach, leaving aside the question of the insurance fund—and that you ought to ask General Hines or Major Breining about—I am for the lowest interest rate possible consistent with the maintenance of the solvency of this fund.

Mr. BACHARACH. If my recollection is right—and there are plenty of men sitting around here who were on the committee at the time—we decided on charging but 4 per cent, and I think the question was raised by General Hines that they could not use that money for the insurance fund unless it was a 4½ per cent rate. I think that was the reason that at the last minute the committee changed the rate from 4 to 4½ per cent. That is what I have in mind particularly about all these hearings. We go along and have hearings which are more or less useless, and at the last minute we try to report a bill out in a hurry, and we do something that we should not do, such as allowing a 6 per cent rate instead of 4½ per cent, or whatever rate we are going to agree on at this time.

Secretary MILLS. Well, I do not think anyone could have foreseen at the time that wholesale borrowings on the certificates would become necessary to the extent that they have.

Mr. BACHARACH. They did not borrow quite as much as was anticipated by the Treasury Department and by the Veterans' Bureau. They borrowed, according to my recollection, about $965,000,000 instead of $1,760,000,000 which they could have borrowed.

Secretary MILLS. The Treasury never said $1,760,000,000. As I remember it, we improved our batting average very much on that particular estimate. I think we hit it very close. I think we said $850,000,000 to $900,000,000; that is my recollection; and they borrowed over $900,000,000, the total borrowing to date being in excess of $1,300,000,000.

Mr. BACHARACH. That may have been your thought, but it certainly is not what the record shows.

Secretary MILLS. I would like to see the record. I never said that they would borrow $1,700,000,000. If I did, I would like to be shown any statement to that effect.

Mr. BACHARACH. Of course you did not say that they borrowed $1,700,000,000, but you said that was the ultimate amount that could be borrowed.

Secretary MILLS. I said that was the ultimate amount that could be borrowed, and I still say that. That is undeniable. But my estimate of what they would borrow was somewhere around $900,000,000, and that was accurate.

Mr. RAINEY. Mr. Secretary, what amount of these short-term Treasury notes or certificates will be outstanding on the 30th day of June?

Secretary MILLS. Over $4,000,000,000, including all short-term debt.

Mr. RAINEY. How much of that can be termed borrowing to meet obligations to the veterans?

Secretary MILLS. About $900,000,000.

Mr. RAINEY. In what length of time?

Secretary MILLS. About a year, I should say; over a 12-month period.

Mr. RAINEY. What interest rate do these short-term certificates carry?

Secretary MILLS. They vary. The highest we paid this year was 3¾, and, of course, we sold some the other day at 2 per cent for a year and 3 per cent for two years.

Mr. RAINEY. Would it be possible for the Treasury now to float a long-term issue of bonds, say, at 4¼ per cent?

Secretary MILLS. I do not want to answer that question in that form. It would depend on many circumstances.

Mr. HAWLEY. It would depend on the amount?

Secretary MILLS. It would depend on the amount, what the purpose was, and many other factors.

I think that the position of the Treasury—and that means the credit of the Government—depends on what Congress does in the next 45 days. If you gentlemen go ahead, as you have shown every indication of doing, reduce the cost of Government, raise the necessary revenue, balance the Budget, do not start the printing presses going, pass your appropriation bills, and do not increase expenditures, indirectly or directly, I am not worried about the credit of the Government. But it is all dependent on not destroying confidence; and the people's confidence is shaky right now, and they are looking to Washington to see what is going to happen.

After all, Mr. Chairman, do not forget that we saw a 3 per cent United States Government bond issued on the 15th of September lose 18 points before the first of the year. That shows how sensitive a thing even Government credit is.

Mr. DOUGHTON. Mr. Secretary, I understood you to say that the important thing now is to stop the deflationary processes and restore the confidence of the country?

Secretary MILLS. Both, Mr. Doughton.

Mr. DOUGHTON. What produced this loss of confidence first, and when did it first arise or manifest itself?

Secretary MILLS. Of course you can not fix any one date, but this is the way I visualize it. I made a whole speech on this subject two days ago, so I ought not to get started again. I might repeat that speech. But I will try not to inflict it on you.

But, as I visualize it, we could have had recovery a long time ago in this country if it had not been for the fact that the financial elements thrust themselves very violently into the picture 9 or 10 months ago—almost 12 months ago—and have since dominated it. It started, curiously enough, as the initial cause of the World War started, in Austria, with the failure of the Creditanstalt, which meant a threat to all Austrian credit. That in turn undermined German credit. An attempt was made to save the German situation, as you well remember; there was delay in putting that measure through and the result was that the German financial machinery, for all practical purposes, collapsed and had to be taken over by the Government. Then this whole movement, swept on by fear and lack of confidence, next attacked the very citadel of world finance, London, and in a very few weeks London was obliged to capitulate; England went off the gold standard, and the whole world stood aghast. And then, you will remember, there was a tremendous drive on this country and on the American dollar, seeking to destroy our credit and destroy the American dollar. That was a fight that we won, but we won it at terrific cost. When it was all over, we had lost $700,000,000 of gold; hundreds of banks had failed; the member banks were heavily in debt to the Federal reserve system, and there had been such a terrible shock to confidence that probably as high as a billion to a billion and a half dollars had gone into hoarding.

Then what happened? That movement was arrested for a while, I think largely through the creation of the National Credit Corporation, a voluntary organization formed by the banks for mutual assistance. But this relief did not last very long, and the movement set in again, characterized all through by the greatest fear.

What happens? A bank fails. When a bank in a community fails, every one in that community is scared and neighboring communities are affected. What do they do? They begin to withdraw deposits. When they begin to withdraw deposits. the banks get scared. They then proceed to make themselves liquid; they sell securities; they call loans; they refuse to make loans. That means, in turn, that the prices of bonds begin to be depressed—the bonds held as the reserves of the great fiduciary institutions as well as the banks. And you have set in motion a perfectly vicious circle, the ultimate effect of which is a steady contraction of credit. That means also contraction in business and enterprise, and a loss of confidence.

I think my dates are approximately right. I certainly think that you could say that up to September of last year, a great deal of what took place could be accounted for by the normal liquidation and reaction from a period of great speculation, and of all sorts of excesses. But I am confident in my own mind that liquidation by September certainly had proceeded far enough so that recovery was possible if we had not had superimposed on the business and industrial and agricultural depression, a financial depression, a panic of the first magnitude. And that is what we have been confronted with ever since September.

Why, from September, 1931 to March, 1932—these figures illustrate the effect of this panic—prices of commodities dropped 7 per cent; industrial production dropped 9 per cent, but loans and investments of weekly reporting member banks dropped 12 per cent and their deposits 16 per cent. In other words, the liquidation and contraction of credit has exceeded the contraction and slowing up of business activity.

That is what leads me to believe that the key to solve this present problem is, reinvigorate our whole credit machinery. Then, by using the vast means which are available to our official banking organization, make credit available and at the same time act with such good sense and pursue such sound policies that the American people finally will face the fact that there is no reason to despair of the future of America; that they had better go back to work and use the credit. And the day that happens, the turn comes.

But it is our job in the meanwhile—and that is what we have all been doing ever since you gentlemen came here in December—to prop up the credit structure of the country and to restore confidence.

That is why we fought this battle of the Budget over many long months. That is why you passed the Reconstruction Finance Corporation bill which put the credit of the Government back of the credit machinery of the country. That is why you passed the Glass-Steagall bill. That is why the Federal reserve system is to-day seeking to liberalize credit by pursuing a liberal policy in its open-market purchases.

There is the story. I think we have analyzed and defined and recognized the forces that head the movement of disintegration, and they are credit contraction and loss of confidence.

All of us here in Washington have been without any difference of opinion that I know of for many months, fighting this battle and I think fighting it successfully. We have stopped bank failures. We are gradually restoring confidence. We are going to get going. But good heavens! Don't come along at this very moment and undo everything that we have done and paralyze this country with a new fear, by resorting to the device that has brought every country practically to ruin that has tried it—the printing press. That is the main vice in this bill.

It is a terrible proposition—fiat currency, dishonest dollars, the moral bankruptcy of a great Government.

Mr. Doughton. Mr. Secretary, I am very much interested in this discussion.

Secretary Mills. I am sorry I made such a long speech, but that question required a long answer.

Mr. Doughton. This is the first one of the hearings that I have been able to attend, and I am very much interested in the entire subject. As I understand, Mr. Secretary, you think that our economic difficulty has been correctly diagnosed, that you understand the trouble, the seat of the disease. I understand that is the burden of your last remarks; you have at last found out what is the matter.

Secretary Mills. Of course, a man has to be a very brave man to be dogmatic. There are so many and varied and different forces at play in the world today, Mr. Doughton, that to single out one or two and say, "This is the whole show," is going too far.

I say to you that as I see the picture, the dominating factor in the course of the last eight months has been the financial and credit factor and the loss of confidence that has seized the American people.

That is not the only cause, but in my best judgment it is the dominating cause.

Mr. Doughton. As I understand it, you apprehend that in this whole effort that is being made to stabilize economic conditions and restore prosperity, expand credit and relieve unemployment, one of the main things to do is to balance the Budget; another is not to disturb the existing procedure and the efforts that are being made toward that end; is that right?

Secretary Mills. That is correct.

Mr. Doughton. Mr. Secretary, there has been a great deal said about balancing the Budget, and no one has been more interested in that than I have.

Secretary Mills. I know a fellow who has been more interested.

Mr. Doughton. That is one of the most important things necessary at this time. To what extent, if any, would a lack of balancing the Budget or a failure of the effort to balance the Budget earlier—the fact that the Budget was not balanced in 1931 and will not be balanced in 1932—to what extent did that condition contribute to our present economic distress, if any?

Secretary Mills. I do not think it was of any tremendous significance last year. I would not be concerned about a deficit in a single year, even a deficit of $900,000,000. I would not like it, but I would not be seriously concerned about it. But I think when, on top of a deficit of $900,000,000, it becomes apparent that you have another deficit of $2,500,000,000, at least, and then on top of the $2,500,000,000 you have another deficit rolling along of $1,700,000,000, unless you do something about it then, as I told you gentlemen when we first met in December, you are pursuing such an improvident and unwise course that I think you threaten the credit of the Government itself.

Mr. Doughton. You think so far the credit of the Government has not been impaired?

Secretary Mills. No; it has not been impaired. But remember that the leaders of both of the great parties have been telling the country, and the country has believed it, ever since December, that we are going to balance this Budget. And no matter how we may disagree as to the form the tax bill should take, I have not heard any substantial disagreement as to the necessity of raising a very substantial amount of revenue. And no matter what differences of opinion we may have had as to what form economy should take, I do not think we have, any of us, disagreed as to the need for economy. Both of these are aimed to produce a balanced Budget.

So that the country really has been assured ever since the Congress met in December, that the Budget was going to be balanced, and I think if you were to announce to-morrow that all of that was so much eyewash, and that we were not going to balance the Budget, then I think your Government credit would be challenged.

Mr. Doughton. You have doubtless seen the papers, the large metropolitan papers, the papers of the largest circulation in which they charge that a large part of our present economic trouble right now was caused by inaction and the mode of procedure of Congress with reference to this matter of balancing the Budget. As I understand it, you assert that you do not attribute any responsibility either to the administration or to the Congress for our economic troubles up to this time; you do not attribute it to anything that has been done or has not been done with reference to balancing the Budget?

Secretary MILLS. No. I think the Congress has said from the first it meant to balance this Budget.

Mr. DOUGHTON. That is my understanding.

Secretary MILLS. It has been my understanding.

Mr. DOUGHTON. That is all.

Mr. DICKINSON. Mr. Secretary, it has been suggested in the hearings here that the intense stock speculation that resulted in the crash in October, 1929, entered largely in producing a want of confidence throughout the country. What do you say about that being a cause of the want of confidence?

Secretary MILLS. I think the excessive speculation in stocks followed by the inevitable collapse, certainly played a very large part in this whole picture.

Mr. DICKINSON. That tended to drain from the country a large amount of the circulating medium throughout the country, did it not?

Secretary MILLS. I do not think that is what was the cause no. I do not think it had any effect on the currency. There was no shortage of currency.

Mr. DICKINSON. Taking money out of the banks and using it in speculation in stocks?

Secretary MILLS. There was gradually a tightening of credit. There is no doubt about that. But remember that during that whole period 1923 to 1929, in this country at least, commodity prices were relatively stable. Until the final collapse of stock prices came, our commodity price level was steady and there is no clear evidence that business felt the pressure of rising interest rates.

I know it has been claimed in foreign countries that funds sucked to the New York market from foreign countries tended to drain those countries of their gold reserve, and that it became necessary for the foreign central banks to put up their interest rates; and that, in turn, put pressure on industry and business in those countries; and that the business recession started abroad before ours did largely as a result of the wild speculation in this country which attracted foreign funds.

But I think it is clear—I do not want to attempt here or now or perhaps ever, to give an analysis of the causes that brought about the great depression; men will be debating that for 100 years, Judge—but there is no doubt that excessive, unwarranted, and wholly unjustified stock speculation had a large part in the picture.

Mr. DICKINSON. A prominent witness, I believe a professor from Princeton University, when asked a similar question named as one of the first causes the results of this intense stock speculation.

Secretary MILLS. I think it was very much in the picture; don't misunderstand me. I am not saying that was not one of the primary causes. It was. But I do not think that tells the whole story. There are lots of people who will tell you that a shortage of gold brought it about. There are lots of people who will tell you that maldistribution brought it about. There are lots of people who will tell you that tariffs brought it about. There are lots of people who will tell you that excessive production of goods brought it about. There are lots of people who will tell you that foreign debts, intergovernmental debts, brought it about. And they are going to be debating the causes for many, many years. But I think it is sufficient for our purposes to say that excessive and unjustified speculation in securities was certainly one of the primary causes of the collapse.

Mr. DICKINSON. I agree with you. I could suggest a number of things that I believe entered into it, but let me go on to another point that was brought up early in the hearings.

It has been suggested that the Treasury or the Government made a profit by reason of the difference between the interest paid on money borrowed to make these loans on the certificates and the interest charged to the veterans. Can you give to the committee some approximate estimate of profit made by the Treasury by reason of that difference in the interest charge?

Secretary MILLS. I do not believe we have made a profit. For years—I am willing to be corrected if I have made any mistake—for years, in order to maintain the 4 per cent earnings on this fund, we issued special Treasury certificates and notes to the fund and paid 4 per cent interest on those notes at a time when the Treasury was borrowing in the open market at a much cheaper rate.

In other words, the Treasury deliberately paid higher interest rates on the funds, which in effect it was borrowing from the fund, than it did on any other borrowing in those years, otherwise we would not have been able to earn 4 per cent interest on this fund.

When it comes to what has happened during the course of the last year, if you look at the actual interest rates, we have apparently sold from the fund or replaced securities on which we paid 4 per cent interest, by selling in the market other short-term securities on which we paid a lower rate of interest. On the face of it, that might indicate that there was a differential in favor of the Treasury, but do not forget, Judge, we were compelled to force on the market eight or nine hundred million dollars of securities that we would not otherwise have sold. Do not forget that the very thing which we prophesied a year ago took place, that, through forcing eight or nine hundred million dollars of additional securities on the market, we depreciated the value of other Government securities.

We succeeded in selling a 3 per cent bond in September and it was selling at 82 in January. I do not know that any one will ever be able to answer that question mathematically, but forcing almost a billion dollars on the market must have cost the Treasury a great deal of money in higher interest rates on all of its borrowings.

Mr. DICKINSON. Let me ask you one other question. Do you recall a statement that went out in the press as coming from the Treasury, about the time that the 50 per cent loan question was before us, to the effect that if all the ex-service men holding certificates would apply for the loan, the Treasury Department would make $70,000,000 annually? Do you recall anything of that kind?

Secretary MILLS. No; I never saw any such statement.

Mr. DICKINSON. I saw it and others saw it and the name of the Secretary of the Treasury, Mr. Mellon, was mentioned in connection with it. It was about the time there was talk of a raid on the Treasury.

Secretary MILLS. I never saw any statement that went out from the Treasury which said that we would make $70,000,000 on that operation and I do not know that we employ anyone around the Treasury who would make such a foolish statement.

Mr. DICKINSON. It attracted my attention.

Secretary MILLS. I will look it up, Judge, and find out.

Mr. DICKINSON. The statement was made in the testimony that there was such an announcement issued by the Treasury.

Secretary MILLS. If we were guilty of a brainstorm, I will check up and find out.

Mr. VINSON. Mr. Secretary, do you mean that you did not employ a gentleman who would make that statement or that he is not in the employ of the Treasury now?

Secretary MILLS. I have no recollection of any such statement.

Mr. VINSON. Mr. Mills, you referred in the opening sentence of your statement to money that is not honest. What did you mean by that?

Secretary MILLS. I mean by that, a piece of paper turned out by a printing press which has nothing back of it.

Mr. VINSON. And that is what is commonly known as fiat money?

Secretary MILLS. Exactly.

Mr. VINSON. Your remarks have been directed to H. R. 7726?

Secretary MILLS. That is correct. That is the bill I understood you were considering.

Mr. VINSON. Have you considered the bill introduced by Senator Thomas?

Secretary MILLS. No.

Mr. VINSON. Would you say that currency issued under that bill would be fiat money or dishonest money?

Secretary MILLS. I have not seen the bill, Mr. Vinson.

Mr. VINSON. Have you studied the Owen plan?

Secretary MILLS. No.

Mr. VINSON. So you would not care to make a statement about currency that would issue under it?

Secretary MILLS. No, because I have not seen it. I will say, though, that any system of expansion that is not brought about through the regular banking machinery of the country, which means the Federal reserve system, and is under their complete control at all times, I am opposed to, because of the danger of uncontrolled inflation.

Mr. VINSON. If the currency issue is under complete control of the Federal reserve system, you would not consider that dishonest money?

Secretary MILLS. No. There is a 40 per cent gold reserve back of it.

Mr. VINSON. And you believe that if you have a 40 per cent gold reserve behind Federal reserve notes, that that is honest money?

Secretary MILLS. The present law says that that is an adequate reserve and I assume the people who manage the Federal reserve system will always take such steps as are necessary to see that it remains honest money; and that means they will not be told by law to do something which makes it impossible for them to keep control. Let us understand each other. I mean that I assume that there is to be no arbitrary tampering by the Congress with the Federal reserve act in order to bring about a given result.

Mr. Vinson. Do you consider that the Glass-Steagall bill tampered with the currency.

Secretary Mills. It did not. It freed nearly a billion dollars of gold that was tied up through a technicality and made it available as a basis for credit expansion.

Mr. Vinson. Mr. Secretary, if there is no shortage of currency in the country to-day, upon what theory did the Federal reserve system issue $25,000,000 of currency during the weeks when it did so issue $25,000,000?

Secretary Mills. What makes you think that it issued $25,000,000 of currency?

Mr. Vinson. For the last two weeks it issued $193,000,000 in currency.

Secretary Mills. What makes you think it issued currency?

Mr. Vinson. Do you say that it has not issued currency?

Secretary Mills. Yes.

Mr. Vinson. Did it not buy bonds in the last two weeks to the extent of $193,000,000?

Secretary Mills. It bought bonds, it did not sell bonds.

Mr. Vinson. Did it go out on the market and buy $193,000,000 worth of bonds?

Secretary Mills. Certainly.

Mr. Vinson. How would it buy them?

Secretary Mills. It pays for them by Federal reserve credit; granting to the seller a Federal reserve credit on its books. It buys from a bank and that bank immediately has a deposit in the Federal reserve bank, which it can either treat as a reserve against its deposits or which constitutes an excess reserve. There is no pumping out of currency. You have got an entirely false conception of that, Mr. Vinson. No one goes out with a wad of bills and buys bonds.

Mr. Vinson. What is the guaranty for that Federal reserve credit?

Secretary Mills. What is back of the Federal reserve credit?

Mr. Vinson. Yes.

Secretary Mills. All of the assets of the Federal reserve system, including——

Mr. Vinson (interposing). The bonds which it purchases?

Secretary Mills. Including probably a billion and a half dollars of free gold.

Mr. Vinson. And including the Government bonds which it purchases?

Secretary Mills. Including the Government bonds which it purchases, which are among its assets.

Mr. Vinson. You do not call national bank notes fiat money, do you?

Secretary Mills. No; but they could very readily become fiat money unless they were limited in amount.

Mr. Vinson. National bank notes, of course, have for their backing, Government bonds?

Secretary Mills. And the fact that the United States Government has undertaken to keep all currency outstanding at a parity with gold; that is what keeps them sound, above all else; and the fact that the amount is limited. You can print $25,000,000 of paped currency to-morrow. That is not going to do any harm. But you can not print $2,400,000,000 by Congressional enactment and

Mr. Eslick. May I ask one other question, Mr. Secretary? You said that there are $18,000,000 of free gold only——

Secretary Mills. In the Treasury to-day.

Mr. Eslick. Of the different issues, how much gold is behind them now?

Secretary Mills. I am sorry I do not quite understand that.

Mr. Eslick. Of the different issues of paper money outstanding, supported or backed by gold, what is the average percentage of gold coverage?

Secretary Mills. We have back of the gold certificates, of course, 100 per cent gold cover. We have back of the $346,000,000 of greenbacks, $156,000,000 of gold. Back of the silver certificates, we have the silver dollar. But that is in a limited amount, $492,000,000.

Back of the Treasury notes of, as I said, $346,000,000, we have got $156,000,000 of gold.

Mr. Vinson. That $156,000,000 of gold is also used as guarantee for other issues, is it not?

Secretary Mills. No, that is provided as a legal reserve by law against United States notes.

Mr. Vinson. It was stated here to us that it backs up several other issues. Mr. Chairman, may I say I would like to have a table showing the gold reserves of the $4,300,000,000 indicating what they do back up.

Secretary Mills. Doctor Goldenweiser calls my attention to the fact that the reserve of $156,000,000 backs up a very small amount of Treasury notes of 1890 that are still outstanding, only $1,000,000. That in addition to the $346,000,000 of United States notes which I have already mentioned.

Mr. Vinson. Could we get that, Mr. Secretary?

Secretary Mills. I have already given that to you.

Mr. Vinson. I thought it would be well to have the whole picture in the form of a table showing how much gold you have behind Federal reserve notes, and so forth. We got the information as to that in a rather disconnected manner the other day. What is the gold reserve on Federal reserve notes?

Secretary Mills. The reserve ratio, that is the ratio of total reserves to deposit and note liabilities, is 70 per cent. The actual amount of gold held exclusively against Federal reserve notes was on April 20, $2,265,000,000.

Mr. Vinson. Can we have that information put in the record in the form of a table so we may have a complete picture of it?

Mr. Rainey. If the Secretary can do that. Can you do that, Mr. Secretary?

Secretary Mills. I will offer this table for the record.

Mr. Rainey. Without objection it will be included in the record.

(The statement referred to is as follows:)

115338—32——40

Resources and liabilities of the 12 Federal reserve banks combined

	Apr. 20, 1932	Apr. 13, 1932	Apr. 22, 1931
RESOURCES			
Gold with Federal reserve agents	$2,223,947,000	$2,192,997,000	$1,782,614,000
Gold redemption fund with United States Treasury	41,070,000	41,830,000	32,529,000
Gold held exclusively against Federal reserve notes	2,265,017,000	2,234,827,000	1,815,143,000
Gold settlement fund with Federal Reserve Board	297,297,000	317,085,000	557,493,000
Gold and gold certificates held by banks	461,415,000	466,400,000	790,187,000
Total gold reserves	3,023,729,000	3,018,312,000	3,162,823,000
Reserves other than gold	212,969,000	214,737,000	183,527,000
Total reserves	3,236,698,000	3,233,049,000	3,346,350,000
Nonreserve cash	76,815,000	78,994,000	72,118,000
Bills discounted:			
Secured by United States Government obligations	267,366,000	316,088,000	44,415,000
Other bills discounted	297,157,000	312,514,000	90,835,000
Total bills discounted	564,523,000	628,602,000	135,250,000
Bills bought in open market	48,547,000	51,809,000	151,611,000
United States Government securities:			
Bonds	346,198,000	321,183,000	65,711,000
Treasury notes	85,446,000	85,446,000	52,232,000
Certificates and bills	646,486,000	578,395,000	480,586,000
Total United States Government securities	1,078,130,000	985,024,000	598,529,000
Other securities	4,501,000	4,476,000	
Total bills and securities	1,695,701,000	1,669,911,000	885,390,000
Due from foreign banks	6,683,000	6,669,000	697,000
Federal reserve notes of other banks	16,305,000	14,107,000	16,159,000
Uncollected items	388,362,000	410,810,000	523,411,000
Bank premises	57,855,000	57,854,000	58,420,000
All other resources	34,118,000	37,960,000	16,741,000
Total resources	5,512,537,000	5,509,354,000	4,919,286,000
LIABILITIES			
Federal reserve notes in actual circulation	2,544,764,000	2,537,075,000	1,526,511,000
Deposits:			
Member bank—reserve account	1,978,642,000	2,010,899,000	2,379,785,000
Government	78,334,000	52,494,000	29,638,000
Foreign bank	47,317,000	41,137,000	5,495,000
Other deposits	27,078,000	19,435,000	20,874,000
Total desposits	2,131,371,000	2,123,965,000	2,435,792,000
Deferred availability items	390,708,000	401,809,000	498,113,000
Capital paid in	155,376,000	155,458,000	168,690,000
Surplus	259,421,000	259,421,000	274,636,000
All other liabilities	30,897,000	31,626,000	15,544,000
Total liabilities	5,512,537,000	5,509,354,000	4,919,286,000
Ratio of total reserves to deposit and Federal reserve note liabilities combined ... per cent	69.2	69.4	84.5
Contingent liability on bills purchased for foreign correspondents	308,843,000	325,684,000	422,880,000

Mr. RAINEY. Mr. Secretary, I understand that we have the gold certificates backed dollar-for-dollar with gold. Would it be possible under the acts and under the Constitution, in your judgment, to charge against those gold certificates an issue of money such as is anticipated in these bills?

Secretary MILLS. Well, you would have to get the gold certificates back. I do not know how you are going to do that. They are outstanding. If you pass this bill, they certainly will not come back voluntarily.

Mr. Rainey. Do you know how much of obligations there are in the country which are payable in gold of a certain weight and fineness—outstanding obligations?

Secretary Mills. No; I do not. But I think the great mass of corporate bonds outstanding are all payable in gold of the present standard fineness.

Mr. Rainey. Any of the Government obligations?

Secretary Mills. All of the Government obligations are payable in gold, Mr. Chairman.

Mr. Rainey. Of an accredited standard and fineness.

Secretary Mills. Yes.

Mr. Rainey. With reference to greenbacks and Federal reserve notes, would it be possible to charge against that gold any additional issue of paper money under the acts and under the Constitution as it is?

Secretary Mills. The Federal reserve could issue notes against its gold, but that is not the property of the United States Government. That is the property of the Federal reserve system. I do not think we could appropriate it.

Mr. Rainey. That is all.

Mr. Hill. Mr. Chairman, I would like to ask one question. Is there any elasticity in the currency that is issued as United States Treasury notes, that issues out of the Treasury?

Secretary Mills. No. There is no elasticity there. The law simply provides we must issue them as fast as they come in. So that the level of $346,000,000 is constantly maintained.

Mr. Hill. You just reissue for those that you cancel?

Secretary Mills. Yes.

Mr. Hill. There has been no new issue of that character of currency since this original issue of $346,000,000?

Secretary Mills. As a matter of fact, beginning with the resumption act in 1878, the amount outstanding has been maintained at that figure. I will give you the date in a moment.

The act of May 31, 1878, fixed the amount at $346,681,016 then outstanding as the maximum and minimum amounts.

Mr. Hill. What other issues of United States currency are in circulation besides the $346,000,000?

Secretary Mills. Of course, silver certificates and gold certificates.

Mr. Hill. What is the volume of the gold certificates?

Secretary Mills. Outstanding to-day?

Mr. Hill. Yes.

Secretary Mills. On March 31, 1932, the latest statement available $779,000,000 in circulation and $1,592,000,000 outstanding, as far as the Treasury is concerned; the latter figure includes those held by the Federal reserve banks and agents.

Mr. Rainey. Mr. Secretary, I submitted to the Attorney General orally this request, that he advise the committee as to whether under the law and under the Constitution—that is, under the existing acts and under the Constitution, it would be possible to issue additional currency and charge it up against the gold reserve as the gold reserve is now allocated to these various issues. He replies as follows:

DEPARTMENT OF JUSTICE,
Washington, D. C., April 25, 1932.

Hon. HENRY T. RAINEY,
Acting Chairman Committee on Ways and Means,
House of Representatives, Washington, D. C.

MY DEAR MR. RAINEY: I have the honor to refer to your recent oral request that some one from this department be assigned to advise your committee upon the question of whether or not additional currency can be issued against the present gold reserve.

It has long been the practice of this department to refrain from giving opinions on matters of law except to the President and the heads of the departments, as provided by the statutes. To accede to your request would, as I see it, represent a departure from this long-established practice. I think such a departure from precedent would be unwise and am impelled to ask that you excuse me from complying with your request.

Respectfully, for the Attorney General,

ROY ST. LEWIS,
Assistant Attorney General.

Would it be possible for you to make that request as the head of the Treasury Department, and submit to this committee his reply?

Secretary MILLS. I do not think he would give it to me, Mr. Chairman, because the Attorney General makes it an absolute rule, as I understand it, not to answer any theoretical questions.

Mr. RAINEY. That would not be theoretical.

Secretary MILLS. This is what I mean. He would only permit us to submit to him through the medium of the Solicitor of the Treasury a case which is actually before us for decision. We could not submit to the Attorney General a question on an assumed state of facts and ask an opinion.

Mr. RAINEY. This question is absolutely and actually now before the Congress as it is presented to this committee and he states in his letter that he can not give me this opinion except upon the request of a head of a department.

Secretary MILLS. As I say, the Department of Justice makes it a practice not to answer questions from departments on an assumed state of facts, but only on a question pending for decision in the department. I think we would be met with the same sort of an answer. On the other hand, I think that this is a matter which affects the Federal reserve system and I do not see why you should not get an opinion from the counsel of the Federal reserve system.

Mr. RAINEY. I shall try to get it from him.

Secretary MILLS. I am perfectly willing to try, but I think you will find the Attorney General will give me the same answer.

Mr. RAINEY. If you will try and have no objection to trying and see no reason why you should not try, I am sure the committee would like to have it.

Secretary MILLS. I shall do it, Mr. Chairman.

Mr. LEWIS. Mr. Secretary, the question was put to you as to the purchases of bonds by the Federal reserve system and your answer was that it issued no new currency in that connection, but gave the vendor of the bonds, usually a bank, credit on its books. Is that a complete statement? Suppose the Federal reserve system were to buy $2,500,000,000 worth of bonds outstanding. Could it manage that transaction without the issuance of new currency?

Mr. MILLS. I think eventually you would have an expansion of credit and the expansion of credit would necessarily presuppose that credit was being used. That means there would be greater business activity and commercial activity. That, in turn, would result in a demand for currency and currency would flow out. But the mere act of purchasing bonds does not result in the issuance of currency and even if currency were issued, it would come right back. There is no difficulty in obtaining all the currency you want in the United States to-day. The difficulty is in expanding credit. The business man is afraid to use credit and the bank is afraid to let him have it. That is your situation to-day. There is nothing that faintly resembles a currency problem in this whole picture, except to the extent that when you have currency hoarded aggregating approximately a billion dollars, you have tied up reserves which might form the basis for credit expansion. But there is no currency shortage.

If you think of this problem in terms of currency, you are getting a completely false picture and if you pumped out currency to-day, you would have it come right back.

Mr. LEWIS. May I assure you that I have no such thought, but I simply wanted to know the modus operandi of the reserve system in such a transaction as that outlined. I can conceive that it could for small amounts very well get along without issuing new currency, but if it were to undertake an enlargement as great as $2,500,000,000 is it conceivable that it could manage it without issuing new currency?

Secretary MILLS. Yes.

Mr. LEWIS. I wanted the information.

Secretary MILLS. I want to be corrected by Governor Meyer and Doctor Goldenweiser, who are experts on the Federal reserve system. I do not pretend to be. But the reserve banks could manage such purchases through credit operations. I think it is just as true of $2,500,000,000 as it is of $500,000,000.

Mr. CROWTHER. Mr. Secretary, the statement has been made that several of the proponents of this legislation that whereas the gold reserve in the Federal reserve banks is at present about 70 per cent and the legal reserve being only 40 per cent, with a $4,000,000,000 gold reserve, they can very easily issue $10,000,000,000 worth of currency and still maintain the legal reserve. Is there any substance to that statement?

Secretary MILLS. You mean that theoretically $4,000,000,000 in gold would support $10,000,000,000 of Federal reserve notes?

Mr. CROWTHER. That is the statement that has been made here several times.

Secretary MILLS. It would, I suppose, if you could get the other collateral and if you did not also have to provide a reserve against deposits. But that seems fantastic to me. Where would the ten billions of currency go?

Mr. CROWTHER. It is merely a mathematical calculation without anything else——

Secretary MILLS. Without any real meaning, Doctor.

Mr. CHINDBLOM. Mr. Secretary, in that connection may I ask you this question? While under the law the 40 per cent gold reserve is provided, I apprehend that is intended to be the minimum. How would you provide for elasticity, which is so often discussed here, if you cut your gold reserve down to the minimum?

Secretary MILLS. Well, of course——

Mr. CHINDBLOM (interposing). I do not know just what is meant by this discussion about elasticity.

Secretary MILLS. I do not know what is meant by getting out ten billion of Federal reserve notes.

Mr. CHINDBLOM. Exactly. If there is any one here who can explain to us the operations of the Federal reserve system——

Secretary MILLS (interposing). If any one can tell me how to get ten billion in Federal reserve notes out and to keep it out, then there is something to discuss. The propostion is just absurd on the face of it. That is my answer, Mr. Chindblom.

Mr. CHINDBLOM. The argument has been made here repeatedly——

Secretary MILLS (interposing). I do not care what the argument is that has been made. I say to you it is impossible to get out ten billions of Federal reserve notes. I do not know how many Treasury notes you could eventually get out, if you started the printing presses going. One gold mark was worth one trillion of paper marks, I think.

So if you start the printing presses going, then $10,000,000,000 does not become a fantastic figure.

Mr. CHINDBLOM. But it has been represented, Mr. Secretary, that instead of the 40 per cent gold reserve being available for the Federal reserve system, there is a 70 per cent reserve, and that that difference between 40 and 70 per cent can in some way be used for expansion of currency.

Secretary MILLS. It can be used, unquestionably, Mr. Chindblom, for the expansion of credit, and that is what it is there for; and eventually, if credit expands and business improves, after we have absorbed all of this hoarded currency, currency might expand. That is the normal thing—for currency to expand when business expands and pay rolls increase. But dumping out currency in a dead business world is a perfectly futile performance, because it goes out one day and comes right back the next.

Mr. CHINDBLOM. Of course, I agree with you, Mr. Secretary.

Mr. VINSON. Mr. Chairman, I would like to have this information, because I know it will be accurate; that is, with reference to the gold of the world. Mr. Secretary, would you put in the record a statement as to where that gold is?

Secretary MILLS. You mean the gold held by the different central banks?

Mr. VINSON. Yes.

Secretary MILLS. Yes; I will be very glad to do so.

(The statement requested is as follows:)

Gold reserves of central banks and governments

End of month	Total (45 countries)	United States	Canada	Europe									
				Total (26 countries)	Austria	Belgium	Bulgaria	Czechoslovakia	Denmark	England	France	Germany	Greece
1930													
December	$10,907,000,000	$4,225,000,000	$110,000,000	$5,281,000,000	$30,000,000	$191,000,000	$10,000,000	$46,000,000	$46,000,000	$718,000,000	$2,100,000,000	$528,000,000	$7,000,000
1931													
January	10,953,000,000	4,285,000,000	92,000,000	5,313,000,000	30,000,000	191,000,000	10,000,000	46,000,000	46,000,000	679,000,000	2,176,000,000	535,000,000	7,000,000
February	11,008,000,000	4,309,000,000	94,000,000	5,350,000,000	30,000,000	197,000,000	11,000,000	46,000,000	46,000,000	685,000,000	2,192,000,000	544,000,000	7,000,000
March	11,071,000,000	4,343,000,000	96,000,000	5,388,000,000	30,000,000	200,000,000	11,000,000	46,000,000	46,000,000	699,000,000	2,200,000,000	553,000,000	6,000,000
April	11,107,000,000	4,373,000,000	99,000,000	5,395,000,000	30,000,000	201,000,000	11,000,000	46,000,000	46,000,000	712,000,000	2,180,000,000	564,000,000	6,000,000
May	11,217,000,000	4,445,000,000	102,000,000	5,428,000,000	30,000,000	201,000,000	11,000,000	46,000,000	46,000,000	735,000,000	2,181,000,000	569,000,000	6,000,000
June	11,264,000,000	4,593,000,000	87,000,000	5,351,000,000	30,000,000	199,000,000	11,000,000	46,000,000	46,000,000	793,000,000	2,212,000,000	339,000,000	6,000,000
July	11,210,000,000	4,587,000,000	87,000,000	5,353,000,000	30,000,000	214,000,000	11,000,000	45,000,000	46,000,000	643,000,000	2,290,000,000	325,000,000	6,000,000
August	11,283,000,000	4,632,000,000	89,000,000	5,413,000,000	30,000,000	221,000,000	11,000,000	45,000,000	46,000,000	649,000,000	2,296,000,000	325,000,000	6,000,000
September	11,262,000,000	4,364,000,000	83,000,000	5,686,000,000	27,000,000	346,000,000	11,000,000	45,000,000	44,000,000	656,000,000	2,326,000,000	310,000,000	6,000,000
October	11,111,000,000	3,905,000,000	86,000,000	6,062,000,000	27,000,000	357,000,000	11,000,000	46,000,000	44,000,000	660,000,000	2,534,000,000	273,000,000	11,000,000
November	11,208,000,000	4,031,000,000	82,000,000	6,109,000,000	27,000,000	356,000,000	11,000,000	46,000,000	39,000,000	587,000,000	2,659,000,000	239,000,000	11,000,000
December	11,242,000,000	4,051,000,000	78,000,000	6,184,000,000	27,000,000	354,000,000	11,000,000	49,000,000	39,000,000	588,000,000	2,699,000,000	234,000,000	11,000,000
1932													
January	[1] 11,289,000,000	4,009,000,000	80,000,000	6,296,000,000	25,000,000	352,000,000	11,000,000	49,000,000	39,000,000	588,000,000	2,808,000,000	226,000,000	11,000,000
February	[1] 11,364,000,000	3,947,000,000	78,000,000	[1] 6,440,000,000	25,000,000	351,000,000	11,000,000	49,000,000	39,000,000	588,000,000	2,942,000,000	221,000,000	11,000,000
March		3,985,000,000			25,000,000					588,000,000	[1] 3,002,000,000	209,000,000	

Gold reserves of central banks and governments—Continued

End of month	Europe—Continued													Latin America—Total (10 countries)
	Hungary	Italy	Netherlands	Norway	Poland	Portugal	Rumania	Spain	Sweden	Switzerland	U. S. S. R.	Yugoslavia	5 other countries	
1930														
December	$28,000,000	$279,000,000	$171,000,000	$39,000,000	$63,000,000	$9,000,000	$56,000,000	$471,000,000	$65,000,000	$138,000,000	$249,000,000	$19,000,000	$18,000,000	$534,000,000
1931														
January	28,000,000	279,000,000	175,000,000	39,000,000	63,000,000	9,000,000	56,000,000	466,000,000	64,000,000	126,000,000	249,000,000	19,000,000	18,000,000	506,000,000
February	26,000,000	279,000,000	179,000,000	39,000,000	63,000,000	9,000,000	56,000,000	466,000,000	64,000,000	124,000,000	249,000,000	19,000,000	18,000,000	497,000,000
March	22,000,000	279,000,000	179,000,000	39,000,000	63,000,000	9,000,000	53,000,000	467,000,000	64,000,000	124,000,000	259,000,000	19,000,000	18,000,000	483,000,000
April	20,000,000	279,000,000	181,000,000	39,000,000	64,000,000	11,000,000	53,000,000	467,000,000	64,000,000	124,000,000	259,000,000	19,000,000	18,000,000	475,000,000
May	20,000,000	280,000,000	181,000,000	39,000,000	64,000,000	11,000,000	53,000,000	468,000,000	64,000,000	124,000,000	262,000,000	19,000,000	18,000,000	465,000,000
June	20,000,000	282,000,000	200,000,000	39,000,000	64,000,000	11,000,000	53,000,000	468,000,000	64,000,000	162,000,000	262,000,000	27,000,000	18,000,000	451,000,000
July	20,000,000	283,000,000	236,000,000	39,000,000	64,000,000	10,000,000	53,000,000	439,000,000	64,000,000	225,000,000	267,000,000	27,000,000	18,000,000	416,000,000
August	18,000,000	283,000,000	260,000,000	39,000,000	64,000,000	10,000,000	53,000,000	439,000,000	62,000,000	229,000,000	280,000,000	27,000,000	19,000,000	400,000,000
September	18,000,000	286,000,000	282,000,000	39,000,000	64,000,000	10,000,000	54,000,000	439,000,000	53,000,000	328,000,000	293,000,000	29,000,000	19,000,000	370,000,000
October	18,000,000	293,000,000	336,000,000	46,000,000	67,000,000	12,000,000	54,000,000	434,000,000	57,000,000	422,000,000	369,000,000	31,000,000	21,000,000	363,000,000
November	18,000,000	296,000,000	362,000,000	42,000,000	67,000,000	12,000,000	54,000,000	434,000,000	55,000,000	425,000,000	315,000,000	31,000,000	21,000,000	358,000,000
December	18,000,000	296,000,000	357,000,000	41,000,000	67,000,000	13,000,000	58,000,000	434,000,000	55,000,000	453,000,000	328,000,000	31,000,000	21,000,000	344,000,000
1932														
January	18,000,000	296,000,000	351,000,000	42,000,000	67,000,000	13,000,000	58,000,000	434,000,000	55,000,000	472,000,000	329,000,000	31,000,000	22,000,000	338,000,000
February	17,000,000	296,000,000	353,000,000	42,000,000	68,000,000	15,000,000	57,000,000	434,000,000	55,000,000	482,000,000	329,000,000	31,000,000	[1]22,000,000	[1]336,000,000
March	17,000,000	[1]296,000,000	354,000,000							471,000,000	330,000,000			

End of month	Latin America						Far East						Africa	
	Argentina	Brazil	Colombia	Peru	Uruguay	5 other countries	Total (5 countries)	Australia	India	Japan	Java	New Zealand	Egypt	South Africa
1930														
December	$412,000,000	$11,000,000	$17,000,000	$18,000,000	$60,000,000	$17,000,000	$704,000,000	$75,000,000	$128,000,000	$412,000,000	$56,000,000	$33,000,000	$20,000,000	$33,000,000
1931														
January	397,000,000	----------	14,000,000	18,000,000	59,000,000	17,000,000	704,000,000	76,000,000	128,000,000	415,000,000	52,000,000	34,000,000	20,000,000	34,000,000
February	390,000,000	----------	15,000,000	18,000,000	58,000,000	17,000,000	703,000,000	76,000,000	128,000,000	417,000,000	48,000,000	34,000,000	20,000,000	35,000,000
March	378,000,000	----------	12,000,000	18,000,000	58,000,000	16,000,000	709,000,000	77,000,000	135,000,000	415,000,000	48,000,000	34,000,000	20,000,000	31,000,000
April	370,000,000	----------	12,000,000	18,000,000	58,000,000	16,000,000	714,000,000	74,000,000	141,000,000	419,000,000	46,000,000	34,000,000	21,000,000	31,000,000
May	362,000,000	----------	10,000,000	18,000,000	58,000,000	17,000,000	724,000,000	74,000,000	147,000,000	422,000,000	46,000,000	34,000,000	21,000,000	32,000,000
June	350,000,000	----------	10,000,000	16,000,000	58,000,000	17,000,000	730,000,000	75,000,000	151,000,000	425,000,000	46,000,000	34,000,000	21,000,000	31,000,000
July	322,000,000	----------	10,000,000	14,000,000	57,000,000	12,000,000	714,000,000	66,000,000	158,000,000	412,000,000	44,000,000	34,000,000	21,000,000	33,000,000
August	309,000,000	----------	10,000,000	11,000,000	57,000,000	12,000,000	698,000,000	52,000,000	162,000,000	406,000,000	44,000,000	34,000,000	21,000,000	31,000,000
September	281,000,000	----------	8,000,000	13,000,000	56,000,000	13,000,000	706,000,000	52,000,000	162,000,000	408,000,000	51,000,000	34,000,000	21,000,000	32,000,000
October	270,000,000	----------	11,000,000	17,000,000	53,000,000	13,000,000	644,000,000	53,000,000	162,000,000	342,000,000	53,000,000	34,000,000	21,000,000	30,000,000
November	265,000,000	----------	10,000,000	17,000,000	53,000,000	13,000,000	570,000,000	51,000,000	162,000,000	271,000,000	53,000,000	33,000,000	21,000,000	37,000,000
December	253,000,000	----------	9,000,000	17,000,000	53,000,000	13,000,000	525,000,000	52,000,000	162,000,000	234,000,000	45,000,000	32,000,000	21,000,000	39,000,000
1932														
January	252,000,000	----------	6,000,000	15,000,000	52,000,000	13,000,000	505,000,000	51,000,000	162,000,000	215,000,000	45,000,000	32,000,000	[1] 21,000,000	40,000,000
February	249,000,000	----------	7,000,000	[1] 15,000,000	[1] 52,000,000	13,000,000	505,000,000	52,000,000	162,000,000	215,000,000	45,000,000	32,000,000	[1] 21,000,000	37,000,000

[1] Preliminary.

NOTE.—The 5 European countries and 5 Latin American countries for which figures are no shown separately are Albania, Estonia, Finland, Latvia, and Lithuania; Bolivia, Chile, Ecuador, Guatemala, and Mexico. None of these countries has had gold reserves in recent years in excess of $10,000,000.

Mr. RAINEY. Thank you, Mr. Secretary.

Governor Meyer, the committee will be glad to hear from you.

STATEMENT OF HON. EUGENE MEYER, GOVERNOR OF THE FEDERAL RESERVE BOARD

Mr. RAINEY. Governor, will you state for the record the position you occupy and the positions you have occupied in matters of finance and economics heretofore?

Governor MEYER. I am governor of the Federal Reserve Board and chairman of the board of directors of the Reconstruction Finance Corporation. I was formerly managing director of the War Finance Corporation, and have had other Governmental experience.

Mr. RAINEY. Will you state for the record your experience and studies in financial and economic matters?

Governor MEYER. Except for the period from May 1920, to March, 1921, and from May, 1929, to September, 1930, I have been in Government service since 1917. Prior to 1917 I was in business. I have attempted to understand some of the fundamentals of economics, industry, agriculture, and finance, but I do not pretend to be a master of them, although I have been an interested student for a long time.

Mr. RAINEY. Prior to entering upon your public career in these matters, what opportunities did you have to study abroad?

Governor MEYER. After studying economics and finance and graduating from Yale University I spent two years abroad—in England, France, and Germany—studying languages and banking and finance.

Mr. RAINEY. Thank you. I wanted to have it appear in the record. I knew it myself. Proceed, Governor Meyer.

Governor MEYER. Mr. Chairman, and gentlemen, when Congress passed the Reconstruction Finance Corporation act, a great deal of work in addition to my duties as governor of the Federal Reserve Board was imposed upon me, and my time is so fully occupied that it is difficult for me to find the opportunity to prepare statements in appearing before committees. I knew, too, that the fiscal aspects of this proposal would be thoroughly and ably covered by the Secretary of the Treasury. It seems to me that he has presented those aspects of the matter so fully and so ably that I need add nothing to his presentation.

As to the currency features of the proposal, I should like to say something, and I should also like to say something about it in relation to the measures that Congress already has passed.

When you met in December, you proceeded to consider what you could do to help in this distressing economic situation. You took up first the reconstruction finance corporation act. You passed that act during the latter part of January, giving a very large fund, and very broad powers to its administrative officials, thereby showing confidence in the ability of the Government of the United States to administer such large resources and to use such broad powers honestly and ably. You proceeded to strengthen the Federal land banks by adding to their capital, and then to liberalize certain sections of the Federal reserve act in order to strengthen the financial machinery and increase its elasticity in meeting present conditions.

In all these measures you acted promptly, and proved that the Congress is a body ready to respond to unusual needs with an open mind and that it has the ability to adjust existing institutions to the exceptional conditions involved in the present crisis. This is not an American crisis alone; it is a world crisis; and while our misfortunes, and the financial, economic, and mental miseries of a large number of our people, are great, I think that if we fully knew conditions in other countries we would feel ourselves the most fortunate country in the world.

In proposing to add a very large issue of currency to the fiscal and financial system of this country, it is sometimes pointed out that other countries have successfully followed some procedure of such a character. I want to say that the course of this country should be determined by its own resources, its own powers, and the character of its own people. It certainly would be a poor plan for us to follow the example of repudiation and bankruptcy which has occurred in some countries, or to adopt a policy of inflation which other countries were compelled to follow. For, as we all know, it is not necessary for us to do it. When you met in December you pursued a policy of meeting this situation by making adjustments in existing institutions, in existing machinery, along lines that are in conformity with the history and tradition of the people of the United States. I think that this proposal to inject a large amount of currency under the guise of a bonus to soldiers is a departure from that policy and in contradiction to it. If this proposal is sound, then your previous steps and the laws you have enacted to meet this situation were not a consistent part of the program.

These are hard times. The country has had hard times before. The strength of the country has shown itself in the ability to solve its problems in such times by adhering to American principles and to American methods of meeting situations. It was the history and tradition of the United States, in handling its affairs in hard and difficult times, that made this country after the war the one country in which everyone had confidence. To-day, while we have our worries, the people of the world have more confidence in the United States than they have in themselves, or in any other country.

The thing that I think seriously would endanger this confidence would be tinkering with the currency of the United States. You have a machine which has been set up after long and careful study by committees of Congress and by commissions preceding them. From time to time you have amended the banking law, and you have amended it again just recently. It seems to me that the courageous and the sound procedure is to go on working in the same way which, after all, no matter how many troubles we have had, has made this country the best country in the world to live in, for all of the people.

I think that there are other things to be done in addition to what you have already done, and I particularly want to emphasize, although I do not care at this time to go into it in detail, the need for better banking. Personally I feel, as I stated to a subcommittee of the Banking and Currency Committee the other day, that we will never have a satisfactory banking system in the United States until banks of deposit, commercial banks, can be gathered under one chartering, supervising, and regulatory power. The constant competition between State and National banking systems has resulted in a weakening of the laws and the safeguards of both systems which I think contributed in no small degree to the excesses of the inflation period and to the suffering of the deflation period. The minds of the committees charged with banking and currency responsibilities are engaged in studying this problem. I feel that the measures of banking reform so far incorporated in proposed legislation do not go to the fundamentals of the situation—our dual system of banking. I do not know under what constitutional power the unification of banking can be brought about; but when I appeared before the Banking and Currency Committee of the Senate, with a unanimous report of the Federal Reserve Board in connection with pending legislation, and suggested on behalf of the board that a measure which would result in a unified banking system in the United States, under Federal charter and Federal supervision, is essential, I found members of the committee responsive to the idea, although undecided in their minds as to how it could be brought about.

This is a long and controversial question. I am opposed, as no doubt most or all of you are, to highly centralized banking control. But the proposal put up to the committee by the board contemplates nothing that would interfere with a sound banking organization carefully supervised and designed to carry out the principles, in commercial banking, as well as in the Federal reserve system—that is, the Federal reserve banks and board—that were in the minds of Congress when the original Federal reserve act was enacted.

To understand the present situation, to relieve which this legislation is no doubt proposed in all sincerity, would involve, as the Secretary of the Treasury has pointed out, a long and arduous discussion. As he says, we will be discussing the economic and financial events of the past decade for a long time. Curiously enough, the very confidence in the United States which all of the peoples of the world had in the post-war period was one of the things that led to an inflation in this country. Investments of individual foreigners, of foreign banks and bankers, balances of central banks and of private banks, all found their way to this country during the post-war period of currency instability abroad, when the franc and the mark and the pound were all on a paper basis. They came here because of a desire to find a haven of stability, and in the confidence that the United States, of all nations, was the one that would pay its obligations in gold on demand.

The instability of foreign currencies was gradually overcome with the return to a gold basis of England, France and Germany, but very large balances and very large foreign investments remained here, because people all over the world still maintained a superlative confidence in the United States. This led to the development of the so-called gold exchange standard, which seemed to be a feasible and practical method by which foreign central banks could keep funds in this country and count them as gold reserves, or the equivalent of gold. They also kept a very large amount in the English market.

Last year, following the crisis in Austria and Hungary, and subsequently in Germany and then in England, with the English going off the gold basis, a major psychological and financial disturbance swept the world. People drew their money out of banks in North Carolina because something had happened in England. They had heard, as we all have, the oft repeated expression "as strong as the Bank of

England"; and they thought what good was any bank if the Bank of England was in trouble? No event in my observation has ever shaken the financial and economic world to such an extent as did what happened in England last September.

While some English economists and bankers apparently are very pleased now, it is certain that that action would not have been taken by the English Government except under the pressure of dire necessity. The best proof of that is that shortly before this act—which some of them now choose to make a virtue, whereas it was a necessity—the British Government and the Bank of England borrowed very large amounts of money in the United States and in France in an effort to remain on the gold standard. There was no evidence to show that the course they pursued was a matter of choice. It was a necessity. They were faced with more than a currency problem in England. Their trade, currency, and wage level, and their enormous aggregate national debt in relation to the population, all entered into the situation. It may be that such a step was inevitable in England, but getting off the gold basis or inflating the currency is not a step that a country takes voluntarily. No country in the world has embarked on currency inflation voluntarily, and there is no country that is on a paper basis that does not want to get back on a stable basis.

In my opinion, there is nothing that ruins the trade of a country, internally and externally, more than violently fluctuating currencies; and while there may be certain temporarily favorable effects in some countries following inflation, I have not yet seen a country that has undergone inflation that does not abhor it. I happened to be in Germany in 1923, when the mark was declining violently. I never saw a people more totally and utterly miserable in my life. I have been in France when the franc was fluctuating, and discontent and unhappiness and misery were general.

I agree with the Secretary of the Treasury that with the program that you gentlemen have supported there is a fair prospect, perhaps a good prospect, upon the return of confidence, to work out of the present deplorable state of business; and by "business" I mean agriculture, commerce and industry, and finance, all together. There is no advantage to the creditor class in the present condition. On the contrary there is every disadvantage to the creditor as well as to the debtor, because the creditor is losing his capital on account of losses which he can not avoid, as much as the debtor is being burdened by obligations which he finds it difficult or impossible to meet.

You raised a question about what would be the effect of the injection of a large amount of currency. I will say this about it: That, while a good many of the so-called laws of economics do not seem to hold true forever, there is one law that does seem to be able to stand the test of time, one with which all of you are familiar under the name of Gresham's law. It is a very old law in economics, and it states that good currency is driven out by inferior currency. That was the reason for the great flow of gold to the United States from all over the world in the early nineteen twenties and the middle nineteen twenties. They had inferior currency, and gold left them, and it went to the only important country having a stable, sound currency.

In view of the legislation that you have passed confidence is now the one thing that is needed more than anything else. It is natural that there should not be an instantaneous upturn in business following the passage of remedial laws and I think there is no reason for disappointment at the progress that has been made since the passage of the Reconstruction Finance Corporation Act, the amendment of the Federal Reserve Act, and other constructive measures that you have adopted. It takes time. The decline in values and in the volume of business and in the price level has been unprecedented in our lifetimes, both as to its speed and its extent. People have been hurt and people have been frightened in addition. Confidence is not destroyed in a day, and it is not to be restored in a day. It is a process which, to be rebuilt on a sound foundation, takes a certain amount of time.

Bank failures are not entirely eliminated, and they will not be for some time to come; but they have been materially reduced—so much so that I think it is fair to say that for the month of March the banks reopened were as large in financial resources as the banks that closed; and in important areas failures have been practically completely arrested. That is rebuilding confidence. The legislation that you passed, authorizing the use of Government obligations as collateral for Federal reserve notes, although it has not actually been used up to the present time, has made it possible for the Federal reserve system to pursue a vigorous open-market policy and has been a tremendous factor in restoring confidence.

I think, gentlemen, that it is no exaggeration to say—and I feel a great responsibility to you for any statements that I make—that the fear of currency tinkering is to-day retarding the restoration of confidence. I believe that money now hoarded would be returned to circulation with a great deal more rapidity if it became clear to the people of the country, as it is clear to me, that there will be no dangerous tinkering with the currency. Such tinkering is intended to be a short-cut to the accomplishment of results which we believe can only be brought about by orderly processes and operations under existing institutions; and in taking that position I do not feel that it can properly be said that we are conservative and that the proponents of such measures as this are progressives. The Reconstruction Finance Corporation is one of the most radical steps ever taken by the Congress of the United States in its entire history, and the administration and the Congress are not chargeable with cowardice or undue conservatism at this time. You do not have to pass unsound measures to prove that you are progressives. You have proven it. You have taken the opportunity to adopt sound steps of an unusual character to meet an unprecedented crisis. I believe that if you continue to follow the program you have laid out and that you are following, and particularly if you avoid the appearance, as well as the fact, of tinkering with the currency, you will do more to promote the objects which that measure is intended to promote than by any other course.

The price level is, of course, a distressing one. It is part of a general collapse and lack of confidence, and is also due to some extraordinary conditions. In the inflation period, by our enormous amounts of foreign loans, we created a buying power for some of our products which otherwise would not have existed. We know now that many of those loans should never have been made; but we also know, or ought to know, that they created an artificial buying power among people who were not entitled to it, who should not have had it, and who should not have wanted it, and that we should not have financed that kind of business. Nevertheless it was a temporary stimulant.

There are a number of important things to think about at this time in connection with the price level and attempts to restore it. We will take cotton, for instance, which is for us a major economic factor, a very important one, psychologically as well as intrinsically. It was a great misfortune last year that owing to an unprecedented yield—not due to an increase in acreage but in spite of a decrease in acreage; not due to more fertilizer, but in spite of less fertilizer—3,000,000 bales more cotton were raised than the year before. This happened as the result of reduced boll-weevil infestation because of climatic conditions, and of an unprecedentedly favorable season for growing and harvesting the crop. The average for the last 10 or 12 years is 155 pounds of cotton to the acre. The crop last year averaged almost 200 pounds to the acre, a yield which has not been seen in this country since 1914, before the boll-weevil had swept over the Cotton Belt.

Now, as to the wheat situation. This country has been a great wheat producer; not a dominantly large wheat exporter, but nevertheless we produce for export, as well as for our normal domestic consumption. Russia for 10 years was out of the world's market as an exporter, and the Canadians opened up great wheat areas with new railroads to meet the deficiency created by the withdrawal of Russia from the world's export wheat market. All of a sudden Russia came back and resumed the exporting of wheat in competition with Canada, which had filled her place. The Canadian production had been competing with our production and now the Russian production is competing with the Canadian production.

Those are important incidents. Maybe they do not determine the price level of 784 commodities which the House Committee on Banking and Currency is thinking about in considering the price level. But they are typical instances of factors which, added to the general financial collapse and the interference with world trade and national and international credit, tend to depress and retard an upward movement.

Just as a matter of interest, I have been looking up the cotton statistics reported weekly, and I find that during the period from August 1, 1931, to April 22, 1932, we exported nearly 1,400,000 bales more than we did during the same period the year before. I find that stocks in Europe, both in England and on the Continent, are reduced by several hundreds of thousands of bales. I find that the Egyptian supply is about where it was and the Indian crop is smaller. So that progress is being made in the adjustment of things in the normal way into a balance of supply and demand of some of these major commodities. I am not at all clear how the injection of the arbitrary amounts of currency proposed in this legislation can get us away from the fundamental factors of the production and distribution of natural wealth, which is the really important part of the business of our country and of the world.

You have improved the machinery of the Federal reserve system, made it more elastic, and you have set up emergency machinery to assist banks and other kinds of institutions which find themselves embarrassed during this period of deflation by withdrawal of deposits or by holding loans on unmarketable property of different kinds. Good even if slow assets can be used by country banks, and by city banks, and by mortgage loan companies, and by other institutions, to borrow from the Reconstruction Finance Corporation, and that facility is not being overlooked.

It may interest you to know that the loans authorized by the corporation are in excess of $400,000,000 You referred to my previous experience, Mr. Chairman, in the War Finance Corporation. We never loaned $400,000,000 in the entire period of the agricultural relief work of 1921 and 1922. The total was around $300,000,000. And yet the Reconstruction Finance Corporation, practically within 10 weeks from the time it began functioning, has managed to make over $400,000,000 available where it was most needed.

Up to April 21, loans were authorized to 1,669 banks. Of these, 1,179, or 70 per cent, were located in towns of less than 5,000 population; 1,292, or 78 per cent, in towns of less than 10,000 population, and 1,494, or 89 per cent, in towns of less than 50,000 population.

No discrimination is being made as to the size of borrowing institutions or their location. I mention this as a matter of interest to you who passed this legislation and in order to show that relief is being extended on a wide scale. It is important because it gives a borrowing power to banks all over the country, which know they will have a longer time for repayment. It does not reduce the total amount of borrowing. In some cases it increases it, because many of our applications now come for funds to finance the present season in agriculture and for business advances.

We are looking forward to the time when deposits will be increasing and these loans liquidated out of restored deposits.

In any program of restoring deposits nothing is more important than the return flow of hoarded currency which I think will proceed at a very much more rapid pace when the country is satisfied, as I am, that there will be no dangerous tinkering with the currency of the country.

That is all, Mr. Chairman.

Mr. McCormack. You talked about the banks and the strengthening of our banking system. Do you think the commercial banks ought to sell stock or any bank ought to sell stocks?

Governor Meyer. I do not.

Mr. McCormack. That ought to be stopped by law, ought it not?

Governor Meyer. I think so. Well, of course, national banks——

Mr. McCormack. Their own stock is one thing, of course.

Governor Meyer. National banks, you know, are now forbidden by law to own stock, except in certain instances.

Mr. McCormack. There has been a considerable abuse in that field, particularly prior to 1929.

Governor Meyer. There was some activity in that direction particularly I think in 1929; not by national banks, however.

Mr. McCormack. Do they sell them as agents—national banks?

Governor Meyer. I beg your pardon?

Mr. McCormack. Do national banks sell stock as agents?

Governor Meyer. I think not. I have never seen a stock issue promoted by a national bank, although affiliates, so-called, have done so.

Mr. RAGON. Mr. Chairman, may I make a suggestion? There has just been another quorum call in the House. There is a very important piece of legislation coming up and it may be the only opportunity one has of recording himself to-day on a roll call during consideration of this measure. Personally I would like very much to answer that roll call. I want to hear Governor Meyer and I wonder if it would be agreeable, if it is convenient to him to ask him to come back again to-morrow morning for a few moments.

Governor MEYER. I shall be very glad to do so, Mr. Chairman.

Mr. RAINEY. The committee will then adjourn until 10 o'clock to-morrow morning.

(Whereupon, an adjournment was taken until 10 o'clock Thursday, April 28, 1932.)

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PAYMENT OF ADJUSTED-COMPENSATION CERTIFICATES

THURSDAY, APRIL 28, 1932

House of Representatives,
Committee on Ways and Means,
Washington, D. C.

The committee met at 10 o'clock a. m., Hon. Henry T. Rainey presiding.

Mr. Rainey. The committee will be in order. Governor Meyer, you may resume your testimony.

STATEMENT OF HON. EUGENE MEYER, GOVERNOR FEDERAL RESERVE BOARD—Continued

Mr. Hawley. Mr. Chairman, I think the Governor stated that he had concluded his statement and is now prepared to answer questions.

Governor Meyer. That I would try to.

Mr. Rainey. Are there any questions?

Mr. McCormack. You had answered some questions of mine to the effect that you did not think it was right for commercial banks in a general sense, to become stock brokers or to sell stocks. You said the national banks were prohibited from doing it.

Governor Meyer No. I said national banks were prohibited by law from owning stocks except in special cases. For instance, national banks are permitted under the law to own shares, up to a certain percentage, in national agricultural credit corporations and Edge law export banking corporations, and in some other special cases.

Mr. McCormack: Are they allowed to sell stock?

Governor Meyer. I think not. I do not recall just what the law says, but if they did not own them, they ordinarily would not be selling them.

Mr. McCormack. For example, quite a few friends of mine have told me that they have gone into a bank to get advice on stock, on a particular stock in which they were interested; that they were induced to buy other stocks and they found afterwards that the bank was getting a commission or that the bank was unloading some of their own stock or that they were in some way interested in the corporation whose stock they were recommending; that either directly or indirectly they were interested and that they profited by the transaction. That was the general situation.

Governor Meyer. They could not own stock except as I have indicated. They could sell their own stock, and they could perhaps handle an order for account of a customer.

Mr. McCormack. Do you think they should?

Governor MEYER. Well, I certainly do not think they should be recommending shares. However, an officer of a bank, in perfectly good faith and maybe quite competently, might advise a client, a customer, a depositor, against an investment which he thought was a bad investment.

Mr. McCORMACK. I agree with you there.

Governor MEYER. And I feel perhaps a depositor might look to his bank for advice. The bank might make a mistake or might give the depositor very good advice.

Mr. McCORMACK. But you do not think that banks should advise even customers upon stocks, upon the stock of any corporation in which the bank is interested, do you?

Governor MEYER. I should think it would be much better if they would not, and I am quite sure that most banks and bankers do not.

Mr. McCORMACK. Well, I am not so sure about that. I do not want to challenge your statement, but I am not so sure of it.

Governor MEYER. Of course, there are a great many thousands of banks.

Mr. McCORMACK. I just wanted to get your viewpoint, which I think is very interesting. You know, of course—I have heard it stated from sources that I consider reliable—that during the speculation days which preceded the present credit collapse—that is what it is, more or less, a credit collapse that we are undergoing, is it not?

Governor MEYER. I would not call it a collapse; certainly a credit contraction. In some areas it has been a credit collapse.

Mr. McCORMACK. It has been a collapse for the workers, anyway.

Governor MEYER. It has been an economic and financial collapse, yes.

Mr. McCORMACK. It has been said that corporations have used banks or have been loaning their money through banks and through brokers in transactions where the bank charged a commission or a small percentage for doing so. Have you any views on that practice?

Governor MEYER. You mean loans for account of others?

Mr. McCORMACK. Corporations have used their reserve for call loan purposes?

Governor MEYER. That was a growth of the 1928–29 period and was particularly true in the New York banks. I think the clearing house passed resolutions sometime ago eliminating that. The loans for account of others are exceedingly small at this time.

Mr. McCORMACK. Of course, we are not talking about the present time, because the conditions which brought about the present condition occurred prior to 1929. What is your view as to whether or not that practice should be permitted, whether banks should do it?

Governor MEYER. Well, if properly done, if legitimately done, for special reasons, it might be excusable and justifiable under certain circumstances. But on a large scale and for the purpose for which it was done and in the ways in which done, it became a great abuse. I think in the Glass bill now pending in the Senate this practice is to be prohibited by law in the case of member banks.

Mr. McCORMACK. You said something here yesterday, Governor, about the necessity of the banking system being strengthened, in your opinion. Do you mean by that under one regulatory power?

Governor MEYER. Yes; under one chartering power and one supervising and regulatory power.

Mr. McCormack. You mean by that the elimination of the State as a chartering power?

Governor Meyer. Yes.

Mr. McCormack. You mean the complete centralization of banking supervision in the Federal Government?

Governor Meyer. I do not call it the centralization of banking.

Mr. McCormack. All right, I will amend my question——

Governor Meyer. Yes. For reasons that I stated before the committee, the Federal Reserve Board unanimously agreed that such a reorganization of our banking structure was desirable and so indicated in a letter which I presented recently to the Senate Committee on Banking and Currency transmitting the comments and recommendations of the board on the Glass bill.

Mr. McCormack. By that you mean that the several States should not have any jurisdiction——

Governor Meyer. Over banks of deposit.

Mr. McCormack (continuing). At all over the banking business In other words, that would bring about more or less the banking conditions that exist in Europe so far as having one source of regulation and control is concerned.

Governor Meyer. I am not thinking of Europe, Mr. Congressman.

Mr. McCormack. I am not talking about the details, Governor. In other words, what you advocate is a central banking system.

Governor Meyer. I would not call it a central banking system, simply because the banking function was brought under Federal supervision.

Mr. McCormack. What would you call it?

Governor Meyer. The great European banks of issue, such as the Bank of England, the Bank of France, are called central banks. We have the Federal reserve system, which in this country is decentralized with 12 district Federal reserve banks. So that we have not a central banking system in the United States in the sense that it exists in Europe.

Our system was evolved after long study of banking systems all over the world, reported on by the Aldrich Commission, and studied again here in Congress. This resulted in the passage of the Federal reserve act, designed to meet American conditions, American needs, and American ideals.

Mr. McCormack. What could you call the system that you have in mind?

Governor Meyer. I would call it a unified banking system.

Mr. McCormack. Unified banking system?

Governor Meyer. Yes. May I just take a moment of time of the Committee to go back to some testimony I gave to the House Banking and Currency Committee as long ago as 1923? This testimony was the result of a fairly careful study of the condition of banks in agricultural areas all over the United States, to which the War Finance Corporation had occasion to make loans. I became very much interested in ascertaining why a condition arose in 1920, 1921, and 1922 which made it necessary for 4,317 banks to get assistance directly from the United States Government. Three thousand six hundred, roughly, of the total number of banks receiving loans from the War Finance Corporation were State nonmember banks—not members of the Federal reserve system. In discussing the banking situation and analyzing it at that time, more than nine years ago—I think it is interesting because it goes back so far—I stated as follows:

There are necessarily many difficulties involved in our dual system of banking. We have a State banking system, a national banking system, and a Federal reserve system, the latter having a membership derived from both the State and the national systems. The State banking departments supervise the State banks, and the Comptroller of the Currency supervises the national banks, while the Federal reserve system has a supervision of its own for the member banks, and there has been at times some disposition to competition between the State and the national banking systems.

The State banking laws frequently permit practices which national banks can not legally engage in.

And owning stock, about which you asked, Mr. Congressman, is one of the things permitted in some of the States.

This is creating competition between the two systems which can not be regarded as wholesome and may lead to the gradual weakening of both. The question of branch banking is one that is causing considerable discussion at the present time. Some of the States permit branch banking on an unlimited scale. As a result, agitation is now going on for an amendment to the national banking act to put national banks on a par with State banks in that respect. I do not propose to discuss the subject of branch banking here. Branch banking may be good or it may be bad. It may be good if carried on in a limited way and bad if permitted on an extensive scale. But whether it is good or whether it is bad, branch banking should be considered on its merits and should not be the product of competition in the endeavor to expand either the State or the national banking organizations. The competition that exists at the present time between state and national banks can not fail to remind one of the competition that prevailed a generation ago among the various States seeking to become domiciles for corporations—a competition that was based upon the laxity of the laws governing incorporation. Nothing could be more disastrous than competition between the State and the national banking groups, based upon competition in laxity.

Now, since January 31, 1923, which was the date of this hearing, there has been a continuation of that competition which has caused a weakening of the banking laws and banking safeguards of the country.

Mr. McCormack. Have you ever given any consideration to trying to strengthen the laws of those States wherein you feel or wherein you felt that they were lax?

Governor Meyer. There are 48 State legislatures, and Federal authorities have no control over State laws.

Mr. McCormack. I am not addressing my question to you as a Federal official, but I mean you and your colleagues in the banking profession who feel the same way you do.

Governor Meyer. Well, frankly——

Mr. McCormack (interposing). I feel the same way that you do, that many of our State laws are too lax and that our laws with reference to banking can not be any too strict. That is my personal viewpoint. But, from the State angle have you and those in the banking profession ever considered going into the several States and securing the passage of proper legislation that will adequately, so far as humanly possible, safeguard the rights of the depositors?

Governor Meyer. In 48 States? I think it would be an impossibility.

Mr. McCormack. I know, but we have got a dual system of Government. You would not advocate the destruction of the State government system completely, would you?

Governor Meyer. No. I am entirely in favor of maintaining State rights to the extent that they can properly be maintained.

But there are various functions over which the Federal Government has had to assume jurisdiction. We have the postal service and have had it since the beginning of the Government. As other activities become national and interstate on a greater scale, I feel that we must take account of these changed conditions. We must have elasticity in our conception of decentralization and the advantage of local control when there are vital changes in financial and economic conditions.

If you go back to the time of the thirteen Colonies and remember that it took weeks to go from New York to Richmond, Va., or to what is now Washington, over bad roads—reading the life of John Marshall gives a good picture of the physical conditions which existed at the outset of our Government—you will see that many things which were properly local in control, because local in scope, have become national in scope, and I think that the banking function is one of them.

Mr. McCormack. In other words, your position is that conditions may bring about such changes, or that conditions may so change that what in one period or in one generation was a local condition may become national in its character in a succeeding or in a later stage?

Government Meyer. That is the point.

Mr. McCormack. You feel that the banking situation has developed to that extent in this country?

Governor Meyer. I do, Mr. Congressman.

Mr. McCormack. You recognize, of course, people might honestly differ on that point.

Governor Meyer. Absolutely.

Mr. McCormack. That is fair; your position is fair.

Governor Meyer. But, to be frank with you, many of the bankers of the country have not been very much interested in this sort of a unified banking system, because, again speaking frankly, they have seen advantages in their ability to threaten to leave the national banking system if the laws were made too strict, or too restrictive of activities that they think they like to engage in. And again, when banking authorities and banking laws in the States hampered their activities in areas in which they would like to proceed, they have been glad to be in a position to threaten to leave the State banking organization and to join the national. In other words, many bankers in the United States favored the maintenance of the dual system in order to play one against the other.

Mr. McCormack. Of course, a lot of our States or quite a few of our States have a very excellent banking system.

Governor Meyer. Quite true.

Mr. McCormack. Would you advocate that because some of the States have a lax system, that we should take away from them the privileges they have, or that we should bring about a unified system that would take away even any jurisdiction from those States that are now assuming their responsibilities and protecting everybody in connection with the banking business in their State?

Governor Meyer. I do not see, Mr. Congressman, how you can have a unified national banking sustem if there are exceptions made as to certain States, because they have at the moment good banking laws and good banking supervision. They may have good banking laws and good banking supervision now, and a change of political control in the State may result in very different conditions in a year or two.

Mr. McCormack. Well, you believe as I think I do—I am not going to try to read your mind—but personally I believe that the head of our banking systems whether in the State or the nation should be as independent as the lot of humanity will permit, as independent, even, as our judiciary should be.

Governor Meyer. I think you are quite right.

Mr. McCormack. That is my personal viewpoint and politics should be as far removed from the head of the banking system as is humanly possible.

Governor Meyer. Just before you leave the question that you asked me with reference to a change in the aspects of banking from early times to the——

Mr. McCormack (interposing). May I say that although I can not quite subscribe at this time to your thought of a unified banking system, I realize the logic which prompts your thoughts and your remarks.

Governor Meyer. The use of the check as a medium for the payment of indebtedness, of course, has developed on a scale that was never contemplated or dreamed of by the fathers of the Constitution. We are in favor of sound money in this country and stability, and over 90 per cent of the business of this country is settled by checks on banks. The bank check is the money of the country for practical purposes—to the extent of well over 90 per cent. Its development has created a new condition not contemplated in the early history of the country which, in my opinion, adds to the argument for the unification of the banking function under the supervision of the Federal Government.

Mr. McCormack. You said something about a decline in the price level which was unprecedented; that is, since October, 1929. In your opinion, has the decline stopped?

Governor Meyer. That gets into the realm of prophecy.

Mr. McCormack. I do not want you to answer that question if you have any hesitancy about it.

Governor Meyer. I feel that in some commodities the decline has exceeded its legitimate economic basis as the result of abnormal conditions and that, when these are rectified, a readjustment upwards of the prices of many commodities will follow.

I have not deemed it wise to prophesy and I would like to be excused, whatever I may think, from beginning to go on record in forecasting.

Mr. McCormack. I do not blame you for not wanting to establish a precedent, in view of some of the remarks made during the past two years about the return of prosperity in 30 days, and things like that, which never occurred. Of course, the main question involved in these bills we are considering—these questions I have asked you while important in my mind (I particularly wanted to get your opinion in view of the position you occupy) are more or less irrelevant—do you think the country could stand a reasonable, properly regulated expansion of currency at this time?

Governor Meyer. The currency situation I think is secondary to the credit situation, and there is an expansion of credit going on at the present time, or a basis being laid for an expansion of credit, as promptly as the business interests will avail themselves of its use, which I think will come—is coming, perhaps.

Mr. McCormack. Of course, the Reconstruction Finance Corporation will be very effective if the beneficiaries of the loans made will, in turn, use that money, in the case of banks, for further extension of credit, or in the case of railroads and other beneficiaries, for capital investment. Is that substantially correct?

Governor Meyer. Yes. It goes a little beyond that, though. A country bank borrowing from a correspondent is more comfortable when it borrows that same amount of money from the Reconstruction Finance Corporation since it knows that, if the circumstances warrant, it will be able to carry its loan longer than it would with a correspondent bank or with a Federal reserve bank, if it is a member of the Federal reserve system. Even the transfer of the borrowing from the usual normal channels to the Reconstruction Finance Corporation is a confidence inspiring and an encouraging feature to the borrowing bank. It would rather owe the Reconstruction Finance Corporation than a correspondent bank in a large city.

Mr. McCormack. If they get the money from the Reconstruction Finance Corporation and keep it without using it, what good is it going to do?

Governor Meyer. We are getting an increasing number of applications from country banks where the purpose is stated to be to make advances during the coming season for agricultural purposes, for the planting and cultivation of crops and other purposes of that character.

Mr. McCormack. What about city banks? Has there been any loosening up of the credit among the city banks within the past three or four months?

Governor Meyer. I hope that that is a fact. As they get more confidence and business attains greater volume, I believe that that will happen. I have stated occasionally in the past to committees of Congress that one of the most important effects of the work of the War Finance Corporation was in cases like this: In a town where there were two or three or four banks, one of which was weak and having trouble in borrowing money to meet its requirements, we would take care of the weak bank and that would have the effect of encouraging the two or three other banks to use their resources locally. That really is one of the larger and more important effects of our operations, although it does not appear on our books.

Mr. McCormack. Has the Federal reserve system made any inquiry about the pronounced tendency, if not the policy, of the banks during the past year to impose political conditions upon a city or a town in borrowing money on tax warrants in anticipation of the payment of taxes, as a condition precedent to the loan?

Governor Meyer. I only know what I have seen in the papers.

Mr. McCormack. I have taken it up with the board. I wrote them a letter and they told me to take it up, in my case, with the Boston district. I wrote them a letter and I never got a reply. I was wondering if your board—for instance, I saw it in the case of New York, and in the case of Lawrence and other cities up in my State, banks specifically prescribed that they have got to cut down their wages, for example. If that is so, would you as a banker approve of that course?

Governor Meyer. I do not know what the conditions are and therefore I would not like to approve or disapprove. Ordinarily, a bank should not inferfere with the business of its clients. Of course, where municipalities may be indulging in wasteful expenditures, I should think the bankers lending money would be in a bad position if they did not have something to say about that wasteful use of funds. After all, the bank is a trustee for its depositors and it has that obligation.

Mr. McCormack. The question of whether or not they would make a loan is one thing, but the question as to whether or not they would impose political conditions, without being elected by the people for that purpose, is another thing, is it not?

Governor Meyer. Yes. I did not know there were any political conditions imposed.

Mr. McCormack. I understand from reliable sources—I have talked with two or three mayors up my way who have told me that they had not only the hatchet but the bludgeon held right over their heads.

Mr. Crowther. Mr. Chairman, will the gentleman yield to me for a moment?

Mr. McCormack. Surely.

Mr. Crowther. What does the gentleman mean by political conditions—or in what sense does the gentleman refer to political conditions which were made before loans were given? Political conditions you said, did you not?

Mr. McCormack. If a bank undertakes to dictate to the proper authority in a city that as a condition precedent to securing a loan, they cut down salaries or do this or that, discontinue this public enterprise or that public works, that is a political condition.

Mr. Crowther. In what sense?

Mr. McCormack. It is an effort to control the local government to the extent that conditions are imposed and it is an effort to dictate the political policies of a subdivision of the Government.

Mr. Crowther. That is not a political policy. That would be a business policy, would it not?

Mr. Ragon. Mr. Chairman, I raise the point of order that all of this argument and all of this examination is not pertinent to the issue here. We are trying to find some way or other of financing the payment of this bonus, if it can be done, and not a review of a unified banking system or some political situation that does not have anything to do with it, in my opinion.

Mr. McCormack. May I call Mr. Ragon's attention to the fact that I have not asked any question of Governor Meyer on a subject to which he has not referred.

Mr. Ragon. If Governor Meyer has gotten out of the field of our inquiry, I am just as much against that as I am against this examination. I am not making any criticism, but we have got to get along with these hearings if we expect to finish with them.

Mr. Rainey. The Chair desires to say that he agrees with Mr. Ragon. I can not see what all this has to do with the payment of the bonus. The Chair can not and does not desire to regulate questions of members of the committee, but would suggest that the members confine their questions to the issue that is before us and not go over the whole field of banking.

Governor MEYER. Mr. Chairman, I only want to say this, that I consider a sound banking structure a fundamental necessity in the effective use of credit and, as currency is involved in this bill, I wanted to indicate that banking as a piece of machinery must be sound, because it is through this machinery that existing credit and currency agencies must necessarily function. I wanted to show also that they function more efficiently and effectively if they are soundly organized and administered.

Mr. McCORMACK. One or two more questions, Governor. What would be a reasonable gold reserve to sustain the value of currency issues?

Governor MEYER. I think that depends on the circumstances and the time. The gold reserves of the Federal reserve system as at present organized are stated in the law. A great deal depends on the purpose for which the credit extended is used. You must not forget that the reserves that we are discussing here are a 40 per cent minimum reserve ratio on currency and a 35 per cent minimum on deposits. Those are minima. I would say that they are minima which Congress fixed as a danger signal. They are not minima for everyday use, nor are they to be regarded as normal, proper ratios. In war time they were approached; to meet war time conditions, or other conditions at times of national crisis comparable to war, you have given the Federal Reserve Board the power to suspend these ratios to the extent that may be necessary. The question of what reserve ratios are proper, however, depends on the time and the circumstances.

Mr. McCORMACK. Do you think that a reasonable, properly regulated expansion of the currency would impair the value of the American dollar?

Governor MEYER. It would depend on circumstances. If currency expansion were in response to the needs of business and to the expansion of activity, it would not. If paper currency were artificially injected into the system, on the other hand, I think it would have the effect that I mentioned yesterday, of driving gold out of the country, thereby offsetting the effects of the injection of the paper currency.

Mr. McCORMACK. By the use of the word artificial, you mean with nothing in back of it?

Governor MEYER. I mean the issue of currency for the purpose simply of augmenting the arithmetical amount of currency outstanding, regardless of whether there was a proper demand for more currency or not.

Mr. McCORMACK. If you felt that a reasonable expansion of currency were necessary, we will assume, and justified, how in your opinion could it be best put into circulation?

Governor MEYER. I do not think it can be done in that way. I think you have in the present Federal reserve system, with its machinery for the expansion of currency and credit, a well considered method for providing all the currency that is needed. It has been providing this currency when needs developed, as they did during the export of gold last September and October, following the departure of England from the gold basis, when there was a tremendous expansion of currency that went into hoarding. This hoarded currency is now contracting somewhat and as it returns from hoarding it is retired from what is called circulation. Actually, there is no reduction in effective circulation when hoarded money comes back into banks and reduces their obligations to the Federal reserve system.

The recent decrease in our so-called circulation figures represents an improvement over conditions when there was a larger volume of circulation. This figure of circulation, which, statistically, means all the currency outside the Federal reserve banks and the Treasury of the United States, can not be considered in absolute terms. It is all interwoven with the condition of business, the use of currency, and the need for currency. If you flood the country with undesired currency, you tend to expel gold from the country and thereby eliminate the superfluous currency. When you do that, you do not expand currency; you eliminate gold and substitute nothing but paper.

Mr. RAINEY. Governor, I have tried to get from various witnesses an answer to what the legal situation is and what would happen if they issued over $2,000,000,000 of new currency, and what we could predicate it on, under the law; whether or not we could repeal the acts providing for gold certificates and providing for a certain gold reserve against the Federal reserve circulation under the Constitution and under the law; what particular interest member banks had in the 40 per cent gold reserve. I can not get any information from any source as to the legal aspects of that question. It is very important from my viewpoint to know, and the Department of Justice is the only department of this Government that has ever refused to send an expert down to advise this committee on any matters that the committee has had before it. But they have refused to it and I do not see why the Economy Committee should materially curtail the activities of the Department of Justice. I do not know what particular good they do if they can not advise a committee like this. Even if the Secretary of the Treasury says he does not know whether he can get them to advise him or not. You have a legal department, a general counsel, do you not?

Governor MEYER. Yes.

Mr. RAINEY. If I should submit that question in writing to him, would you advise him to answer it?

Governor MEYER. I would be very glad to have our legal department examine any question that you submit.

Mr. RAINEY. You do not have any practice in your legal department which would prevent them from answering a legal question that we would propound to them, have you?

Governor MEYER. I am quite sure that our counsel would be glad to give you a memorandum on any question relating to matters of Federal reserve law, to the extent that he can.

Mr. RAINEY. I congratulate you on having a more efficient organization than the Department of Justice. I will submit that question to you.

Governor MEYER. I am not a lawyer myself, and I try not to undertake to answer questions that a legal and technical expert ought to answer, but we will be glad to cooperate with you to the extent that it is possible.

Mr. RAINEY. Thank you.

Governor MEYER. If you will let me have your question, I shall be glad to submit it to our legal department.

Mr. RAINEY. I will send it to you and you can submit it to them.

Mr. Dickinson. Governor, you speak of money as a medium of exchange. Gold is a recognized medium of exchange. We are on a gold standard. Other countries are off the gold standard. Some countries use silver while we use gold as a basis. As a country increases in population and in business, you need more gold, do you not?

Governor Meyer. You may or you may not. We need less gold with the Federal reserve system than we needed before it, and clearing houses have assisted in economizing in the use of gold. There are various adjustments in the machinery of business which come into existence as the need develops and as circumstances permit. Under ordinary business conditions there is a greater economy in the use of gold nationally, and until lately that was true internationally. But I would say that there is some increase in gold required to maintain an increase in the business of the world and up to now I think there has been an adequate increase in the gold supply of the world. Also as circumstances change, new sources of supply come into being unexpectedly. For instance, India which had been a great gold hoarding and gold absorbing center, has recently been supplying the world with $150,000,000 or more—it may be nearer $200,000,000 by this time—of gold. That gold has come out of India in the last six months.

Mr. Dickinson. A lot of it comes from South Africa, does it not?

Governor Meyer. Yes. That is the largest producing area.

Mr. Dickinson. To what extent does it come from this country?

Governor Meyer. I think about half of the production of this country is used in the arts. About half is added to gold stocks.

Mr. Dickinson. Not a great deal of gold is being mined in this country at present.

Governor Meyer. Somewhere between $40,000,000 and $50,000,000, including Alaska.

Mr. Dickinson. Do you need less gold or actual money by reason of the fact that we use extensively checks and drafts? While we speak of money as a medium of exchange, would it not be proper to speak of checks and drafts as medium of exchange?

Governor Meyer. I think so.

Mr. Dickinson. Do you think, or do you believe that the world, taking all of the countries together, needs more gold, and that if it had more gold there would be a greater chance of other countries now off the gold standard going back on the gold standard?

Governor Meyer. Of course, you are touching a very large and controversial subject, Judge, and I would not undertake to explore all the ramifications of those problems that you are suggesting. But certainly, if you take the present gold supply of the world, which is greater than it has been at any time in its history, because there is a constant daily increase, and consider it in relation to the present volume of business in the world and the present price level, I should imagine it would be fair to say that the supply now is larger in proportion than at any time in modern history.

Mr. Dickinson. It is suggested here that if one of these bills pending—take the Patman bill, for instance—is favorably reported and new money is issued, it would tend to interfere with gold and drive it out of this country. Is that due in part to the fact that other sections of the world need more gold, because there is not enough gold in the world to meet all the demands, and the issuing of paper currency here would tend to drive this gold to other countries where they will use it or need it?

Governor MEYER. It would not leave the country because of a need elsewhere, as much as because of a general lack of confidence.

Mr. DICKINSON. Do you know to what extend, if any, the United States Government owns lands that contain gold; that is, that have gold mines on them?

Governor MEYER. No; I do not, Mr. Dickinson. You know that, if there were such land, and anybody knew of it, some enterprising mining prospector would stake out a claim.

Mr. DICKINSON. And then it could be developed in the same way as it is on private lands, could it not?

Governor MEYER. Yes.

Mr. HAWLEY. Mr. Bacharach intended to ask this question, but was necessarily detained elsewhere. Has the Federal Reserve Board used the provision of the Glass-Steagall bill which would permit the use of Government bonds as a basis for issuing currency?

Governor MEYER. As of to-day it has not. It has not needed to.

Mr. WATSON. Governor, if the Congress should decide to issue fiat money as a medium of exchange, would it have its full face value in Europe?

Governor MEYER. I think that again is in the realm of prediction, Mr. Watson. If it were issued in an insignificant amount, I suppose it would not have much importance, but when you discuss issues of currency in large amounts, I should think, you would, without much delay, run the risk of establishing a premium abroad for gold or gold certificates as compared with inferior currency.

Mr. WATSON. Would it have a tendency to reduce the value of the national banknote? Two billions of dollars is a good deal of money. If one should go over there with four or five thousand dollars of fiat money and go to a bank and say, "I want this exchanged into your money," would they not make a discount on it?

Governor MEYER. I am inclined to think they would, Mr. Watson.

Mr. WATSON. Would not that affect, to a degree, the value of the national currency?

Governor MEYER. Of course, the law and the full resources of the Government are back of the payment of a large part of our currency in gold. We have also gold certificates which are exchangeable for gold. Other obligations payable in gold conceivably might be accepted as the equivalent of gold, certainly for a time, unless there was doubt as to the ability and intent of the United States Government, which there never has been. But I really feel that the Congress of the United States is not going to do anything so incompatible with the public interest.

Mr. WATSON. I agree with you. But we have been discussing it now for nearly two weeks—that it might occur; and that is the reason you and others here are trying to cause Congress not issue the fiat money.

Governor MEYER. The debasing of the currency will, of course, create distrust and disorganization of business, and evils and difficulties so great in comparison with any that we are now suffering from that I hesitate to contemplate them. I do not believe that the

Congress of the United States and the Government of the United States are going to embark on any such enterprise. I can not believe that any considerable part of the people of the United States will support a procedure so contrary to the public interest—to the interest of all of the people.

Mr. TREADWAY. Governor, in your general discussion you have had principally in mind, have you not, the bill known as the Patman bill?

Governor MEYER. Yes, Mr. Treadway.

Mr. TREADWAY. And the method of financing the bonus payment, if made in cash, as prescribed in that bill?

Governor MEYER. Yes.

Mr. TREADWAY. Your comments have been largely centered on that method of financing?

Governor MEYER. Yes, Mr. Treadway; and, I might say, any other measure which contemplates a similar procedure.

Mr. TREADWAY. That is what I was coming to, Governor. There have been two other suggestions brought definitely before the committee, known as the Owen and Thomas plans. Former Senator Owen has a suggestion, and Senator Thomas of Oklahoma has another suggestion. Those suggestions or methods of financing, if Congress voted this bonus cash payment, have not been given especial attention by the witnesses that we have heard. If questions have been asked the witnesses have usually said that they had devoted their attention to the Patman scheme. Now, have you followed up these other two schemes?

Governor MEYER. No; I have not. Of course the fiscal aspects of the payment have been discussed by the Secretary of the Treasury, and I have not attempted to deal with them.

Mr. VINSON. May I say, if the gentleman will yield, that I do not think the Secretary of the Treasury referred to payments under the Thomas plan. He said that he had not read the Thomas bill and had not studied it.

Mr. TREADWAY. That is exactly why I am asking Governor Meyer this direct question; because, in answer to a similar question, the Secretary of the Treasury and others rather passed up any consideration of the other two schemes. The Secretary of the Treasury particularly said that he had not read them. Now I want to see if Governor Meyer has given any definite attention to those other two methods.

Mr. VINSON. I want to correct his statement. As I understood Secretary Mills, he did not make any statement about the fiscal mechanism of the Thomas plan.

Mr. TREADWAY. He said he had not read the bill.

Mr. VINSON. Or the Owen plan—either one.

Mr. TREADWAY. He said he had not read the bills.

Governor MEYER. I did not say he had, Mr. Congressman.

Mr. VINSON. What you said was that he discussed the fiscal aspects?

Governor MEYER. Yes; the fiscal aspects.

Mr. TREADWAY. Now I would like your opinion of those two methods.

Governor MEYER. I have not studied the bills to which you refer. I do not believe I have seen them. What is the bill for which former

Senator Owen stands sponsor? Who introduced it? He is not a Member of Congress.

Mr. TREADWAY. He appeared as a witness.

Governor MEYER. I do not know about his plan. I was not here when he appeared and I have not read his testimony. Was it his plan in connection with stabilization, which has been considered by a subcommittee of the Banking and Currency Committee of the House?

Mr. VINSON. No: he made a statement here.

Governor MEYER. I see. I have not seen his testimony.

Mr. TREADWAY. What about the Thomas proposition?

Governor MEYER. I have not the details of that bill in mind. But, generally speaking, I would say that it also affects the currency; and the people of this country and of the world are not only interested in the maintenance of our currency system in the ways provided under existing law, but they are extremely sensitive to any modifications of importance in the mechanism for issuing our currency. I would consider the subject, particularly at this time, a very sensitive one. I hesitate to indulge even in as much discussion as is made necessary here; but I feel that with a committee of this importance, and on a subject of this importance, it is necessary to be frank. I said yesterday—and I want to repeat it to-day—that I believe the most important thing for the Congress of the United States to do at the present time, with respect to restoring confidence which is what will make the present volume of credit and currency effective in restoring business in the employment of labor and in the volume of transactions, which we all desire, is to indicate clearly that this Congress does not propose, as I said yesterday, to tinker with the currency.

Mr. TREADWAY. Then, Governor, I infer from that reply, corroborating what you said yesterday, that no matter how sugar-coated any of these propositions may be, an expansion of currency to the extent of $2,000,000,000 would be a very detrimental movement so far as existing equalization of business conditions is concerned?

Governor MEYER. I think, Mr. Treadway, your statement of it is mild and temperate.

Mr. TREADWAY. Temperate?

Governor MEYER. And accurate.

Mr. TREADWAY. Thank you.

Mr. CHINDBLOM. Some of these proposals, Governor Meyer, involve the issuance by the Government of bonds which are not to be sold in the open market in the first instance, but which are to be deposited with the Federal reserve system and used as a basis for the issuance of Federal reserve notes. Can you see any substantial difference between that kind of a plan and the direct issue of currency?

Governor MEYER. There are some differences, but not important differences in the light of present conditions.

Mr. CHINDBLOM. There may be differences in operation, but is there any difference in the effect?

Governor MEYER. I think they would be confidence disturbing in both cases.

Mr. RAINEY. The difference is this; that the Government Printing Office just does a little bit more work and prints some more bonds and deposits them over here, and then there is some more money. That is the main difference. It just imposes a little addition expense for printing. That is all it is.

Mr. Vinson. Currency issued under that plan would have the same identical governmental backing that national-bank notes have at this time, would it not, Governor?

Governor Meyer. The national-bank notes are——

Mr. Vinson. Is that correct? I would like you to give me a direct statement, please, sir.

Governor Meyer. I do not know what the terms of the issue would be.

Mr. Vinson. If they were backed by Government bonds placed in the Federal reserve system, would not the currency issued upon that basis have the same sort of governmental guaranty that national-bank notes have?

Governor Meyer. From some technical points of view it might; but when you consider the purpose of the issue, and the suspicion that indefinite amounts might be issued on the same principle, I feel that it would change the entire picture. We have $346,000,000 of greenbacks, a relic of the Civil War, secured by a reserve of $156,000,000 in gold, as has been stated here. It is a negligible fraction of the obligations of the United States, and it has become an unimportant part of the currency system. If you were to propose at this time to double that or treble it or quadruple it, it would have a significance entirely out of proportion to the arithmetical ratio. It would indicate an attitude as well as an intrinsic condition which would be highly disturbing to the public.

Mr. Vinson. Let us assume that you withdraw gold certificates from circulation.

Governor Meyer. How would you withdraw gold certificates?

Mr. Vinson. By proper enactment. Redeem them.

Governor Meyer. What enactment could make you give them up to me?

Mr. Vinson. When they were withdrawn, could you not cancel them?

Governor Meyer. I would have to give you gold to cancel them.

Mr. Vinson. They could be canceled otherwise.

Governor Meyer. But what do you accomplish?

Mr. Vinson. You would not have a 100 per cent gold reserve behind your gold certificates, would you?

Governor Meyer. Oh, yes.

Mr. Vinson. If they were canceled?

Governor Meyer. You would have no gold certificates left if you canceled them and delivered gold.

Mr. Vinson. How much, to-day, is the gold reserve behind the Federal reserve notes?

Governor Meyer. How much, to-day, is the amount of gold back of the Federal reserve notes, counting the gold as security and as reserve?

Mr. Vinson. Yes.

Governor Meyer. $2,300,000,000.

Mr. Vinson. In gold?

Governor Meyer. Yes.

Mr. Vinson. What is the amount of Federal reserve notes now in circulation?

Governor MEYER. About $2,500,000,000.

Mr. VINSON. It is a little more, is it not?

Governor MEYER. It fluctuates.

Mr. VINSON. Is it not about $2,814,000,000?

Governor MEYER. Federal reserve notes?

Mr. VINSON. Yes.

Governor MEYER. I think not.

Mr. VINSON. Look at your statement of March 31, of this year.

Doctor GOLDENWEISER. $2,546,000,000.

Mr. VINSON. In circulation?

Governor MEYER. Is that in circulation?

Doctor GOLDENWEISER. That is in circulation.

Governor MEYER. In addition to what is issued and not outstanding?

Doctor GOLDENWEISER. Yes.

Mr. VINSON. I want to know the amount of Federal Reserve notes in circulation at the latest date you can give it.

Governor MEYER. We will give it to you for the record.

Mr. VINSON. I understood him to say it was $2,546,000,000.

Governor MEYER. On March 31.

Mr. VINSON. According to this statement that I have here, it looks to me as though it is $2,545,943,397.

Doctor GOLDENWEISER. That is the same figure, sir. I was giving the round figures, and you gave it down to the dollars. It is the same figure.

Mr. VINSON. Governor, the Glass-Steagall bill became law on February 24, 1932; is that correct?

Governor MEYER. I assume it is.

Mr. VINSON. What authority was given the Federal reserve system in respect of the expansion of currency or credit under that bill?

Governor MEYER. The bill was not passed particularly for the purpose of expanding credit and currency.

Mr. VINSON. I did not say that. I asked you what authority was given in that bill for that purpose?

Governor MEYER. The authorizations in the bill are comprised in three sections, one of which permits, for a period of one year, the use of direct obligations of the Government as security for Federal reserve notes under certain conditions.

Mr. VINSON. That was a liberalization, was it not?

Governor MEYER. Yes.

Mr. VINSON. Before that act was passed, you did not have that full authority?

Governor MEYER. No; although, of course, as you know, member bank obligations secured by Government securities always have been eligible; that is, since 1917. In addition to that, groups of banks can organize under section 10 (a) of the Glass-Steagall Act for the purpose of borrowing on otherwise ineligible security, and under section 10 (b) a bank with less than $5,000,000 capital can——

Mr. VINSON (interposing). That does not affect the question I asked you in regard to the authority for expansion of credit or currency, does it? I do not want an analysis of the bill. I would like to have you answer my question.

Governor MEYER. That is all there is.

Mr. VINSON. Was not any provision contained in it in regard to expansion of currency?

Governor MEYER. I do not remember any, except as possibly implied in those.

Mr. VINSON. Was any provision contained in it with reference to the expansion of credit?

Governor MEYER. Those are provisions which permit of expansion of credit.

Mr. VINSON. Before the passage of the Glass-Steagall Act, to what extent could the Federal reserve system have, in reason, expanded its credit?

Governor MEYER. You mean if called for?

Mr. VINSON. I am just asking you what it had authority to do.

Governor MEYER. It would depend a great deal on the form in which demands were made or required, or on business needs. The question of the power to expand credit on the initiative of the system is one thing; the power to expand Federal reserve credit upon the requirements for business purposes, on the presentation of eligible paper to the Federal reserve banks, is an entirely different thing.

Mr. VINSON. What was its maximum power, either way, one way or both ways? What power did it have to pass credit before the passage of the Glass-Steagall bill?

Governor MEYER. It has been estimated at three and a half billion dollars in terms of Federal reserve credit.

Mr. VINSON. Was there any change in the amount of expansion capacity after the passage of the Glass-Steagall bill?

Governor MEYER. No. There is a change in the mechanics and in the methods of operating, but not in the maximum expansive capacity.

Mr. VINSON. Now, dealing with the authority under the Glass-Steagall bill, the existing law—all of the existing law—what is the mechanism in the Federal reserve system for the expansion of credit? How is it done?

Governor MEYER. By member banks presenting to the Reserve banks paper on which they wish to borrow, or by the reserve banks purchasing Government securities or bills in the open market. The Glass-Steagall bill permits borrowing in exceptional cases on paper otherwise ineligible. That is the law, for a limited period. It has been used in a limited way.

Mr. VINSON. Any other way?

Governor MEYER. And through the use of Government obligations as security for Federal reserve notes, making available the gold reserves to the fullest extent during this limited period.

Mr. VINSON. Now, how do you get expansion of credit when you use the Government bond and the Federal reserve note to which you have just referred?

Governor MEYER. Expansion of credit occurs through member banks coming to the Federal reserve banks to borrow on eligible paper, and through purchases of Government securities and bills by the reserve banks in the market, which increases the reserves of the banks that are members of the system.

Mr. VINSON. Now let us assume that we have a member bank which has $100,000 in Government bonds. Can they transmit those bonds to the Federal reserve system and get currency for them?

Governor MEYER. No.

Mr. VINSON. Well, how does the Federal reserve system issue currency as related to Government bonds?

Governor MEYER. The Federal reserve—you mean in connection with open-market purchases?

Mr. VINSON. I am talking about it in connection with member banks and the circulatory system of currency.

Governor MEYER. When a Federal reserve bank buys Government securities, it credits the bank from which it receives the bonds with the amount of money on its books, and this amount stands as excess reserves to the credit of the bank. Now, then, a bank ordinarily does not care to carry excess reserves, and probably uses that money in some way, lends it, invests it, or does something with it, possibly pays off indebtedness to another bank, and puts the money into circulation.

Mr. VINSON. What money?

Governor MEYER. The money that they received from the sale of the bonds.

Mr. VINSON. Where did they get that money?

Governor MEYER. They got it from the Federal reserve bank.

Mr. VINSON. The Federal reserve bank issues Federal reserve notes in consideration of the Government bond that comes from the member bank to the Federal reserve bank system?

Governor MEYER. It may; not necessarily.

Mr. VINSON. I know it may. That Government bond may be the medium of credit, as you have mentioned, or it may be the means of obtaining currency; is not that correct, Governor?

Governor MEYER. It may be.

Mr. LEWIS. In practice what happens, Governor?

Governor MEYER. A great many different things happen. But what usually happens is that a credit is established on the books of the Federal reserve bank in favor of some member bank, which uses it in some way. If it owed money to the Federal reserve bank, it might use it to pay that off. There would not be any currency issued at all in that case.

Mr. LEWIS. Can you conceive of purchases of bonds of two and a half billion without the necessity of a great increase of currency issues by the Federal reserve system?

Governor MEYER. Such a thing can be conceived of, yes.

Mr. LEWIS. In practice, what would you expect?

Governor MEYER. There would be a stimulus to use some of that money if confidence in other respects were maintained. But a great deal of the effectiveness in the use of a supply of currency is related to the confidence of the people who use it.

Mr. LEWIS. Now, if that were true, and you could take your $2,400,000,000 and handle it as a matter of credit without new currency, you would not have much fiat money in circulation, would you?

Governor MEYER. I think the issuance of such an amount of currency would impair confidence to such an extent as to offset, by gold exports and possibly by other methods of currency withdrawals, the amount injected into the currency. It might possibly exceed it.

Mr. VINSON. Governor, you have stated that under the gold reserves at the present time there could be an expansion of credit of three and a half billion dollars in reason; in reasonable bounds; is that correct?

Governor MEYER. Yes; that is the maximum within the reserve requirements.

Mr. VINSON. As a matter of fact, the Federal Reserve Bulletin for March, 1932, made a statement in respect of that, did it not? I will read you, in part, that statement:

On the basis of these excess reserves, the Federal reserve banks could issue three billion five hundred million of credit if the demand were for currency, and $4,000,000,000 if it were for deposits at the reserve banks.

What is the Federal Reserve Bulletin?

Governor MEYER. It is the publication of the board.

Mr. VINSON. Was that statement authoritatively made?

Governor MEYER. Yes.

Mr. VINSON. Now, when you refer in that statement to the $4,000,000,000 if it were used for deposits at the reserve banks, did not that reference apply to credits, and the three billion and a half apply to credits if the demand were for new Federal reserve notes?

Governor MEYER. Yes, sir.

Mr. VINSON. That is correct, is it?

Governor MEYER. Yes.

Mr. VINSON. I would like to get a definition of a term that we have been using here, so that there can not be any mistake about it. What do you understand deflation in currency to mean?

Governor MEYER. The words "inflation" and "deflation" mean different things, depending on the mind of the person who uses them. I think those words are used by everybody, but they mean a different thing in everybody's mouth.

Mr. VINSON. What does "deflation in currency" mean in your mouth?

Governor MEYER. They have had to invent a new word, because the word "inflation" became a joke; because people talked about a little revival in the price level or a little expansion as "inflation." So the embarrassment in the use of the words "inflation" and "deflation" became so great that they had to invent the word "reflation."

Mr. VINSON. Who was the inventor?

Governor MEYER. I do not know. I know that I resented the use of the word "inflation" to describe efforts to bring about an improvement in the price level; and I do not know who discovered the word "reflation." Perhaps it sprang up by "unanimous consent."

Mr. VINSON. I see.

Governor MEYER. I think the abuse of those two words has been very confusing to discussion and thought.

Mr. VINSON. Now, what is "deflation in currency" in your mouth?

Governor MEYER. I suppose most people look at the total volume of the circulation and when they see a decline in the circulation, they say that the circulation is being deflated, or is deflating itself, or something of that kind. Actually, those figures are very much in need of interpretation, especially in a period when currency is hoarded, as it is not only in the United States but in practically every other country of importance in the world.

Mr. VINSON. You say many people have different ideas of what deflation is. What is your idea?

Governor MEYER. I do not like to use the term, Mr. Vinson.

Mr. VINSON. If you were to use the term "deflation in currency," would the definition you have given be approximately accurate?

Governor MEYER. I did not give a definition.

Mr. VINSON. Well, you gave a statement as to what you thought most people understood by it.

Governor MEYER. No; I would not use that phrase to mean what I said I thought most people mean by it.

Mr. VINSON. What would you call a contraction of currency?

Governor MEYER. I would call a contraction of currency, from my point of view, a contraction in effective currency; whereas most people take the statistical figures and, without analyzing them, jump to the conclusion that, if there is a reduction in the statistical figure called the volume of circulation, there is a contraction. Now, if we get a hundred million back from the boxes where it has been hoarded, and it is used to pay off debts and finds its way as a reduction into the statistical figures reported as currency in circulation, that is called a contraction of circulation, but it is not anything of the kind; because in the box of an individual holder a hundred thousand dollars has no more value as circulation or as currency, than if it did not exist.

Mr. VINSON. How much money was hoarded before the antihoarding drive started?

Governor MEYER. Various estimates have been made. I think the generally accepted figure was, roughly, from a billion two hundred and fifty million to a billion five hundred million dollars.

Mr. VINSON. What is your estimate to-day?

Governor MEYER. I should think a billion dollars, probably. It is not entirely easy to determine, because in some places small checks used to be more current, but charges have been placed by banks on those small accounts and now more cash is being used. On the other hand, the fact that the volume of business and prices are down would make less money actually needed in business. I do not believe that we are able to get a definite figure.

Mr. VINSON. Do you figure, in the amount of money that you estimate to be hoarded, the amount of money that has been destroyed or lost since issuance?

Governor MEYER. No; because we are not going back to those periods in making these estimates. We are taking the last two years' figures.

Mr. VINSON. I will ask you, Governor—I am reading from a letter over the signature of Mr. Ballantine, Under Secretary of the Treasury—if the following amounts of the several kinds of old-sized currency were outstanding on February 29, 1932:

United States notes	$42, 994, 772
Silver certificates	46, 847, 150
Gold certificates	158, 216, 519
National bank notes	85, 388, 466
Federal reserve notes	224, 989, 240
Federal reserve bank notes	2, 830, 140
Treasury notes of 1890	1, 227, 900
Total	562, 494, 187

Governor MEYER. How much is the total?

Mr. VINSON. $562,000,000 plus. You would not have any reason to doubt the accuracy of that figure?

Governor MEYER. Oh, no.

Mr. VINSON. I will ask you to state whether this is correct: On February 29, 1932, the money in circulation was $5,603,542,630?

Governor MEYER. Yes.

Mr. VINSON. And on March 31, $5,459.085,385, or a difference of $144,457,245 as against February 29?

Governor MEYER. Yes, sir.

Mr. VINSON. What is the reason for that decrease, if it might be called such?

Governor MEYER. It can not be called that by me. That represents the return of hoarded currency principally, which reached a considerable amount in the month of March.

Mr. VINSON. Was there any new money going out in the month of March?

Governor MEYER. Going out where? Into circulation?

Mr. VINSON. Yes; into circulation.

Governor MEYER. There is a constant issue of new Federal reserve notes in exchange for old ones, and new bills of other kinds of currency in exchange for old ones which are being retired and macerated.

We had some increase in our gold in March, too.

Mr. VINSON. I am now dealing with Federal reserve notes.

Governor MEYER. Yes. This $5,600,000,000 includes all forms of currency.

Mr. VINSON. That is right. But now I am getting down to Federal reserve notes.

On March 31, 1932, there was in circulation in Federal reserve notes $2,545,943,397. On February 29, exactly a month and two days prior thereto, there was in circulation, in Federal reserve notes, $2,633,632,933.

Governor MEYER. Yes.

Mr. VINSON. Or about $88,000,000 more on February 29 than on March 31, 1932. What is your explanation for that?

Governor MEYER. The same explanation. In the figure you quote the reduction of about $90,000,000 is a part of the $144,000,000 of all kinds of currency to which you previously referred.

Of course, if we could get back all of that billion dollars, which is being hoarded, if that is the total, a very large part of it would probably appear statistically as reduced circulation; but it would not be withdrawn from circulation at all, because when it is hoarded it is not in circulation, although statistically it is reported to be part of the circulation.

Mr. VINSON. Now I would like to have a statement from you, Governor, of the new Federal reserve notes that have been issued by the Federal reserve system since the Glass-Steagall bill went into effect, which was February 24 of this year, as I understand it.

Governor MEYER. I will be very glad to give you any figures that I can, for the record.

Mr. VINSON. You can put that in the record.

Governor MEYER. Under any and all circumstances, new issues of Federal reserve notes?

Mr. VINSON. Yes.

(The statement requested is as follows:)

On February 27, 1932, the amount of Federal reserve notes outstanding was $2,911,558,000. From that date, to and including April 27, $430,691,000 of Federal reserve notes were issued to the Federal reserve banks and $579,575,000 of notes were returned to the agents by the Federal reserve banks. The amount of notes outstanding on April 27, therefore, was $2,762,674,000, of which $236,102,000 were held by the Federal reserve banks, and $2,526,572,000 were in circulation.

Mr. VINSON. Have you issued any new currency under the Glass-Steagall Act?

Governor MEYER. The Federal Reserve Board, you know, is not issuing currency. It is the banks.

Mr. VINSON. Well, are they issuing Federal reserve notes?

Governor MEYER. They are issuing and retiring Federal reserve notes every day.

Mr. VINSON. I understand that.

Governor MEYER. That is a regular routine part of their business.

Mr. VINSON. Have you issued any Federal reserve notes under the terms of the Glass-Steagall bill?

Governor MEYER. The Glass-Steagall bill does not deal with the issue of Federal reserve notes.

Mr. VINSON. That is not the question.

Governor MEYER. The Glass-Steagall bill concerns itself with loans by the Reserve banks and with security for Federal Reserve currency.

Mr. VINSON. As a matter of fact, Governor, you say that the Glass-Steagall bill does not deal with the issue of currency. Did you not say, in the very beginning of your testimony, that under the Glass-Steagall bill you had the liberalization in that member banks were authorized to transmit Government bonds into the system?

Governor MEYER. Not the member banks; the Federal reserve banks.

Mr. VINSON. Well, Federal reserve banks; member banks of the Federal reserve system. That is what I meant; that member banks of the Federal reserve system had the power, the authority and the right under the Glass-Steagall act to transmit Government bonds to the Federal reserve bank and either secure credit or the issue of new currency on those Government bonds?

Governor MEYER. I do not read anything in the Glass-Steagall bill to that effect, Mr. Vinson.

Mr. VINSON. Then you were mistaken, were you not?

Governor MEYER. I did not intend to make any such statement, and I do not believe I did.

Mr. VINSON. You say that we need less gold now than before the Federal reserve system was created?

Governor MEYER. To do a similar volume of business, yes; because gold reserves in the national banks were 25 per cent at that time. The maximum reserve now is 13 per cent, and that is held in the form of a deposit with the Federal reserve banks.

Mr. VINSON. When was the Federal reserve system created?

Governor MEYER. In 1913. I mean less gold is required relatively to the volume of business, Mr. Vinson.

Mr. VINSON. I will ask you to state whether or not, in 1920, when we had $2,436,000,000 in gold, there was in circulation $5,698,000,000 in currency?

Governor MEYER. I have not the figures in mind.

Mr. VINSON. Will you check those figures, please, or have them checked?

Governor MEYER. Yes. They are correct.

Mr. VINSON. Now we have a larger amount of gold and a lesser amount of currency; that is correct, is it?

Governor MEYER. That is correct.

Mr. VINSON. I am taking it from your statement. That is all.

Mr. DICKINSON. Governor, we have heard in this hearing frequently the phrase "fiat money." Can you give to this committee a definition of what you understand to be fiat money? Is fiat money based upon purely the credit of the Government and not backed by gold? Give us a definition as best you can, so that we can understand what is meant by fiat money.

Governor MEYER. Greenbacks were fiat money. Irredeemable paper currency is the general description of fiat money; but there may be modifications in form and details as to what is fiat money. I do not think that "fiat money" is a scientific term; it is a general term used to describe currency issued, as has been done frequently, in war time; as we did in the Civil War. Fiat money is a noninterest-bearing obligation of the Government, irredeemable and depending for its value on the attitude of the Government, whether it will do anything in the future about redemption or not.

Mr. DICKINSON. Having studied what is called the Patman bill, if it should pass and become a law, and currency be issued, you would term that fiat money, would you?

Governor MEYER. I think that term would be generally applied to it.

Mr. DICKINSON. And that would then be based upon the credit of the Government, and not upon gold, as you understand it? It would not have a gold base?

Governor MEYER. Even if it had a relatively small gold reserve, it would still tend to be called fiat money, I think.

Mr. DICKINSON. Let me ask you one more question: If national bank currency is issued based upon Government bonds, would you call that fiat money?

Governor MEYER. No; not in the present amount. National bank notes are like our greenbacks; they have become a relatively unimportant part of the national currency system.

Mr. DICKINSON. Are these Government bonds backed by the credit of the Government?

Governor MEYER. Yes.

Mr. DICKINSON. Or are they backed by gold, in whole or in large part?

Governor MEYER. The notes are secured by Government bonds.

Mr. DICKINSON. But the Government bonds are gold obligations?

Governor MEYER. The Government bonds are gold obligations of the United States Government, payable in gold of the present standard.

Mr. DICKINSON. That is all.

Mr. RAGON. Governor, I want to question you a little further along the line that Mr. Vinson was pursuing. Either you are confused or I am confused. If I understand correctly, a Federal reserve note is issued on the basis of 40 per cent gold and 60 per cent eligible paper.

Governor MEYER. A Federal reserve note may be issued against a hundred per cent eligible paper.

Mr. RAGON. Oh, yes.

Governor MEYER. And it may have 40 per cent gold reserve in addition.

Mr. RAGON. Yes; or it may be issued entirely on gold?

Governor MEYER. Or it may be issued entirely on gold.

Mr. RAGON. All right. Now, as I understand the purpose of the Glass-Steagall bill, from its terms, it was that you could substitute Government securities for the eligible paper which banks were holding, and, more or less, assisted in hoarding. Now, under the old law you issued new currency upon this 40 per cent gold reserve, which might have been greater in gold if you wanted it, and the 60 per cent or better of eligible paper. You issued currency on that. Now, since you have liberalized it—and that is bound to be the effect of the Glass-Steagall bill—to where you can substitute Government securities for this eligible paper that the banks have, why have you not liberalized your opportunities and chances of adding to the volume of your currency in circulation?

Governor MEYER. Currency in circulation is dependent upon the demands of the banks and the business of the country.

Mr. RAGON. I will put it another way——

Governor MEYER. The volume of currency is not under the control of the Federal reserve bank. Am I right?

Doctor GOLDENWEISER. Yes.

Mr. RAGON. Have you not made greater your opportunity and your chance and your power of adding currency under the Glass-Steagall bill?

Governor MEYER. The Federal reserve banks have the power, within certain limits, to increase the volume of Federal reserve credit and the balances of member banks at the Federal reserve banks. The Federal reserve banks are not in control of the volume of currency, which is responsive to the needs of the banks and the business of the country.

Mr. RAGON. Then you do have a larger and more liberal power under the Glass-Steagall bill than you had under the old law, of increasing the currency, or, I will say, of issuing currency?

Governor MEYER. No; I think not.

Mr. RAGON. You do not have any more power now than you had before?

Governor MEYER. No.

Mr. RAGON. You did not have the power before to substitute Government securities for this eligible paper that is in the banks?

Governor MEYER. No.

Mr. RAGON. And you do not think that gave you any more power?

Governor MEYER. No; because the member banks, if they had wanted to borrow on eligible paper, could have borrowed as much as they would now be able to borrow, and their borrowings would be on paper eligible as collateral for Federal reserve notes.

Mr. RAGON. Well, if you substitute your bonds for your eligible paper, do you not increase the amount of your eligible paper?

Governor MEYER. Yes; but the total amount of notes which could be issued under the reserve provisions would be the same.

Mr. RAGON. The total amount might be; but the article that you have for placing in there to make up this ratio is far greater, is it not?

Governor MEYER. It is an improvement in the mechanics of the system principally. It does not give the Federal reserve banks or the system control of the volume of currency.

Mr. RAGON. I do not know just what you call mechanics. I am not trying to mix you up; I am trying to get some information. But, as a layman, it occurs to me that whenever you permit an increase in the amount of what I will call, for the sake of clear understanding, the amount of eligible paper that may be put in to match this gold reserve, you certainly do broaden the base upon which you may make an issue of currency, do you not?

Governor MEYER. You broaden the base of eligible paper temporarily, but you do not increase the amount of notes that can be issued and you do not increase the power of the Federal reserve system to issue them.

Mr. RAGON. You do what?

Governor MEYER. You do not change the power of the Federal reserve banks to issue currency.

Mr. RAGON. Well, suppose you had a Federal Reserve Board of governors that wanted to do it. I will take an extreme example, and assume that they were radically disposed to do it. Could they do it under that act?

Governor MEYER. I think not, any more than any other board.

Mr. RAGON. Now, I believe last week your board put out about a hundred million, did they not?

Governor MEYER. The Federal reserve banks bought $93,000,000 of Government securities.

Mr. RAGON. How much was it the week before?

Governor MEYER. I think it was a hundred million.

Mr. RAGON. There was no currency issue involved in that at all?

Governor MEYER. No. There might have been, if there had been a demand by member banks for currency.

Mr. RAGON. It was just more or less of a bookkeeping transaction?

Governor MEYER. It might be considered as one. It depends upon whether it stimulates business or whether the reserves thus created remain standing idly to the credit of member banks.

Mr. RAGON. If it stimulated business, would it stimulate the issue of currency?

Governor MEYER. It might very well do so.

Mr. RAGON. I believe that is all.

Mr. SANDERS. Governor, in your opinion, approximately how much currency could be issued now without impairing confidence?

Governor MEYER. It depends upon the method of issuing currency, and for what purposes it is issued. The Federal reserve system is capable, under present law, for business purposes, of a considerable expansion of credit or currency. Such an expansion, for such a purpose, would not impair confidence, but would rather increase confidence; and confidence would increase the use of credit for business purposes. But an artificial and arbitrary injection of currency I think would impair confidence and restrict business.

Mr. SANDERS. You could not name any approximately certain amount?

Governor MEYER. No; I could not, Mr. Sanders.

Mr. LEWIS. That capacity for currency expansion exists independent of the recent Glass-Steagall Act?

Governor MEYER. Yes.

Mr. HILL. Governor Meyer, something has been said here about the impairment of the dollar, and the effect which the issuance of large amounts of additional currency would have upon the confidence in the money system of the country. If the commodity price levels were raised appreciably, so that it would require more dollars to buy the commodities than are now required, would that be considered an impairment of the dollar?

Governor MEYER. It depends on how it came about. Not if it were done in an orderly process by the regular methods of doing business. I very much hope that such a thing will come about. It is needed. But if it were done by an arbitrary injection of currency by unusual methods, I think it would impair confidence.

Mr. HILL. Would an expansion of the credit without an expansion of the currency have a tendency to increase commodity prices, in your judgment?

Governor MEYER. I think an expansion of credit available for use in the monetary and banking systems tends to expand its own use. It is intended to be confidence-inspiring and stimulating, and to indicate a willingness of the Federal reserve system to place its resources at the service of the business of the country.

Mr. HILL. Would it tend to increase the commodity prices?

Governor MEYER. If it worked in that way, in my opinion it would.

Mr. HILL. Now, to the extent that the commodity prices are increased, the purchasing value of the dollar is decreased, is it not?

Governor MEYER. That is one way of stating it.

Mr. HILL. Well, that is the practical result?

Governor MEYER. Yes.

Mr. HILL. What would be the difference, in your judgment, in the effect on the commodity prices as between an expansion of credit without a proportionate expansion of currency and an expansion of the currency?

Governor MEYER. I think it is dependent on the processes by which the operations are conducted; and, as I say, I think an arbitrary injection of currency into the system at this time, particularly when the minds of the people of this country and the world at large are peculiarly sensitive to dangerous experiments, would tend to shake confidence and be restrictive of business and hurtful to the price level.

On the other hand, if it is brought about in an orderly way by the usual methods, within the means and mechanics which have been established after careful study and thought by you in the House and in the Senate, and by the general consent and favorable opinion of the people of the country, then I think the effect would be very favorable.

Mr. HILL. When you speak of confidence, you refer to confidence on the part of whom?

Governor MEYER. The mass of the people; business, banks, merchants. The carrying of little larger stocks in the hands of the merchants, which would be a result of improved confidence, would be stimulating to business and to the price level. One of the things that you see in a period of declining prices such as we have been going through is an extraordinary elimination of stocks in the hands of merchants, not only retail merchants but wholesale merchants, manufacturers, middlemen, converters, and processors; and you see it right now in the figures that I quoted yesterday of the reduction in stocks of raw cotton held in England. That is a result, in great part, of a lack of confidence. When the turn comes, these stocks are replenished, and there is added consumption. A replenishment of stocks like this makes the business change look extraordinarily large, whereas it is really based on a change in confidence.

Mr. HILL. That confidence depends largely on the volume of commodities that they can transfer into consumption, does it not?

Governor MEYER. It is a complex matter. Confidence is partly based on money, but partly on other things. It takes a certain time to change a general fear on the part of large numbers of people into the opposite feeling. It does not happen overnight. First fear ceases to control, and then gradually there is stabilization, mental as well as financial and economic, and then a movement up, which is slow in the beginning and gains momentum as it progresses. It does not change radically overnight.

Mr. HILL. If the people had power to purchase and bought these stocks, that confidence would come back?

Governor MEYER. It would; and if confidence came back, the people would have power to purchase. The two are interlocked. I always give the illustration of the southern cotton growers. They are the big market for cotton goods. The consuming portion of the South, in buying its own cotton goods, ginghams, and so forth, is dependent on the price of cotton that they sell. Therefore, when they get an improvement in price, which I hope they will this year, they will buy more of their own raw material in manufactured form.

Mr. HILL. The ability to buy on the part of the producer depends upon the price he gets for the commodity that he produces?

Governor MEYER. Yes, sir.

Mr. HILL. Now, would not any sane scheme that would increase commodity prices, even at the expense of cheapening the value of the dollar, be beneficial to the country?

Governor MEYER. If it is done in proper ways, without disturbing confidence, and in a way to inspire confidence, it would. We all want to see the dollar worth less at this time and goods worth more.

Mr. HILL. What is being done to inspire that confidence which is so necessary and vital to the restoration of better times?

Governor MEYER. Everything that we can think of and that we have any power to do; and what I would like to see you do up here is to make a contribution toward inspiring confidence by showing an opposition to all dangerous methods of expansion——

Mr. HILL. Would any effort at expansion of credit——

Governor MEYER (interposing). Or currency.

Mr. HILL. Or currency, on the part of the Government, bring about this result?

Governor MEYER. We are encouraging our banks in the Federal reserve system. The member banks are being encouraged to show confidence. We are pursuing a policy in the Federal reserve system designed to add to confidence, and the Reconstruction Finance Corporation is trying to inspire confidence by showing confidence, and it is making loans based on an attitude of confidence. I expressed myself as having confidence in the resources and the people of the United States to solve these difficult problems at this very unhappy moment by the orderly processes of sound finance and sound governmental and financial procedure. A measure to inject a large volume of currency is in itself, in my opinion, a mark of lack of confidence to produce results by orderly processes.

Mr. HILL. Would you think that is much worse than the sweating process that we are employing now?

Governor MEYER. I think it would be much worse. I think it would defeat its own objects, and it would be ineffective. I think it would lead to worse things than the evils we have. If I did not think so, I would not be opposing it.

Mr. LEWIS. Governor, do you think that, even granting the quantitative theory of money, an increase of the currency, or even an increase of credits, could help prices in a case like bituminous coal or agriculture, where the supply of the commodity is constantly in excess of the demand for the commodity?

Governor MEYER. I am not very familiar with the bituminous coal industry.

Mr. LEWIS. Assuming the conditions I have outlined?

Governor MEYER. Of course, all the production of the past has been consumed, Mr. Lewis, except the recently created surpluses. I will go back to 1921, when we had a 10,000,000-bale cotton surplus, and it looked like a hopeless case. We had a short crop in 1921, also an improvement in demand, and that surplus disappeared in one year. The price went up, and the next year it went up higher, and the third year it went up higher still. I think we ought to be able to finance our surpluses more intelligently. Of course, coal is a peculiar product. But when it comes to agricultural crops, the surpluses of one year are sometimes swallowed by the deficits of the following year. We ought to learn gradually to treat a surplus as an asset and not as a disaster.

Mr. LEWIS. Has not the excess supply in agriculture and in coal during the last 10 years been chronic?

Governor MEYER. No; it has not. We had in 1924, a crop failure in Europe in wheat, a short crop in Canada, and a good crop in the United States, and wheat went up from $1 in June to $2 the next January. In 1923 it had looked like a hopeless surplus. I told you about cotton in 1921. There have been periods of good prices in almost every agricultural commodity in the country at one time or another in the past 10 years.

We had beef cattle go from a low price in 1921 to 18 cents for fat steers in Chicago in 1927. We have had high prices for hogs at times during the last 10 years. I do not know of any important agricultural commodity that at some time during the past 10 years has not sold at an almost abnormally high price and also at an abnormally low price.

Mr. VINSON. I would like to ask you one further question, Governor. In addition to the statement in reference to the currency issued by the Federal reserve bank, would you place in the record a statement of the amount of bonds purchased since the Glass-Steagall bill showing dates and amounts?

Governor MEYER. Yes. That is in the weekly statements and we will be glad to put it in the record.

NOTE.—The amount of Government securities purchased between February 24 and April 27 was $450,000,000.

Mr. VINSON. Also the amount of bonds that the Federal reserve system bought in the year prior to the Glass-Steagall Act?

Governor MEYER. Yes.

NOTE.—The amount of United States Government obligations purchased by the Federal reserve banks between February 25, 1931, and February 24, 1932, was $142,000,000.

Mr. LEWIS. Mr. Chairman, another question. Governor, your experience would enable you to compile a table showing the per capita of currency, the per capita of deposits, and the amount of business done during the last 12 years. That could be stated comparatively, could it not?

Governor MEYER. We can give you the per capita of currency and deposits, but as to the business done, I am not so sure.

Doctor GOLDENWEISER. We could give per capita debits.

Governor MEYER. We could give you the business done in the banks, but not the business done as a whole in the country, because we have no exact records of the volume of business. We could give you the turnover in the banks.

Mr. LEWIS. I will ask you to prepare such a table and I will talk with your staff about it further; you can include a price index column.

Governor MEYER. A commodity index column, yes. We shall be glad to give you an index along that line.

(The table referred to follows:)

Year	Commodity prices 1926=100	Money in circulation per capita	Deposits per capita [1]	Debits to individual accounts per capita	Physical volume of industrial production 1923-1925=100
				Annually	
1920	154.4	$51	$353	$6,682	87
1921	97.6	46	331	5,435	67
1922	96.7	41	342	5,800	85
1923	100.6	43	367	6,089	101
1924	98.1	43	388	6,292	95
1925	103.5	42	415	7,070	104
1926	100.0	42	424	7,385	108
1927	95.4	41	438	7,966	106
1928	96.7	40	450	9,117	111
1929	95.3	39	448	10,230	119
1930	86.4	37	435	7,488	96
1931	73.0	40	401	5,395	81
1920				*Quarterly*	
First quarter	157.8	50		1,729	94
Second quarter	166.4	51	353	1,673	90
Third quarter	160.8	52		1,570	88
Fourth quarter	132.8	53		1,710	77
1921					
First quarter	107.1	49		1,389	66
Second quarter	96.2	46	331	1,333	65
Third quarter	93.4	44		1,269	66
Fourth quarter	93.7	44		1,444	71
1922					
First quarter	92.4	41		1,355	76
Second quarter	95.2	40	342	1,500	81
Third quarter	99.1	41		1,400	85
Fourth quarter	100.3	43		1,545	97
1923					
First quarter	103.3	42		1,571	101
Second quarter	102.0	42	363	1,580	106
Third quarter	98.6	43	363	1,366	102
Fourth quarter	98.6	45	376	1,571	98
1924					
First quarter	99.3	43	371	1,531	101
Second quarter	96.0	43	384	1,531	90
Third quarter	96.6	43	391	1,513	89
Fourth quarter	99.6	44	406	1,717	98
1925					
First quarter	103.7	42	399	1,722	104
Second quarter	102.2	42	414	1,730	102
Third quarter	103.9	42	417	1,687	102
Fourth quarter	103.8	44	428	1,930	107

[1] Average of call dates, compiled by Federal Reserve Board.

Year	Commodity prices 1926=100	Money in circulation per capita	Deposits per capita	Debits to individual accounts per capita	Physical volume of industrial production 1923-1925=100
1926				*Quarterly*	
First quarter	101.9	42	417	1,889	106
Second quarter	100.4	42	425	1,829	107
Third quarter	99.4	42		1,761	109
Fourth quarter	98.6	43	429	1,906	109
1927					
First quarter	95.7	41	422	1,907	108
Second quarter	94.1	41	438	1,966	108
Third quarter	95 3	41	442	1,941	105
Fourth quarter	96.4	42	448	2,153	102
1928					
First quarter	95.9	39	435	2,125	108
Second quarter	96.9	39	445	2,392	108
Third quarter	97.9	40	448	2,042	111
Fourth quarter	96.1	41	473	2,558	117
1929					
First quarter	95.8	39	447	2,598	119
Second quarter	95.1	38	441	2,410	123
Third quarter	96.3	39	452	2,549	122
Fourth quarter	94.0	40	453	2,672	110
1930					
First quarter	91.4	37	432	2,024	106
Second quarter	88.5	37	447	2,122	101
Third quarter	84.4	36	429	1,659	91
Fourth quarter	81.3	38	431	1,683	86
1931					
First quarter	77.0	37	415	1,476	85
Second quarter	73.4	38	418	1,524	86
Third quarter	71.8	40	396	1,234	79
Fourth quarter	69.7	45	373	1,161	74
1932					
First quarter	66.5	45		1,010	70

Mr. CROWTHER. Mr. Chairman, before this witness closes and due to the fact that the question has been asked so often may at this time at the close of this evidence put in Webster's unabridged definition of fiat money?

Mr. RAINEY. Yes.

Mr. CROWTHER (reading):

> Paper currency of Government issue which is made legal tender by fiat or law; does not represent or is not based upon specie and contains no promise of redemption.

Mr. RAINEY. Gentlemen, we have a witness scheduled to appear—Mr. Richard W. O'Neill. I will say to the members of the committee that Congressman Royal Johnson has furnished me with Mr. O'Neill's record, which is long, commencing on the Mexican border in 1916. He has been decorated 11 times, and has been given medals by the French Government, the Italian Government, the Rumanian Government, and Serbian and Portugal Governments. Also his name is carried in this document, "American decorations from the United States" Adjutant General's Office, on page 80. He received decorations from this Government on account of bravery in a hand-to-hand encounter on the Ourcq River in France. With the permission of the committee I will have printed in the record this record as furnished me by Mr. Johnson, and the story detailed in this document on the page I have given, without reading it.

(The memorandum referred to is as follows:)

SERVICE RECORD OF RICHARD W. O'NEILL

Enlisted May 22, 1916, Sixty-ninth Regiment, New York National Guard.

Service, Mexican border, June, 1916, to March, 1917. Called back into service July, 1917, old Sixty-ninth Regiment under new organization plan, One hundred and sixth-fifth Infantry, Forty-second Rainbow Division. Served overseas, November, 1917, to April, 1919. Took part in defensive sector Luneville February to March, 1918; Baccarat Sector, March to June, 1918; Champagne Battle, July 14–18, 1918; Battle of Ourcq River, July 27–30, 1918; wounded, machine gun; hospital until October 1, 1918; returned Meuse-Argonne October 14 until armistice; wounded Armistice Day, hospital until December; rejoined outfit at Remagan on the Rhine with Army of Occupation, until return home.

Decorations received: Military medal, French; Croix de Guerre, French; Croce de Guerro, Italian; Cavalier of the Star, Rumania; Order of the White Eagle, Serbia; Cross of Avis, Portugal; Conspicuous Service Cross, New York State; Medal of Valor, Montenegro; Victory Medal, Five Battle Clasps; Mexican Border Service Medal, United States, Mexican Border and World War, New York State Service Medal.

O'Neill, Richard W. (89741).—On the Ourcq River, France, July 30, 1918: R—N. Y., N. Y., B. New York, N. Y.; G. O. No. 30, W. D., 1921.

Sergeant, Company D, One hundred and sixty-fifth Infantry, Forty-second Division. In advance of an assaulting line, he attacked a detachment of about 25 of the enemy. In the ensuing hand-to-hand encounter, he sustained pistol wounds, but heroically continued in the advance, during which he received additional wounds; but, with great physical effort, he remained in active command of his detachment. Being again wounded, he was forced by weakness and loss of blood to be evacuated, but insisted upon being taken first to the battalion commander in order to transmit to him valuable information relative to enemy positions and the disposition of our men.

Mr. ESLICK. Mr. Chairman, may we know what the gentleman's vocation is now?

Mr. RAINEY. He will state it. Mr. O'Neill, can you finish in about five minutes?

Mr. O'NEILL. Mr. Chairman and gentlemen of the committee, I think I really have something to say to this committee. I would like to make a comprehensive statement of my objections to the cash payment of this bonus. I think it would take me a little better than half an hour.

Mr. RAINEY. We can not hear you for half an hour this morning.

Mr. O'NEILL. I would prefer to wait for an opportunity to present a comprehensive idea of my objections.

Mr. RAINEY. We can hear you for about five minutes now and then put it off until to-morrow morning. Professor Fisher, would you in any way be inconvenienced if you had to wait until to-morrow morning?

Mr. FISHER. Somewhat. I will take a good deal more than five minutes, Mr. Chairman.

Mr. RAINEY. I know you will. I will say that the committee must be on the floor this afternoon. The tariff bill is coming up right now and we ought to be there at this moment. You can wait until to-morrow morning, Mr. O'Neill?

Mr. O'NEILL. I can wait until to-morrow morning, Mr. Chairman.

Mr. RAINEY. You can proceed for five minutes now, if you desire. Then the committee will have to adjourn.

Mr. O'Neill. If there is no objection, I should prefer to wait until to-morrow.

Mr. Rainey. That will be agreeable.

Mr. Patman. Mr. Chairman, may I make a suggestion? The proponents of the measure are very much interested in what the chairman had to say about getting a legal opinion from the Attorney General on the question that the chairman discussed. We would like to suggest that the chairman prepare a resolution to be passed by the House requesting this specific information. It is my understanding of the law that the Attorney General would be required to furnish it.

Mr. Rainey. I thought that I would inquire first of the general counsel of the Federal reserve system.

Mr. Patman. We do not want to suggest anything that will delay the consideration of this matter.

Mr. Rainey. If that does not suffice, I will prepare the resolution that you suggest.

The committee will stand adjourned at this time until 10 o'clock to-morrow morning.

(Whereupon, the committee adjourned to meet again on Friday, April 29, 1932, at 10 o'clock a. m.)

PAYMENT OF ADJUSTED-COMPENSATION CERTIFICATES

FRIDAY, APRIL 29, 1932

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D. C.

The committee met at 10 o'clock a. m., Hon. Henry T. Rainey, presiding.

Mr. RAINEY. The committee will be in order.

Mr. ALDRICH. Mr. Chairman, I ask unanimous consent to have inserted in the record at this point the tables showing money in circulation by kinds at the end of each fiscal year from 1913 to 1931, which statement appears on page 549 of the report of the Secretary of the Treasury for the year 1931; also the table on page 550 of the same report; also Circulation Statement of United States Money, March 31, 1932.

Mr. RAINEY. Without objection those will be made a part of the record.

Mr. VINSON. Mr. Chairman, in connection with the tables that have just been inserted in the record by Mr. Aldrich, I would like to have inserted Table No. 52 on page 548 of the same report.

Mr. RAINEY. Without objection that may also be made a part of the record.

(The tables referred to above are as follows:)

Circulation statement of United States money, March 31, 1932

Kind of money	Total amount	Money held in the Treasury					Money outside of the Treasury				Population of continental United States (estimated)
		Total	Amount held in trust against gold and silver certificates (and Treasury notes of 1890)	Reserve against United States notes (and Treasury notes of 1890)	Held for Federal reserve banks and agents	All other money	Total	Held by Federal reserve banks and agents [2]	In circulation [1] Amount	In circulation [1] Per capita	
Gold coin and bullion	[3] $4,389,673,643	$3,454,765,117	$1,591,807,709	$156,039,088	$1,631,369,772	$75,548,548	$934,908,525	$531,322,809	$403,558,716	$3.23	
Gold certificates	[4] (1,591,807,809)						1,591,807,709	812,446,200	779,361,509	6.25	
Standard silver dollars	539,958,135	500,415,947	493,437,454			6,978,493	39,542,188	8,769,115	30,773,073	25	
Silver certificates	[4] (492,211,954)						492,211,954	136,717,361	355,494,593	2.85	
Treasury notes of 1890	[4] (1,225,500)						1,225,500		1,225,500	.01	
Subsidiary silver	306,427,150	8,362,765				8,362,765	298,064,385	39,259,316	258,805,069	2.07	
Minor coin	126,463,450	4,548,605				4,548,605	121,914,845	7,847,391	114,067,454	.91	
United States notes	346,681,016	2,505,957				2,505,957	344,175,059	69,976,044	274,199,015	2.20	
Federal reserve notes	2,816,585,680	1,751,775				1,751,775	2,814,833,905	268,890,508	2,545,943,397	20.40	
Federal reserve bank notes	2,830,140	37,534				37,534	2,792,606	200	2,792,406	.02	
National bank notes	737,939,263	14,403,192				14,403,192	723,536,071	30,698,418	692,837,653	5.55	
Total, Mar. 31, 1932	9,266,558,476	[5] 3,986,790,892	2,085,245,163	156,039,088	1,631,369,772	[6] 114,136,869	7,365,012,747	1,905,927,362	5,459,085,385	43.74	124,796,000
Comparative totals:											
Feb. 29, 1932	9,320,730,167	[5] 3,975,138,219	2,106,356,156	156,039,088	1,583,643,272	129,099,703	7,451,948,104	1,848,405,474	5,603,542,630	44.93	124,716,000
Mar. 31, 1931	8,598,058,403	[5] 4,097,217,410	2,237,433,846	156,039,088	1,609,958,178	93,786,298	6,738,274,839	2,130,361,228	4,607,913,611	[7] 37.20	[7] 123,854,750
Oct. 31, 1920	8,479,620,824	[5] 2,436,864,530	718,674,378	152,979,026	1,212,360,791	352,850,336	6,761,430,672	1,063,216,060	5,698,214,612	53.21	107,096,005
Mar. 31, 1917	5,396,596,677	[5] 2,952,020,313	2,681,691,072	152,979,026		117,350,216	5,126,267,436	953,321,522	4,172,945,914	40.23	103,716,000
June 30, 1914	3,797,825,099	[5] 1,845,569,804	1,507,178,879	150,000,000		188,390,925	3,459,434,174		3,459,434,174	34.93	99,027,000
Jan. 1, 1879	1,007,084,483	[4] 212,420,402	21,602,640	100,000,000		90,817,762	816,266,721		816,266,721	16.92	48,231,000

[1] The money in circulation includes any paper currency held outside the continental limits of the United States.
[2] Includes money held by the Cuban agency of the Federal Reserve Bank of Atlanta.
[3] Does not include gold bullion or foreign coin other than that held by the Treasury, Federal reserve banks, and Federal reserve agents. Gold held by Federal reserve banks under earmark for foreign account is excluded, and gold held abroad for Federal reserve banks is included.
[4] These amounts are not included in the total since the money held in trust against gold and silver certificates and Treasury notes of 1890 is included under gold coin and bullion and standard silver dollars, respectively.

[5] The amount of money held in trust against gold and silver certificates and Treasury notes of 1890 should be deducted from this total before combining it with total money outside of the Treasury to arrive at the stock of money in the United States.

[6] This total includes $44,257,486 gold deposited for the redemption of Federal reserve notes ($1,249,960 in process of redemption), $29,885,917 lawful money deposited for the redemption of national bank notes ($14,362,672 in process of redemption, including notes chargeable to the retirement fund), $1,350 lawful money deposited for the retirement of additional circulation (act of May 30, 1908), and $16,796,357 lawful money deposited as a reserve for postal savings deposits.

[7] Revised figures.

NOTE.—Gold certificates are secured dollar for dollar by gold held in the Treasury for their redemption; silver certificates are secured dollar for dollar by standard silver dollars held in the Treasury for their redemption; United States notes are secured by a gold reserve of $156,039,088 held in the Treasury. This reserve fund may also be used for the redemption of Treasury notes of 1890, which are also secured dollar for dollar by standard silver dollars held in the Treasury; these notes are being canceled and retired on receipt. Federal reserve notes are obligations of the United States and a first lien on all the assets of the issuing Federal reserve banks. Federal reserve notes are secured by the deposit with Federal reserve agents of a like amount of gold or of gold and such discounted or purchased paper as is eligible under the terms of the Federal reserve act, or, until March 3, 1933, of direct obligations of the United States if so authorized by a majority vote of the Federal Reserve Board. Federal reserve banks must maintain a gold reserve of at least 40 per cent, including the gold redemption fund which must be deposited with the United States Treasurer, against Federal reserve notes in actual circulation. Lawful money has been deposited with the Treasurer of the United States for retirement of all outstanding Federal reserve bank notes. National bank notes are secured by United States bonds except where lawful money has been deposited with the Treasurer of the United States for their retirement. A 5 per cent fund is also maintained in lawful money with the Treasurer of the United States for the redemption of national bank notes secured by Government bonds.

TABLE 52.—*Stock of money, by kinds, at the end of each fiscal year from 1913 to 1931* [1]

[In thousands]

June 30—	Gold coin and bullion [2]	Standard silver dollars	Subsidiary silver	United States notes [3]	Minor coin	Federal reserve notes [3]	Federal reserve bank notes [3]	National bank notes [3]	Total	Percentage of gold to total money
1913	$1, 870, 762	$568, 273	$175, 196	$346, 681	$56, 951			$759, 158	$3, 777, 021	49. 53
1914	1, 890, 657	568, 272	182, 007	346, 681	59, 536			750, 672	3, 797, 825	49. 78
1915	1, 985, 539	568, 272	185, 430	346, 681	61, 327	$84, 261		819, 274	4, 050, 783	49. 02
1916	2, 444, 636	568, 271	188, 890	346, 681	63, 909	176, 168	$9, 000	744, 175	4, 541, 730	53. 83
1917	3, 220, 242	568, 270	198, 275	346, 681	69, 688	547, 408	12, 790	715, 420	5, 678, 774	56. 71
1918	3, 162, 808	499, 516	231, 857	346, 681	78, 146	1, 847, 580	15, 444	724, 205	6, 906, 237	45. 80
1919	3, 113, 306	308, 146	242, 870	346, 681	82, 909	2, 687, 557	187, 667	719, 277	7, 688, 413	40. 49
1920	2, 865, 482	268, 857	258, 855	346, 681	92, 479	3, 405, 877	201, 226	719, 038	8, 158, 496	35. 12
1921	3, 274, 730	288, 788	271, 314	346, 681	98, 522	3, 000, 430	150, 772	743, 290	8, 174, 528	40. 06
1922	3, 784, 652	381, 174	271, 211	346, 681	98, 593	2, 555, 062	80, 495	758, 202	8, 276, 070	45. 73
1923	4, 049, 554	491, 887	269, 186	346, 681	99, 056	2, 676, 902	22, 083	747, 440	8, 702, 788	46. 53
1924	4, 488, 391	503, 755	277, 614	346, 681	102, 445	2, 339, 048	10, 596	778, 012	8, 846, 542	50. 74
1925	4, 360, 382	522, 061	283, 472	346, 681	104, 004	1, 942, 240	7, 176	733, 366	8, 299, 382	52. 54
1926	4, 447, 397	533, 491	228, 923	346, 681	108, 891	1, 995, 206	5, 713	702, 669	8, 428, 971	52. 76
1927	4, 587, 298	537, 944	295, 590	346, 671	113, 295	2, 077, 473	4, 854	704, 146	8, 667, 282	52. 93
1928	4, 109, 163	539, 962	299, 010	346, 681	116, 689	2, 002, 811	4, 155	699, 621	8, 118, 091	50. 62
1929	4, 324, 351	539, 961	304, 187	346, 681	120, 640	2, 194, 970	3, 711	704, 294	8, 538, 796	50. 64
1930	4, 534, 866	539, 960	310, 978	346, 681	126, 011	1, 746, 501	3, 260	698, 317	8, 306, 564	54. 59
1931	4, 955, 921	539, 958	308, 619	346, 681	126, 887	2, 101, 578	2, 974	697, 004	9, 079, 624	54. 58

[1] See note 1, p. 547. For figures for years prior to 1913, see annual report for 1928, pp. 552–553.

[2] Does not include gold bullion and foreign coin outside of the vaults of the Treasury, Federal reserve banks, and Federal reserve agents, except gold held abroad for the account of the Federal reserve banks. Excludes earmarked gold coin and bullion. (See note 1, p. 547.)

[3] Gold certificates are secured dollar for dollar by gold held in the Treasury for their redemption; silver certificates are secured dollar for dollar by standard silver dollars held in the Treasury for their redemption; United States notes are secured by a gold reserve of $156,039,088 held in the Treasury. This reserve fund may also be used for the redemption of Treasury notes of 1890, which are also secured dollar for dollar by standard silver dollars held in the Treasury; these notes are being canceled and retired on receipt. Federal reserve notes are obligations of the United States and a first lien on all the assets of the issuing Federal reserve bank. Federal reserve notes are secured by the deposit with Federal reserve agents of a like amount of gold or of gold and such discounted or purchased paper as is eligible under the terms of the Federal reserve act. Federal reserve banks must maintain a gold reserve of at least 40 per cent, including the gold redemption fund which must be deposited with the United States Treasurer, against Federal reserve notes in actual circulation. Lawful money has been deposited with the Treasurer of the United States for retirement of all outstanding Federal reserve bank notes. National bank notes are secured by United States bonds except where lawful money has been deposited with the Treasurer of the United States for their retirement. A 5 per cent fund is also maintained in lawful money with the Treasurer of the United States for the redemption of national bank notes secured by Government bonds.

TABLE 53.—*Money in circulation, by kinds, at the end of each fiscal year from 1913 to 1931* [1]

[In thousands]

June 30—	Gold coin	Gold certificates [2]	Standard silver dollars	Silver certificates [2]	Treasury notes of 1890 [2]	Subsidiary silver	United States notes [2]	Federal reserve notes [2]	Minor coin	Federal reserve bank notes [2]	National bank notes [2]	Total
1913	$608,401	$1,003,998	$72,127	$469,129	$2,657	$154,458	$337,215		$54,954		$715,754	$3,418,692
1914	611,545	1,026,149	70,300	478,602	2,428	159,966	337,846		57,419		715,180	3,459,434
1915	587,537	821,869	64,499	463,147	2,245	159,043	309,796	$70,810	58,516		782,120	3,319,582
1916	624,939	1,050,266	66,234	476,279	2,098	171,178	328,227	149,152	62,998	$1,683	716,204	3,649,258
1917	666,545	1,082,926	71,754	468,365	1,970	193,745	311,595	506,756	68,411	3,702	690,635	4,066,404
1918	537,230	511,190	77,201	370,349	1,851	216,492	291,859	1,698,190	74,958	10,970	691,407	4,481,697
1919	474,875	327,552	79,041	163,445	1,745	229,316	274,119	2,450,278	81,780	155,014	639,472	4,876,638
1920	474,822	259,007	76,749	97,606	1,656	248,863	278,144	3,064,742	90,958	185,431	689,608	5,467,589
1921	447,272	200,582	65,883	158,843	1,576	235,295	259,170	2,599,598	91,409	129,942	721,421	4,910,992
1922	415,937	173,342	57,973	265,335	1,510	229,310	292,343	2,138,715	89,157	71,868	727,681	4,463,172
1923	404,181	386,456	57,262	364,258	1,460	247,307	302,749	2,234,660	93,897	19,969	711,076	4,823,275
1924	393,330	801,381	54,015	364,414	1,423	252,995	297,790	1,843,106	96,952	10,066	733,835	4,849,307
1925	402,297	1,004,823	54,289	382,780	1,387	262,009	282,578	1,636,108	100,307	6,921	681,709	4,815,208
1926	391,703	1,057,371	51,577	377,741	1,356	270,072	294,916	1,679,407	104,194	5,453	651,477	4,885,266
1927	384,957	1,007,075	48,717	375,798	1,327	275,605	292,205	1,702,843	108,132	4,606	650,057	4,851,321
1928	377,028	1,019,149	46,222	384,577	1,304	278,175	298,438	1,626,432	111,061	4,029	650,212	4,796,626
1929	368,488	934,994	43,684	387,073	1,283	284,226	262,188	1,692,721	115,210	3,616	652,812	4,746,297
1930	357,236	994,841	38,629	386,915	1,200	281,321	288,389	1,402,066	117,436	3,206	650,779	4,521,988
1931	363,020	996,510	34,326	377,149	1,240	273,147	299,427	1,708,429	117,393	3,929	648,363	4,821,933

[1] See note 1, p. 547. For figures for years prior to 1913, see annual report for 1928, pp. 554–555.

[2] For description of security held for redemption, see note 3, p. 548.

TABLE 54.—*Stock of money, money in the Treasury, in the Federal reserve banks, and in circulation, by kinds, June 30, 1931*

Kind of money	Stock of money[1]	Money held in the Treasury					Money outside of the Treasury				Population of continental United States (estimated)
		Total	Amount held in trust against gold and silver certificates (and Treasury notes of 1890)	Reserve against United States notes (and Treasury notes of 1890)	Held for Federal reserve banks and agents	All other	Total	Held by Federal reserve banks and agents[2]	In circulation		
									Amount	Per capita[3]	
Gold coin and bullion	[4 5] $4,955,921,099	$3,696,078,869	$1,701,514,389	$156,039,088	$1,776,690,378	$61,835,014	[4] $1,259,842,230	$896,822,030	[4] $363,020,200	$2.93	
Gold certificates	[6] (1,701,514,389)						1,701,514,389	705,004,841	996,509,548	8.03	
Standard silver dollars	539,958,327	498,497,281	494,588,776			3,908,505	41,461,046	7,135,008	34,326,038	.28	
Silver certificates	[6] (493,349,026)						493,349,026	116,200,102	377,148,924	3.04	
Treasury notes of 1890	[6] (1,239,750)						1,239,750		1,239,750	.01	
Subsidiary silver	308,619,365	5,692,865				5,692,865	302,926,500	29,779,482	273,147,018	2.20	
Minor coin	126,887,033	4,607,053				4,607,053	122,279,980	4,886,964	117,393,016	.95	
United States notes	346,681,016	3,523,480				3,523,480	343,157,536	43,730,245	299,427,291	2.41	
Federal reserve notes	2,101,578,450	1,402,130				1,402,130	2,100,176,320	391,747,538	1,708,428,782	13.77	
Federal reserve bank notes	2,973,962	42,487				42,487	2,931,475	2,097	2,929,378	.02	
National bank notes	697,004,446	17,809,685				17,890,685	679,113,761	30,750,408	648,363,353	5.22	
Total June 30, 1931	[4] 9,079,623,698	[7] 4,227,734,850	2,196,103,165	156,039,088	1,776,690,378	[8] 98,902,219	[4] 7,047,992,013	2,226,058,715	[4] 4,821,933,298	38.86	124,076,000
Comparative totals:											
May 31, 1931	8,782,098,264	[7] 4,199,237,014	2,192,766,980	156,039,085	1,760,532,278	89,898,668	6,775,628,230	2,073,352,798	4,702,275,432	37.92	124,002,250
June 30, 1930 [4]	8,306,564,064	[7] 4,021,936,763	1,978,447,640	156,039,088	1,796,239,235	91,210,800	6,263,074,941	1,741,086,979	4,521,987,962	36.71	123,191,000
Oct. 31, 1920	8,479,620,824	[7] 2,436,864,530	718,674,378	152,979,026	1,212,360,791	352,850,336	6,761,430,672	1,063,216,060	5,698,214,612	53.21	107,096,005
Mar. 31, 1917	5,396,596,677	[7] 2,952,020,313	2,681,691,072	152,979,026		117,350,216	5,126,267,436	953,321,522	4,172,945,914	40.23	103,716,000
June 30, 1914	3,797,825,099	[7] 1,845,569,804	1,507,178,879	150,000,000		188,390,925	3,459,434,174		3,459,434,174	34.93	99,027,000
Jan. 1, 1879	1,007,084,483	[7] 212,420,402	21,602,640	100,000,000		90,817,762	816,266,721		816,266,721	16.92	48,231,000

[1] Includes United States paper currency in foreign countries.
[2] Includes money held by the Cuban agency of the Federal Reserve Bank of Atlanta.
[3] Revised back to 1920 in accordance with 1930 census enumeration.
[4] Revised.
[5] Does not include gold bullion or foreign coin other than that held by the Treasury, Federal reserve banks, and Federal reserve agents. Gold held by Federal reserve banks under earmark for foreign account is excluded, and gold held abroad for Federal reserve banks is included.
[6] These amounts are not included in the total since the money held in trust against gold and silver certificates and Treasury notes of 1890 is included under gold coin and bullion and standard silver dollars, respectively.
[7] The amount of money held in trust against gold and silver certificates and Treasury notes of 1890 should be deducted from this total before combining it with total money outside of the Treasury to arrive at the stock of money in the United States.
[8] This total includes $30,166,138 gold deposited for the redemption of Federal reserve notes ($1,139,730 in process of redemption), $29,415,523 lawful money deposited for the redemption of national bank notes ($17,859,975 in process of redemption, including notes chargeagle to the retirement fund), $1,350 lawful money deposited for the retirement of additional circulation (act of May 30, 1908), and $11,826,948 lawful money deposited as a reserve for postal savings deposits.

NOTE.—For description of security held for redemption of paper currency, see note 3, p. 548.

Mr. RAINEY. Mr. O'Neill, we will be glad to hear you at this time.

STATEMENT OF RICHARD W. O'NEILL

Mr. RAINEY. Mr. O'Neill, how much time will you require?

Mr. O'NEILL. Mr. Chairman, I think 25 minutes will be sufficient.

Mr. RAINEY. Proceed.

Mr. O'NEILL. Mr. Chairman and gentlemen of the committee, the chairman of this committee yesterday introduced me, mentioning the fact that I was a holder of the congressional medal of honor and several other decorations. I wish to go on record at this time to state to this committee that it has always been my contention that there are no living heroes, except those veterans who are lying on their backs in hospitals today. The real heros are the boys lying over there under the white crosses.

I am appearing before this committee strictly as an individual and in no way attempting to represent any veterans organization. I am not against the payment of the adjusted service certificates because the payment of them is the law, but I am opposed to general cash payment at this time and shall endeavor to give a comprehensive clear understanding of my objection.

Before continuing, I would like to testify to the sincerity of three of the proponents of the so-called bonus, Representatives Rankin, Patman, and Connery. They have always been staunch friends of the veterans, particularly disabled vererans. They have worked untiringly for the disabled as members of the Veterans' Committee of the House and Representative Rankin, now chairman of that committee, is working harder than ever. I believe Mr. Rankin, Mr. Patman, and Mr. Connery are absolutely sincere in their fight for the bonus. I would also like to say to this committee I consider the military records of Representatives Johnson, LaGuardia, and Simmons opponents of cash payment at this time, as unimpeachable and equal to that of any veteran witnesses who have appeared before this committee either for or against this legislation.

Ever since I was mustered out of the service in May, 1919, I have continuously fought for veterans, disabled and able-bodied. I have always insisted 100 per cent on their welfare. To-day I am still 100 per cent for their best interests. I have tried to be fair in all cases pertaining to veterans' legislation and have weighed both sides of an argument before going on record pro or con. My interest has been unselfish and my only compensation has been the satisfaction I derive from being of some assistance to a comrade in distress.

By appearing before this committee I hope to prove to all ex-service men beyond question of a doubt I am honestly and sincerely trying to represent their interests and certainly not attempting to do anything that might be construed as detrimental to any real veterans' cause. There has been so much talk recently of immediate payment of these certificates that I am firmly convinced thousands of veterans have become confused and forgotten the fact that these certificates are an obligation of the Government, accepted by them and payable to them only in accordance with their terms. The veterans are actually beginning to believe that if the so-called bonus is defeated at this session of Congress it will be a total loss to them. On the contrary if this legislation is defeated and providing the interest on loans is either abolished or scaled down to the amount it cost the Government to borrow money for the purpose of meeting loan demands on these certificates, it will be the equal to every ex-service man of having a trust fund on deposit with the best bank in the world, the United States Treasury.

I disagree with those who claim cash payment would ruin the financial credit of the country just as much as I disagree with those who say it will be the country's salvation. In the first instance, that argument was advanced when the first half of the bonus was paid and the country still struggled along, impaired perhaps but not ruined. In the second instance the argument was payment would be a return trip to prosperity and the results proved that both groups were entirely wrong. It is an admitted fact to-day that the country is now worse off financially and that conditions generally are worse than at the time half payment of the certificates was authorized and made. That legislation which was the equal of the legislation now sought by some on the theory that it will mean the salvation of the country ought to demonstrate to those advocates the worthlessness of their argument. My main object is to protect the veteran for his own sake. I think it is obviously unfair to criticize the veterans, particularly the disabled veterans, for what they are receiving to-day in the way of compensation. The veterans' cause has been used as political ballyhoo since 1919. Candidates contended for office on platforms of practically creating a veterans' Utopia. When elected to office they enthusiastically and patriotically introduced and voted for all veterans' legislation. Now that the country is suffering from an economic depression and unemployment is prevalent everywhere two distinct hysterical yells go up to the high heavens. First the good old veterans' bonus buffer.

The other cry is Government appropriations must be cut, veterans in general are receiving too much and the appropriation on their behalf must be reduced. It should not be overlooked that the Congress of the United States, those farseeing gentlemen who comprise both bodies of our National Legislature, passed the laws making allowances to veterans. These laws were not made by the veterans themselves. They are simply the recipients of what Congress, after what I must presume to be careful consideration, held they were justly entitled to. It is rather a joke to the intelligent to see that Congress now, when the clamor of patriotism is somewhat removed from politics, to be not only admitting its own wrong in passing these pieces of legislation, but actually taking the offensive in undertaking to eliminate that legislation by process of continuing reductions.

As I see it there are three entirely different groups agitating for cash payment of these certificates. The first of these groups are the veterans, the second the nonveterans, and the third the un-American or more popularly called "reds." In the first or veteran group we find four distinct classes. First, those veterans who are honest and sincere in their demand for immediate payment of the certificates because they conscientiously believe it rightfully belongs to them. This group of veterans it is apparent to me are in the vast majority.

There is a second group falling under the heading of veterans who claim themselves as veterans' leaders and whose main aim is a hope for publicity and public glory with the ever attendant possibility of filling the ranks of their organizations from those susceptible to their views. The main argument of this group of alleged veteran leaders, I state confidently to this committee, is that if the veteran allows payment of his certificate to be deferred until 1945, the interest on what he has already borrowed thereon added to the principal amount borrowed will have eaten up the entire face value of his certificate and there will be in 1945 nothing whatsoever coming to him. This committee should readily see the force of this argument and the effect it has upon veterans in the light of present legislation, respecting interest payable on loans. The necessity of legislation reducing the amount of interest presently payable upon amounts borrowed upon those certificates to an amount in percentage at least equal to the amount and percentage which the Federal Government is paying upon the money they borrowed to in turn loan to veterans upon these certificates, should be readily apparent to every intelligent person.

The third group falling under the head of veterans are composed of those former service men who have political aspirations and who are selfishly advocating cash payment of the bonus as an argument purely for their political expediency.

The fourth group falling under the head of veterans are those ex-service men who firmly believe the American people owe them a living without the necessity of their working for it. Fortunately this group constitutes a very small minority.

The fifth and last group classifying themselves under the head of veterans have no license to even associate themselves with the name of veterans. I refer to the alleged Workers Ex-Service Men's League. This group, I say without fear of contradiction, is actually representing the red Communist Party in this country and agitating former service men with their slimy and treacherous doctrines.

I will within the limit of my ability try to interpret the individual aims of the groups I have mentioned. The first, or veterans group, composed of the honest sincere veterans want the bonus paid because individually they are in desperate need, out of employment, and in numerous instances mentally ill from home worries and generally depressed from the present dark outlook. The veterans of this class have been told by veteran leaders that the bonus will be paid if he, Mr. Veteran, will actively and aggressively get behind it. When one is practically destitute, hungry, sick, and harassed on all sides by financial reverses and with seemingly no light of hope to look forward to, reason flys out the window and the man is right to receive bad advice. A straw takes the proportions of a life raft and the veteran grasps at it as a ray of hope. He does not realize his certificate is the only thing his family can look forward to should anything happen to him in the next few years. It never occurs to his mind that he, of all people, by accepting a cash payment of his certificate, is helping to deprive his own family of the protection he really wants them to have. He does not stop to think about what happened to the first half of his bonus which was paid just a little more than a year ago. It has simply vanished and he is no better off. The veteran has not considered the fact that if this bonus is paid now he will be living in a fool's paradise for perhaps a couple of months and after that—what does he face? The unemployment situation will not have improved and his future outlook will be just as dark, darker in fact, for he will have spent the only protection he had for his family. The Government will have paid in full its obligation to him and the general citizenry of the country will be blaming him for every thing from a crop failure to an epidemic and floods in the Mississippi Valley. The cry would eventually be that had not the veterans demanded and received their bonuses in cash the country would have become better.

The number of veterans in this class, those who are unemployed and in dire need is limited. The best available statistics place the total number of unemployed in this country at between seven and eleven millions. Fifteen per cent of this number at the most, it is estimated are veterans. Placing the number of unemployed at 10,000,000, nearly the total set by the least conservative, we have at the most 1,500,000 unemployed veterans. Of this number I can authoritively state 77,000 are disabled veterans. Approximately 4,000,000 men were under arms in the World War and every man either has or is entitled to his certificate. Ordinary substraction deduces the conclusion that of the total number holding certificates 2,500,000, at the least nearly two-thirds, do not really need the cash on their certificates now. True to tradition, however, if cash payment in full of the certificates is authorized now every man holding one will demand and receive it. Thus at a time when the country can ill afford it both financially and from a standpoint of public confidence this country would have to raise and pay nearly $1,600,000,000 to men not certainly in real need of it, and this 14 years before that sum is due on the terms of the certificates. There should be some way to redeem the certificates of those in dire need at this time if such be possible without conflicting with our doctrine of class distinction. This is a matter in my judgment worthy of consideration by this body and would effectively answer the only possible justification anyone can have for immediate payment, that is the care of those veterans in dire circumstances.

I am frankly convinced that the chances of veterans to receive employment, will be lessened in the event the bonus is paid in cash now by reason of the fact that business men will have absorbed so much ballyhoo about fiat money, danger of going off the gold standard, etc., that they will have a complete relapse of fear complex and loss of confidence which will result in further retrenchments and instead of hiring they will again start firing.

They will undoubtedly charge the veteran with increased taxation and every other business evil. Those jobs which may be open will be denied the veteran and he will be made the goat of the circumstances which he unintentionally created. I do not wish to be understood as saying that payment of the bonus in cash at this time would in itself precipitate any such deplorable financial condition in this country, but I do say that if the bonus is paid in cash now and such condition does result, the veteran will be held to account as the primary cause thereof irrespective of justification. The real veteran really wants a job with a liveable wage and not a bonus and I have reason to believe that there are thousands of jobs in Government departments which could be adequately filled by veterans. I disagree with Representative LaGuardia in one particular. He does not believe that veterans should receive preference over others in this employment crises. I do. The veterans were given a large job in 1917 which they finished to the satisfaction of the entire world. The American public quite willingly gave them preference then, the preference to fight and die, if necessary, why not preference now—to live?

The so-called veteran leaders to whom I referred under the second group whose endeavor it should be to educate the mass of the veterans to the real conditions facing the Government to-day abrogate that roll and resort to the easier method by starting a hue and cry for cash payment of the bonus so that they may appear the crusaders of a worthy cause, when in fact they are willfully holding the true facts from the veteran and are misleading the veteran into making demands which can not help in the future to make the whole veterans' cause obnoxious and unpopular with the American public.

The real sad part of it is these so-called leaders have succeeded so well in selling this cash bonus idea to veterans that the real needy veteran has gotten to the point where he thinks it is just a matter of weeks before his bonus will be paid. Some of them are actually waiting in order to pay bills for food, rent, and so forth. If the cash payment bill is defeated, I dislike to think of their reaction. I repeat, some legislation should be enacted if at all possible to relieve the situation in those cases. I do not believe there is a veteran who is not in dire need, who would not willingly step aside for a needy comrade.

Those veterans constituting the third group, those with political aspirations, have seized upon the cash-bonus proposition as the kick-off of the well-known game of political football. It gives them an opportunity to make long-winded speeches on subjects entirely unfamiliar to them and to point out the alleged gross injustices being meted out to veterans. In 99 cases out of 100, they either have the wrong information or knowingly send up these patriotic balloons because they find it colorful and dramatic and far more pleasing to their audiences than discussions on the tariff, sales tax, and so forth. Their situation is comparable to the old-time actor who, realizing that his act has fallen flat, appears for his bow and applause waving an American flag.

It does not phase them that they are making the unwitting veteran the goat. It is sickening to stand on the side lines and see the real and honest veterans, misinformed, tossed about, their very existence entirely forgotten after the political aspirant has obtained his goal.

That small group of professional veterans more commonly known as gold brickers, racketeers, and general nuisances whom I have classed under the fourth group have plenty of time on their hands, have never worked before the war, during the war, or since. Strange as it may seem, although this group is in a small minority they can start more agitation, more discord and discontent and get themselves into public print more easily than can all of the other veterans combined. If every one of them could be questioned by this committee, it would be startling to find that they could not give an employment record from 1917 to the present date, in most instances they have but very limited services during the World War, yet they can tell you what the Government should do and ought to do in order that they might carry on at the expense of real veterans and of the tax paying public. These ballyhoo artists are the real thorns in the side of honest veterans.

With unemployment and general depression prevalent in the country to-day the fifth group, the reds, are grasping a hold upon the country which should not be lost sight of. Conditions are absolutely perfect for this group to put over their contemptible underhand and cowardly blows aimed at the American form of government. This band of parasites who call themselves the "Workmen's Ex-service League" would much prefer sowing their seeds of discontent and preaching their slimy red doctrines than to undertake honest labor. They would not work if you gave them a good job. Hundreds of thousands of real loyal and patriotic American veterans under the stress of privation are tempted to listen at a time like this because mentally they are not themselves. They are susceptible to the reason of any person who talks sympathetically to their cause. The principles in this group while agitating for payment of bonus at this time, I have no doubt would not benefit by such legislation themselves because I sincerely doubt if they are entitled to a certificate. They simply use the bonus issue as an excuse to gather together sympathetic and unwitting veteran audiences that they may present and promulgate their doctrines which strike at the very foundations of American liberty.

I have an argument against cash payment at this time. I will go so far as to say that argument which I am going to advance now is undebatable.

The ultimate inconsistency of asking for $2,000,000,000 on one hand, a very small portion of which will go to disabled and needy veterans, and economizing at the expense of disabled veterans on the other is uncomprehensible to me. It is my honest belief if cash payment of the bonus were made at this time the real service-connected disabled man would be penalized, not for a week, a month, or a year, but for the rest of his natural life. If this bonus is paid, I doubt very much there will be any sympathy for future veterans' legislation, regardless of the fact that it may be advocated for bedridden disabled veterans or any other needy class. The appeal then when really necessary for worthy cases will in all probability fall on unsympathetic ears. My whole interest is centered in the cause of the disabled and it is a work of love with me. To the really disabled veteran at this time payment of his certificate will be but a Judas kiss, for the monetary and hospital benefits which the disabled men were led to believe they would be granted for the rest of their life would be taken away from them for no sane, sound reason. Disabled men have been getting compensation for years. They have come to recognize it as part of their yearly budget. To take any part of it away from them now would be a catastrophe and the result would be a disillusioned broken-spirited body of men who all but gave their life that this country might live.

If all proponents of cash payment of the bonus are really sincere in their desire to help veterans, their first thought should be of the disabled and needy veterans. Let them put the same effort behind a concerted move to abolish interest entirely upon loans made by veterans upon their certificates under present legislation, or behind a move to limit that interest to just what it cost the Government to borrow the money they loaned the veterans upon the certificates. Let them fight to a finish in the interest of the disabled, the man who gave more to the cause than they gave, against any proposed slash in compensation because of service-connected disabilities. Let them aid by advocating appropriate legislation for the man who in the early days did not apply for his adjusted certificate to the extent of lifting the restriction upon certificates to the effect that they must be held two years before they may be borrowed upon.

Such a move would be very commendable, as I could never bring myself to understand why the men who for years refrained from even requesting their bonus because by chance they were financially successful and did not need it should now be penalized when by chance in a state of need and as a last resort they apply to their government for that which is their just due only to be limited and restricted in its use for a period of two years before it can be of any possible worth to them. I would also most earnestly suggest that a national commission to relieve unemployment among veterans be appointed by the President. The country certainly owes it to those who in time of need came to its relief to in time of their need come to their relief, and no honest-thinking man can justly oppose such a move. Real veterans do not desire to live on their Government and are willing to take honest employment any time in preference to gratuities. Real veterans are men with pride and character. They have earned for themselves the right to participate in the general scheme of American life. My earnest plea to them is that they let the question of cash payment of the bonus—at least to that great majority who do not need it—die now, combine themselves into an effective organization not for a bonus from our Government in its present condition but with a purpose and aim to take that part in the upbuilding of their country which it is their right and duty to take.

Gentlemen, I have tried to give you an honest picture as I see it. I have not tried to quote statistics but have taken the human side and what I have had to say is not resultant from snap judgment nor yet based upon an experience of a few weeks or months, but upon close association with veterans and veteran activities for the past 13 years. I have nothing to gain personally by appearing before this committee, but on the contrary perchance much to lose. I leave with this committee these thoughts for whatever value and assistance they may be in reaching an honest and equitable conclusion on the question.

I thank you.

Mr. Eslick. May I ask you for the record, Mr. O'Neill, what is your present business?

Mr. O'Neill. I am a sales representative for the Universal Atlas Cement Co.

Mr. Hill. You are a former service man, I take it?

Mr. O'Neill. Yes.

Mr. Hill. You are not a disabled veteran?

Mr. O'Neill. Yes. I have 11 holes in my body, sir.

Mr. Hill. Are you drawing compensation now?

Mr. O'Neill. Yes, sir.

Mr. Hill. That is all.

Mr. Rainey. Thank you, Mr. O'Neill.

We will hear Professor Fisher.

STATEMENT OF PROF. IRVING FISHER, YALE UNIVERSITY

Mr. RAINEY. Will you proceed, Professor?

Mr. CHINDBLOM. Mr. Chairman, we all know who Professor Fisher is, but I suggest that Professor Fisher state for the record briefly his connections.

Professor FISHER. I am professor of economics at Yale University. I am president of the American Statistical Association. I have studied the question of money for 20 years, and written five books on it, and have studied this depression for the last year as my chief study. I am writing a book upon that.

I am opposed to the Patman bill for the reasons that the last speaker has given, and for the reasons which Secretary Mills stated so well two days ago. I agree practically 100 per cent with what he said and what Governor Meyer said, not yesterday but two days ago.

There are two main objections. One is, as Mr. Mills said, the money is not due. So that unless merely the present value of what is due is paid, there is a gift or a bonus which at this time does not seem to be warranted for one class particularly.

The other reason is that it might, as Secretary Mills has said, impair confidence in this day when nerves are shaking. The idea of fiat money seems fearful. The idea of a precedent for giving away when we ought to be economizing would raise fears in people's minds that there would be other drains on the Treasury which it might not be able to stand.

If that is true, and I fear it is, that the effect of passing this bill would impair confidence, then its effect would be deflationary and not inflationary. What we want now is reflation, which may be defined as inflation justified by recent great and rapid deflation. Ordinarily inflation is an evil, just as deflation is. I probably have written more against the evils of inflation than perhaps any other writer.

When you have had a tremendous deflation such as we have had during the past three years, a certain amount of inflation is justified and it ought not really to be called by any bad name. It is reflation and that word "reflation" tells so much more than inflation that I would like here to use it. It has come into use on that account.

The best way to reflate is, as Secretary Mills said, through controlled credit expansion. Those three words express a great deal. There should be expansion. It should be controlled. It should be credit and not pocket money merely.

There is a great deal of confusion because people think of credit as money and therefore think in terms of physical money when they ought to be thinking in terms of book credit. If we talk in terms of book credit, we will give a true perspective, because in this country and in England and in all Anglo-Saxon countries, the real medium of exchange is not money in the physical sense—that is, coin and paper—that we carry in our pocket, recognized as money, because it passes from hand to hand without indorsement; but the real medium of exchange to-day covering nine-tenths of the business in this country is circulating credit. It is what we call the money we have in the bank and recorded on the stub of our check book. It is reduced every time we draw a check, increased every time we make a deposit.

But this money, if you call it money—it is better probably not to call it money, but credit—has its existence only in those records, on your check books and on the corresponding records of the bank. But that, even if it has no physical existence, is the real circulating medium of this country. Even to-day it amounts to about $45,000,000,000. That is, the individual deposits subject to check without notice. It pays our bills as we pass it by check. It requires the acceptance of the other party, and in that respect technically it is not money, because money is something that is generally acceptable in exchange and is not acceptable merely by the promise of the acceptor.

Nevertheless, if we say that money is as money does, we are justified in calling this so-called money in the bank, money. At any rate, it is the medium of exchange and it is ten times as important in quantity and in its circulation as physical money. That, together with the physical money, makes about $50,000,000,000, which is our circulating medium as a whole. That is the so-called money in the bank or bank credit deposits subject to check and the physical money in the pockets and tills of merchants.

Now, when you think of adding new money to the amount of two and a half billion dollars, it is not very much. It seems a good deal when you say there are only four or five billions of physical money; but when you speak of the total circulating medium as fifty billions, two and a half billions is only 5 per cent. And what if the issue of this new money of two and a half billions should result in so shocking confidence as to reduce the so-called money in the bank, the deposits subject to check, as it might readily do, by more than two and a half billion? If it should reduce it by five billions or ten billions, causing runs on banks or causing the banks to call loans, or in any other way bring about a contraction from which we have been suffering during the last three years, then this so-called addition of two and a half billions would bring about a real subtraction.

So that I have a real fear that this measure which is supposed to be inflationary or reflationary would prove to be deflationary in its net effect.

We need reflation and we need it badly. It is a necessity. We have got to get it. But we should get it in the manner Secretary Mills stated, by controlled credit expansion.

That is being done by the Federal reserve now in buying bonds in the open market, for it pays for those bonds, not with Federal reserve notes, physical money; it could, but so far as I know, it has not. They have been paid for and will be paid for wholly or almost wholly, merely by setting up on the books of the Federal reserve bank a credit, adding to the deposit balances of the member banks, exactly as you might make a deposit in your bank.

That deposit can be used as a reserve and multiplied practically by three for the member bank. So that the member bank may then, with this reserve, build up a credit to the customer of some ten times the amount deposited. So the potential effect of this is far more than a mere $100,000,000 a week, which we see in the papers. It will run into billions as soon as the public begins to deal with the banks. But there is always a lag there. It takes time, because the first effect of putting this new—I will not say money into cir culation, but credit, circulating medium, deposit currency, what ever you call it, is to enable the banks to pay off their debts to the Federal reserve banks.

So that it merely telescopes at first. The Federal reserve puts this circulating medium into circulation through the member banks, but it immediately goes back to the Federal reserve or the member banks pay their debts to the Federal reserve. It is only when these member banks have been unhooked from their debt to the Federal reserve banks that they begin to extend credit to the customer, because as their reserve balances become excessive, they are induced to use their excess reserve balance for profit, in extending it to customers, and their fear of doing it, which is so great to-day, will be reduced the more plentiful this credit becomes.

I believe that this credit expansion or whatever other method of credit expansion is used should and I believe if properly worked out as Congress has the power, it will surely turn the tide and do just exactly what has been done in England; namely, first raise the price level and then improve business.

As I see it, in order to get out of this depression, we need two things: A raising of the prive level—one thing——and the other a stable price level——in other words, forevermore safeguard from such deflation as we suffered, or any further inflation. We need a raising of the price level and a stabilization of the price level, the first as an emergency measure and the second as a permanent method of preventing these terrible depressions.

A year ago I had never made any intensive study of depressions. My work in economics has been in writing special monographs on special small subjects and this is one that had always seemed to me a pretty big subject and I was putting it off. But a year ago I began to study it, because I was asked to make an address upon it before the American Association for the Advancement of Science. Since that time I have given this all the attention that I could, in view of a good many other engagements.

As I say, I am writing a book upon it, and now I feel, as I did not a year ago, that I do understand the real diagnosis of this depression.

As Secretary Mills said, it is impossible to ever give a complete explanation, and we shall be debating for 100 years the history of this depression and trying to unravel all the tangled skeins, threads, and causes involved.

I do not mean to say, therefore, that I am cocksure I can tell you 100 per cent the explanation of this depression, but I do feel very confident that I can tell you what has caused 90 per cent of it.

We are suflering from two economic diseases, the debt disease and the dollar disease. The debt disease has led to the dollar disease.

By the debt disease I mean that in 1929 we had accumulated a tremendous overindebtedness. It showed itself first in the collapse in the stock market, because the American public had been speculating to such a tremendous degree, and speculating in the stock market is simply going into debt. The fact that it is done on margin through the broker merely puts the debt out of sight. The broker borrows, but the customer is the one who is really borrowed for. So that he goes into debt through the broker, and it is that debt that was his undoing. Not only was he in debt, but the farmer was tremendously in debt ever since the war days. He has never gotten out of debt. Then there were the tremendous intergovernmental debts, the reparations debts, and the tremendous internal Government debts.

Then there were the international debts that we extended to Europe in the way of credit to help Europe to recover. Then there were the consumer debts to finance installment buying.

Then there were the great debts at the banks, and I fear that catalogue is not complete, but the total runs up, in 1929, to over $200,000,000,000, whereas the assessed valuation—that is, the estimated value of the physical capital of the United States—was only $360,000,000,000, and it is probably not much more than half of that to-day. But the debts to-day are in effect greater than then—nominally less, but really greater because of the enlargement of the dollar. That is the dollar disease from which we are suffering more to-day than even the debt disease. The debt disease has led to the dollar disease through distress selling and the contraction of the currency.

When people are in debt and find that they are too much in debt, or their creditors find that they are too much in debt, and either the debtor, because he realizes that he is too much in debt and tries to pay it off, or the creditor, because he realizes that the debt may not be good and is demanding payment, makes an effort to pay off, to liquidate. In either case the effect is deflationary.

The first effect is to force sales. The margin dealers in 1929 at the time of the stock-market crash were doing just that. Borrowers were called by their brokers and told that their margin was not sufficient and that they must put up more securities or else sell, or be sold out.

Now, the effect of that selling was to reduce the prices. The effect of any selling is to reduce the prices; and when the prices are reduced, the margin is reduced still more, and then the broker comes back again and demands more margin or more selling. And so you have this distress selling. Distress selling is different from normal selling. Normally a person sells because the price is high enough to suit him, give him a profit; but in distress selling he sells not because the price is high but because it is low, and that forces him to sell in order to save his solvency. When the stock-market crash started this avalanche of selling, it proceeded from the stock market to the real-estate field and to the commodity field, and lowered prices generally. And it was not simply the physical process of distressed selling that lowered prices. It was more vitally the contraction of the currency which that involved; because when a person pays his debt, if he pays it to a commercial bank, he reduces the circulating medium by the amount of his payment.

That is not true where one person pays another. If you owe me a hundred dollars and you pay me that hundred dollars in currency, that hundred dollars still exists. It simply comes out of your pocket and goes into mine. Or, if you pay me by check, you merely transfer your deposit credit on the books of the bank. Your check book has its balance reduced by a hundred dollars and mine is increased. The total in the bank remains just the same. It is merely transferred. There is no reduction. But it is entirely different when you pay your debt to the bank. When you owe a hundred dollars at the bank and you draw a check and pay that bank, that hundred dollars goes out of existence. The only existence it ever had was the record on your check book and on the books of the bank.

There have been wiped out of existence during the last three years something like $10,000,000,000 in that way. As people have tried to pay their debts they have contracted the currency. The $10,000,000,000 no longer exists. We used to have between $50,000,000,000 and $60,000,000,000 of deposit currency. Now we have $45,000,000,000 of deposit currency. Where is the ten billion? It no longer exists. And when you reduce the circulating medium from fifty or sixty billion to fifteen billion, you necessarily reduce the price level; when you reduce the price level, that is the same thing as saying that you increase the size of the dollar—the value of the dollar.

Mr. VINSON. You said: "When you reduce the circulating medium from sixty billion to fifteen billion." You meant forty-five billion, did you not?

Doctor FISHER. I meant forty-five billion. I am glad you corrected me. I will be glad to be interrupted any time if I am not making myself clear.

The reduction in the last few weeks has been going on at the rate of 25 per cent per annum.

If this should go on further, there would be a further reduction, and it gets into a vicious circle, for the reason that when, as a consequence of this contraction, you enlarge the dollar, then your real debt is increased, in spite of the fact that the number of dollars you owe is decreased. So you get the paradox that the very effort of the public, when there are millions of them, to reduce their debts, increases their debts. The more they pay the more they owe, in terms of wheat and cotton and the real things of life.

I said that in 1929 the total debt in the United States was over two hundred billion. The figures are not exact, but as nearly as I have been able to have them worked out they are two hundred and three billions of dollars. Now that is reduced, in number of dollars, to about one hundred and eighty billions. But the one hundred and eighty billion to-day is harder to pay than the two hundred and three billion then. So, if you take account of the enlarged dollar, the overgrown dollar, the hypertrophied dollar, and the fact that each dollar of debt means more bales of cotton, more bushels of wheat, more tons of coal, and so forth, you find that the real indebtedness to-day is 30 per cent greater than it was in 1929. There has been no liquidation on the whole; on the contrary, there has been an aggravation of debts.

I do not know whether Secretary Mills two days ago would have been surprised or not if this had been put up to him in the form of the statement that to-day Uncle Sam owes more on his bonds than he did in 1919, when it was supposed to be a maximum of twenty-five billions of dollars. He probably would see what was being driven at, but he might reply, "No; we only owe eighteen billions to-day as against twenty-five billions then."

But each dollar to-day is more than twice as big as the dollar of 1919, when it was worth very much less; so that the equivalent in 1919 dollars of our eighteen billion dollars to-day is about forty billions of dollars, or a great deal more than the twenty-five billions that was owed then. We owe really more than 50 per cent more, in terms of farmers' wheat and cotton and the other commodities of this country than we did at the so-called maximum of 1919. And the queer thing about it is that it has been the effort in the last three years of the general public to pay their debts, which has increased their debts. It is very much like a panic in a theater; when everybody tries to get out, they jam themselves in by crowding the doors.

So let us see what the consequences of overindebtedness are, and how it leads to the "dollar disease," or the debt disease leads to the dollar disease. When you have this overindebtedness, and people try to get out of debt by liquidating, paying off their debts, it causes distressed selling and the contraction of the currency, and therefore a fall of prices, unless that fall is overcome or neutralized by some countervailing force, which is always possible, but which was not accomplished during these last three years, as it should have been.

If there is not some effort to compensate, and there is a fall of prices, then, as I say, you magnify the dollar, and it may be, even if the number of dollars of debt has decreased, that the real burden of debt is increased. Out of some dozen categories of debt which I have studied there is only one where there has been any real liquidation, and that is in the stock market, and that is more apparent than real, because that was largely a shifting of the debt from a debt through the brokers' loans to a direct debt of the customer with his own bank. In every other respect there has been an increase of debt, as I have said.

Now, when you have this decrease of prices, you find that all the phenomena that we recognize in a crises such as this grows out of that together with the debt. That is, the debt disease and the dollar disease cause all our miseries—90 per cent of them, at least.

In the first place, take a business man's balance sheet. His assets shrink in value with the general shrinkage in prices. His liabilities do not shrink, because they are fixed by contract. Therefore, the difference, the net worth, shrinks even faster; and in the cases of business men who are on the ragged edge anyway, that shrinkage brings it below zero, and they are bankrupt. You get the phenomenon of bankruptcy immediately out of this fall in prices.

The same thing which I have applied to the capital account or balance sheet applies to the income account. The balance sheet relates to a point of time, and the income account to a period of time. The receipts reduce because the average business finds that it can not charge the same prices, and as the shrinkage of prices goes on the receipts reduce in dollars, but the expenses do not reduce, or do not reduce so fast, because some of them are fixed by contract. Interest on debts, rent, salaries, and even to some extent wages, are relatively fixed. The result is that the receipts shrink a great deal faster than the expenses, and the difference between them, or profits, shrink very fast, and for those businesses that are on the ragged edge the profits are turned into losses.

So that is the next phenomenon that we recognize in a crisis; that business is unprofitable, and when business becomes unprofitable you have the next phenomenon, unemployment. Because in a capitalistic society—in other words, a profit society, in which the profit-taker has the say as to whether a business will run or not, or how far or how fast it will run—as soon as profits turn into losses he begins to shut down, either wholly or in part, which means discharged workmen and unemployment, and also a reduction in volume of trade. So you have all these phenomena coming directly out of the two things: the debt disease—over-indebtedness—and the dollar disease, namely, falling prices.

I will not go into the analysis any further, but, as I diagnose the situation, those are the two diseases from which we suffer.

Now, even granted that the debt disease was not preventable—and I think it was partly preventable—but, without discussing that, the dollar disease is wholly preventable. It was not necessary, because the patient had grippe, that he should have pneumonia. You could have the debt disease without having the dollar disease. There could have been something to prevent the fall of prices, namely, the very thing that now is being applied, and which could have been applied long ago—the open-market operations and various other devices.

People say that this depression is natural; that it is natural that there should be a fall of prices; that it is supply and demand. That shows a total lack of understanding of the situation. Moreover, it is foolish to say that because a thing is natural, therefore we should endure it. It is natural for a boat to capsize if the passengers all rush to one side. In the fjords of Norway, where the sightseers sometimes are suddenly attracted to one side of the boat and all rush over there, they will have some sailors push a heavy weight in the opposite direction to rebalance the boat. And that is, as I see it, what ought to be done through the Federal reserve of the Government, or some agency—open-market operations, rediscount rates, or what not—there should be something to prevent the boat from capsizing, or even from tipping. And it can always be done, because the price level is the one thing that is easy to control.

There is a great misapprehension here from people who confuse an individual price with the price level. They are entirely distinct things. People think of the price level as merely an average of individual prices. It is not. It is an entirely different thing. It relates to the scale of prices. I see before me two portraits. I could say that the nose in this portrait is larger than in that; but it is only because the scale on which that is painted is a larger one than that on which the other is painted. You can have a heroic size statute, and the nose will be big, but you would not say that it was big if it was not out of proportion. Now, an individual price is the nose, but the scale is an entirely different thing. The scale of prices is controllable. The individual price ought not to be ordinarily controlled. I am not a believer in price fixing in general, but I am a believer in fixing the standard of value; in fixing the scale of prices.

It is perfectly easy to make the price scale go up or down. It is a great deal easier to make the whole scale of prices high or low than it is to fix the price of cotton. That seems almost a contradiction in terms, but it is not. And when people talk about fixing the price level, and think that means fixing the price of cotton, wheat, iron, and steel, and everything else, they are barking up the wrong tree. They are two entirely distinct things.

I can remember, in visiting Germany in 1922, when I took a taxi ride, and when I was through I was astonished to find that the meter said that I owed two marks and a half. Well, there had been a depreciation then of about fiftyfold, so that a mark was worth about 1 or 2 cents, and yet I supposed that for some unknown reason the taxi fares were very small, and so I undertook to pay the driver these two and a half marks. He looked at me with astonishment, and he said, "But you must multiply by 25." In other words, there was what they called a multiplicator. The scale of prices, when there was that tremendous inflation, had dissected itself out and disentangled itself from the individual prices.

And so, at the hotel, they would reckon what your bill was in marks, and then you would multiply by a factor, which was different from day to day.

Mr. Hawley. You mean in the gold value of the mark?

Mr. Fisher. Yes; you can put it that way. That will serve without further explanation. The gold value of the mark—in gold marks, if you like. And then they would multiply by a factor which might be 50 one day and 60 another day. There was that multiplicator. That was the scale of prices.

Now, it would be perfectly easy for this country to do exactly what Germany did. It would be an insane thing to do, but it is not a difficult thing to do. It would be far easier than to raise the price of cotton out of line, or to make the nose big with respect to the eyes. If anyone should try to raise the price of cotton to even double the price it would be an impossible task. Uncle Sam could not do it. We have tried to fix the price of wheat, and Uncle Sam has not been able to do it. It would be almost impossible to raise the price of cotton a hundred per cent by any forces that we have in this country, artificially applied. It would be an unwarranted interference with supply and demand. But it would be perfectly easy to raise the scale of prices in this country, just as Germany did, a billion fold, simply by running the printing presses, if you did it on a sufficiently large scale, irrespective of the tremendous evils that would result.

Likewise it is easy to deflate, and that is what we have had during the last three years—a deflation through the extinction of this money, or this circulating medium that I refer to, of $10,000,000,000.

You can make that scale of prices anything you like, and it ought to be made where it should be with reference to the present condition—raised to the level of some years ago, and then stabilized there and standardized. That gives you a real standard of value. We have at present no dependable standard of value. It is said that the weight of the dollar is such a standard; but the weight can only be a standard of weight. The gold dollar weighs 23.22 grains of gold. That is the only standard of value that we have to-day. It is not a standard of value; it is a standard of weight. It is like a pound or an ounce avoirdupois. It is all right for weighing your gold, but not for valuing your gold. And when you have a standard of value, you want a standard of value—purchasing power. In other words, you want a stable price level; you want to have this multiplicator, so that your scale is fixed once and for all.

That is what England is apparently trying to do. At any rate, Sweden is trying to do it to-day. After having been pulled down by its connection, through the gold standard, with England and the United States, Sweden has decided to go on to a managed currency basis, and to fix the crown in purchasing power according to an index number of wholesale and retail commodity prices. They are going definitely after the thing that we ought to have had in all civilizations a long time ago, and the lack of which is the main cause of this depression, if I am not entirely off the track.

I am, myself, confident that we are going to get out of this depression; but the reason for my confidence is not that I trust to nature.

You might just as well say that a ship is sure to right itself every time. Of course a ship is built with that purpose in view, and if the storm is not too great there will not be a complete capsize, but the ship, after going beyond a certain point, will tend to go back. And with our crises in the past that has always happened, and we have trusted to luck, and not in vain. But I have no confidence in so great a crisis as we have now that trusting to luck will pull us out of it. And, finally, we are not trusting to luck. We are trying definitely, designedly, to right the ship by open-market operations. My confidence in the future is based on those operations, and on various other favorable signs. Our stocks on hand are reduced; credit is easier; bank failures are less, thanks to the Reconstruction Finance Corporation; the liquidating of the banks is greater; savings have increased; in spite of the fact that currency has been decreased, savings deposits have increased; we have a huge gold reserve. India has poured out a quarter of a billion of gold to help the shortage abroad, some of which may find its way here; at any rate, its existence will prevent to some extent the exodus of gold from here; and, above all, we have the Federal reserve open-market operations. But my real ground of confidence is in Congress.

I believe it is important that Congress should understand the gravity of the situation, and, understanding the gravity of the situation, should act—has acted and will act. If I did not have confidence based on the way which, during the last few months, both parties, both Houses and the White House have cooperated to secure genuine legislation, such as the Glass-Steagall bill, to this very end, I would feel differently; but with that attitude, if the matter is sufficiently studied by such committees as yours, I believe that, if the right things are done, we can get out of this slough of despond rapidly.

In that respect perhaps I am more optimistic than the average student of the subject; but I think it is correct to say that it is within the power of Congress to get us out of this depression rapidly. I do not mean to get us back to where we started from—it will be years and years before we get back there—but to get relief; to do what England has done in the last six months. England has done those two things already. England has raised the price level and stabilized the price level, and after a longer period of deflation than we have had, and less interrupted from war days, has balanced her budget and started the wheels of industry and reduced unemployment in a perfectly marvelous way in the last six months.

You merely need a little more blood injected into the circulation, and to get the adjustment correct, in order to accomplish this. But you have got to have a correct diagnosis. You are not going to get anywhere if you think that the present situation is the result of overproduction, that it is the result of extravagance, or of unbalanced industry, or of excess capacity, or of too rapid growth. This situation is a result of too much debt and too big a dollar.

While, as I said, nothing can fully explain the tangled skein of events with which we are faced, I really believe that the bulk can be explained by those two facts, one of which is an entire tragedy and could have been avoided, and is still curable—the dollar disease—by a reflation and stabilization. There are bills before Congress now which I believe will help, in addition to those bills which have been passed—the Reconstruction Finance Corporation bill and the Glass-

Steagall bill. There are several bills before Congress, and there is another which I believe will help immensely toward a rapid recovery, and which, if adopted by Congress, will bring us out of the depression, and do so far more rapidly than most people imagine. It would only be a few months before people would think it was a miracle that we had improved as much as I think it is within your power to have us improve.

I know you are a committee, not on Banking and Currency, but on Ways and Means; but the ways and means of balancing the Budget are, first, to reflate. You can not tax a vacuum. You have got to have something to tax. You have got to restore prosperity. You have got to increase the income of the people. And all of these things that I have described, by which, through deflation, you have bankruptcies and unemployment and depression of trade, and all the rest, are reversed the instant you have reflation.

I will be very glad to answer any questions, if I can.

Mr. RAINEY. Are there any questions?

Mr. RAGON. Mr. Chairman, in view of the very interesting statement of Doctor Fisher, I would like to know what other measures we have pending in Congress that he looks to with great hope in this situation.

Mr. FISHER. I do not know that I could include them all, but I am thinking particularly of three. I think the most basic is the Goldsborough bill, which gives the Federal reserve a mandate to do exactly what they are doing now, and should have been done, in my opinion, long before, and to see to it that we raise the price level to the proper position and then stabilize it thereafter. If they are unable to do it of themselves—I think they will be able to do it alone, but if they are not I think the Government can help them in various ways.

That is one bill—to my mind the most important of the three that I have in mind.

There is a second bill—and I do not know that it is before Congress now, but there was a suggestion made by the Federal Reserve Board which was originally attached to the Glass bill, and then for some reason dropped out—I believe because it seemed a little hard to understand and to get through Congress—and it was also introduced in a House bill and was then dropped out. I do not think it is in any bill now, but I think it ought to be, even if it is a separate bill; and that is to fix the reserve ratios, not as at present, immutable—7 per cent in country districts, 10 per cent in moderate sized cities, and 13 per cent in the big cities—but to fix it so that it varies with the activity of this deposit currency that I referred to—deposits subject to check—so that when the wheels are going around too fast, automatically the reserve will go up and check, and when, as at present, they are not going around fast enough, the reserve will go down. Make the reserve ratio depend upon the velocity of circulation. In particular, definitely—if you want the exact statement—make no distinction between one part of the country and another, between big cities and little cities, no distinction between time accounts and demand deposits, but have 5 per cent against all deposits at each bank, plus one-half of the daily turnover, as the reserve against the deposits of all banks.

If we had had that system—this was the subject of a special report; I think it was devised by a very able——

Mr. Lewis (interposing). Doctor, when you say 5 per cent plus one-half of the daily turnover, your statement is not sufficiently concrete to me. Will you make it concrete?

Mr. Fisher. I do not believe I could without some little thought. The exact wording is in that report of the Federal reserve committee on this subject, and I am sure I have it in my own notes. I can send it to you, Congressman.

Mr. Lewis. What is the meaning of "turnover" in the connection in which you use it there?

Mr. Fisher. Each day a certain number of dollars is checked out. You see in the papers every week the statistics of the debited deposits, that is, the amount of checks that are paid by a bank.

We can put it this way: I think you only want the principle rather than the arithmetic figures.

Mr. Lewis. Yes.

Mr. Fisher. The principle is this: The total deposits in the United States, I say, are about $45,000,000,000, subject to check. They have been turning over at the rate of about twenty-five times a year; that is to say, in the course of a year that $45,000,000,000 has been paid out 25 different times, and if you multiply that out, you will see how many dollars' worth of business has been done with that circulating medium.

Incidentally I might say that that rate of turnover, which was 25 before the crash, is now 13. In other words, it has been cut in two.

Now, if we had had a reserve ratio which would be twice as big when it is twenty-five times a year as it is when it is thirteen times a year, then when business is going too fast, and there is too much speculation, as in 1929, the banks would have found that they could not lend as freely; that they would be hog tied a little bit by this mounting reserve. On the other hand, at present, when we are trying to loosen the banks, we would reduce the reserve, and they would not be so afraid of lending money, which is the one thing we want them to do. I believe thoroughly that we would not have had this depression nearly as severely as we have had it if we had had that system in operation. It has been unanimously approved by the Federal Reserve Board, as I understand it, and is to my mind something that ought to be put into legislation pretty soon.

Mr. Lewis. Is it usually accomplished in other countries by raising the rate of discount?

Mr. Fisher. Yes. Of course that is another means and should be used also. Then I think the Steagall bill for guaranteeing bank deposits would help overcome the fears of the smaller banks. Those are the three bills. Two of those are before you. The third has been before you but has been taken away. It ought to be put back. There is a fourth bill, which I would not like to attempt to go into now, because it is the device of the president of a large corporation, who has worked it out, has shown it to me, and has recently submitted it to many men in Congress, which, in my opinion, would help enormously to speed up the recovery. The trouble with the open-market operations is that they are slow. We will have to be patient if we are going to depend on them. This other method, which I would like to be excused from going into any details about, would speed it up.

Mr. RAGON. As I gather, your chief objection to the Patman bill is the uncontrolled expansion features?

Mr. FISHER. No; I think my chief objection, Mr. Ragon, is to the principle of it. As I understand it, it is paying what is not due.

Mr. RAGON. I am not interested in that. That is an individual matter. The question is, how we can pay it.

Mr. FISHER. You asked me what my objection was. That is my chief objection.

Mr. RAGON. But your objection to the currency feature is that it is an uncontrollable expansion, as I gathered it in the course of your remarks.

Mr. FISHER. Not quite that. I do not think it is big enough to fight over on the question of its controllability; but I am afraid that there will be a lack of control because of other things that will follow.

Mr. RAGON. Do you think, as to the purpose it would serve in stimulating credit, that the Federal Reserve Board now has that power and has been recently exercising it?

Mr. FISHER. Federal reserve banks?

Mr. RAGON. Yes.

Mr. FISHER. The Federal reserve banks; yes.

Mr. RAGON. Have you studied or had called to your attention what is known as the Owen plan?

Mr. FISHER. Senator Owen's plan?

Mr. RAGON. Yes.

Mr. FISHER. Yes, sir. I saw it here. That is a perfectly sound method, I think, if you are going to do the thing.

Mr. RAGON. Would you mind, for my benefit and I am sure for the benefit of the committee, elaborating somewhat on your reaction to the Owen plan?

Mr. FISHER. Of course, the first objection which I mentioned, that this is not due, applies to any of them.

Mr. RAGON. Let us not go into that.

Mr. FISHER. But if you are going to do it, that would be the way, rather than issue fiat money, because fiat money itself, while its unsoundness is political rather than economic, has such a bad name, and the experience with it has been so bad, that it would create a lack of confidence. But this method proposed by Senator Owen—and I understand it is practically the same as Senator Thomas's bill—is that the Government should issue bonds to the Federal reserve banks, in return for which the Government would get Federal reserve notes, and then they would give these Federal reserve notes to the soldiers or use them for expenses for any other purpose. It is a perfectly sound method.

Mr. RAGON. You would not consider any issue based on that as fiat money?

Mr. FISHER. I should scarcely say so, but my own prejudice against fiat money is due to its temptation to abuse. That is the thing I am afraid of. If you give money away—if you give anything away that is not absolutely owed—in such a time as this, you will have requests for the dole, and we do not know what, and the fact that you embark on that course will lessen confidence, so that people will be frightened and will not know what Congress will do. It is that that I am afraid of. Fiat money, as such, properly controlled, is economically not as unsound as it is ordinarily thought. We have at present some fiat money. Our silver certificates are practically fiat money; that is, there is nothing adequate behind them. No one ever redeems a silver certificate, because, if they did, they would only get 25 cents' worth of silver.

Mr. RAGON. Just what is your definition, Doctor, of fiat money?

Mr. FISHER. I should say fiat money was money the value of which was based entirely on its being legal tender, and not at all upon its redeemability.

Mr. RAGON. Now, if I understand the Patman bill correctly, there is no provision made at all for any redemption of any of this currency. That looks to me, as a layman, like an uncontrolled expansion of our currency. Now, under the Owen plan, if I understand that, he has a method there of controlling that expansion, or, you might say, contracting that expansion. As I gather from your remarks, there are two dangers, deflation and inflation, and it may become necessary to contract or to deflate the currency.

Mr. FISHER. Yes; that is true.

Mr. RAGON. Under the Patman plan I see no machinery at all for contracting, but in the Owen plan I do see that.

Mr. FISHER. Yes; because it is redeemable.

Mr. RAGON. Therefore you would call any issue of currency under the Owen plan, would you, a controlled expansion, or would that expansion be controllable?

Mr. FISHER. It would be controllable; yes. I do not think that is quite what Secretary Mills meant.

Mr. RAGON. I do not think so, either. I believe that is all, Mr. Chairman.

Mr. ESLICK. Doctor, with regard to the issue of $2,400,000,000 under the Patman plan, treating it as fiat money, if it were confined to this issue, and no other issue were to follow it, would it of itself be dangerous to our economic system under present conditions?

Mr. FISHER. That is a very hard question to answer. Under normal conditions, I would say we could easily absorb that much without danger. At present, when we are in a state of nerves, and afraid of ghosts, whether or not they have any reality except in our own imaginations, you can not tell what would happen.

Mr. ESLICK. Is it not true, Doctor, that under existing conditions in our present money system, confidence has gone to the lowest ebb?

Mr. FISHER. Yes; the lowest ebb in my lifetime, certainly.

Mr. ESLICK. Really, would it be possible to reduce that to a much lower ebb by this issue or anything else that might be done?

Mr. FISHER. Yes; it would.

Mr. ESLICK. To complete destruction?

Mr. FISHER. Yes; as I said, my confidence is primarily in Congress. I have given you some reasons for confidence besides that. But without the help of Congress in passing some such legislation, there is a real danger—I will not say a probability, but a real danger of going far lower than we are now. We could wipe out all the banks in the United States, which would wipe out $45,000,000,000 of currency—that is, what I call currency; deposits subject to check—leaving only this physical pocket money in this country. Theoretically that could happen, which would reduce our price level down to less than 5 per cent, probably, of what it is now.

It is a very serious situation, and it is only because of my confidence that Congress has these measures in hand, has already done what it has, and that it will attend to its business on this matter, that I do not think anything is going to happen that is so bad. But we are on the brink of a precipice. I simply trust the driver, that he knows how to drive around the curve.

Mr. ESLICK. Let me ask you this question if it is a fair one: Has Congress done anything so far that will keep us from going over that brink?

Mr. FISHER. Yes; not that will absolutely keep us from going over. There are these other four measures, and perhaps some others. Congress has already enacted the Reconstruction Finance Corporation act and the Glass-Steagall Act. The Glass-Steagall Act I regard as an extremely important thing, on account of taking out the kink in our free gold situation.

Mr. ESLICK. Doctor, is it not true, according to the statements of the Bureau of the Census and of organized labor, that on the 1st day of April we were at the lowest earning capacity, in point of labor earnings, with the largest number of men unemployed, since 1929? I saw that statement made in one of the daily papers.

Mr. FISHER. I have no reason to doubt it.

Mr. DOUGHTON. Doctor, you referred to the English situation and the phenomenal recovery that had been made there. Now, the fact is, I believe, that they have gone off the gold standard. Would you mind elaborating your statement with reference to the English situation and giving us your opinion as to whether it was going off the gold standard, or, if not, what did bring about this phenomenal recovery that you have referred to?

Mr. FISHER. The thing that has brought it about has been the reflation: that is, the rise in the price level. The gold situation abroad was such that the Bank of England was losing its gold, and fear was paralyzing the public there. The instant that that situation was resolved and they went on a fiat money basis, which is what they have done, they were able to prevent the deflation and to bring about some reflation, so that prices rose in a short time by 13 per cent, after a long fall, continuing ever since the close of the war. They had a deflation, and they had all these troubles with unemployment long before we did; because England made a very bad mistake in going onto the gold standard the way she did; by trying to go back to the old $4.86⅝ per pound. They should have devalued, as France did, and Italy did, and other countries did, in which case they would not have had all this trouble. But they have had more trouble than we, and within six months they have had a breathing spell and it has resulted in tremendous relief. I do not mean that there is real prosperity there, but they have got some economic strength. They have balanced their budget.

Mr. DOUGHTON. Doctor, I am interested in your expression of hope that the things that Congress is doing are going to reestablish confidence and gradually restore and improve economic conditions. Now, in the event that that hope should not be realized, and that we should not have the recovery that you hope for from this legislation that has already been enacted and that which is in contemplation, have you in mind any other solution that you think would get us out of the slough of despond in which we now are and have been for so long?

Mr. FISHER. I do not quite get your hypothesis.

Mr. DOUGHTON. You referred to what Congress has done and your hope in what Congress will do.

Mr. FISHER. Yes.

Mr. DOUGHTON. You think that will bring about a situation that is going to restore confidence and raise price levels and get us out gradually of our present economic distress?

Mr. FISHER. Yes.

Mr. DOUGHTON. Now, should that not be realized; if Congress should not do it, or, if Congress does do it, and then we do not have the consummation that you hope for, then have you some other remedy? What is your view in case that does not bring about the relief that we are so desparately in need of? I think the country is in a terrible situation. All over the country farmers are being sold out, are losing their homes, and are being turned adrift on the streets, beggars; thousands of men in the cities are unemployed and hungry. Now, in the event that this program that you refer to does not bring about relief, what is going to be the result? Have you something else in contemplation, or what is your idea about it?

Mr. FISHER. It would have to be congressional action.

Mr. DOUGHTON. Nothing else would inspire confidence save congressional action?

Mr. FISHER. I did not quite say that. I say there are signs of improvement now; that we are laying the groundwork for improvement. The banks are getting out of debt, and their excess reserve is increasing; the number of bank failures is reduced, and we have hope in these Federal reserve open-market operations. That is the important thing that is going on to-day, and I think the chances are strong that that will pull us out gradually anyway. But I do not think Congress ought to stop there. If it does not pull us out, and Congress does stop here and refuses to do anything, then we are going over the precipice.

Mr. DOUGHTON. Is it your view—and I have been very greatly interested in your statement—that if this soldiers' bonus should be provided for, as contemplated, in one of the bills now before Congress, that it would probably do more harm than good to the economic and business condition of the country? In other words, is that possible or probable? You prefaced your statement with the remark that you feared that there would be some unfavorable results. Now, do you fear that that is probable or possible?

Mr. FISHER. I should say probable rather than possible. Of course, if this did not frighten anybody; if people were not afraid that something else was likely to be done, that you were going to give a dole to everybody, or to a lot of people, and then give farm relief, and print paper money for it, and so forth; if people did not fear that——

Mr. DOUGHTON (interposing). If the country could be reassured by Congress that Congress would not be that radical and do anything that desperate, you would not fear any grave or serious results, would you?

Mr. FISHER. No; I would not fear any serious results under those circumstances. In fact, it might help a little bit in a reflationary way, as in the argument in favor of it. But I think that is a very academic question, as we say in academic circles, because I think it is altogether probable that you will get a lot of fright if you pass the Patman bill, not so much on account of the Patman bill itself as of what may follow it. People are also afraid of the phrase "fiat" money. People are afraid of the word "inflation." People are afraid of ghosts to-day.

Mr. DOUGHTON. That is all.

Mr. VINSON. Doctor, how far does your fear of fiat money go? Would national bank notes fall in your category of fiat money?

Mr. FISHER. No; they are redeemable.

Mr. VINSON. In what?

Mr. FISHER. The banks redeem them in lawful money, and there is a redemption fund in Washington besides, of 5 per cent.

Mr. VINSON. My understanding was that the only backing, the only guaranty, besides the credit of the nation, was the United States Government bonds and your 5 per cent redemption fund.

Mr. FISHER. There is a 100 per cent Government bond, but——

Mr. VINSON (interposing). That Government bond is the credit of the Nation?

Mr. FISHER. Yes; but that is not the only source of redemption. There is a redemption fund in Washington, and the banks are required to redeem their own notes.

Mr. VINSON. I know; but that redemption fund is a 5 per cent redemption fund?

Mr. FISHER. Yes.

Mr. VINSON. What about the other 95 per cent of your national-bank notes?

Mr. FISHER. You might ask the same question with reference to Federal reserve notes.

Mr. VINSON. I was going to ask you about them in just a minute. Your gold reserve behind the Federal reserve notes is about 71 per cent gold?

Mr. FISHER. Yes.

Mr. VINSON. And the other guaranty behind the payment of Federal reserve notes, under the Glass-Steagall bill, may be Government bonds, and before the Glass-Steagall bill it might be eligible paper?

Mr. FISHER. Yes.

Mr. VINSON. Now, do you consider that if the reserve was 71 per cent gold and the other 29 per cent was eligible paper, that the entire issue of Federal reserve notes would not be fiat money?

Mr. FISHER. I should not call it fiat money as long as there is something in which it is redeemed. But I think what you are really after, if I sense your question, is whether there is any danger of lack of parity from fiat money. If it is sufficiently limited in amount, and is legal tender, there is no danger.

Mr. VINSON. That is my view exactly.

Mr. FISHER. You can have fiat money in limited amount. We have it in silver certificates to-day. Silver certificates nominally are not redeemable in anything except silver.

Mr. VINSON. Your definition of fiat money probably is technically accurate. We were told here by the Secretary of the Treasury that he was using the term "fiat money" as simply printing-press money; and, of course, if it is printing-press money, it would not have behind it the obligation of the Government in the form of a Government bond.

Mr. FISHER. I want to make the point in regard to fiat money that it is not necessary to have anything behind it if it is limited sufficiently in amount and is legal tender. But if you do not fulfill both of those conditions, it will sink in value.

Mr. VINSON. You have not any fear as to the parity of the national-bank note because it does not have a hundred per cent gold behind it, or even 40 per cent gold, have you?

Mr. FISHER. No; nor a silver certificate, which has nothing behind it, practically.

Mr. VINSON. Nor Federal reserve notes, as they now stand?

Mr. FISHER. No.

Mr. VINSON. As I understood you, you say that the Owen plan or the Thomas plan is perfectly sound in money mechanics?

Mr. FISHER. Yes.

Mr. VINSON. You referred to England raising the price levels. I did not understand just how they did that. Did you state?

Mr. FISHER. By not requiring the restraint on the circulating medium that comes from trying to keep on the gold standard when they have not sufficient gold.

Mr. VINSON. When they went off the gold standard, price levels went down?

Mr. FISHER. Went up.

Mr. VINSON. I mean, price levels had gone down before such action?

Mr. FISHER. Yes.

Mr. VINSON. And they went off the gold standard and price levels went up?

Mr. FISHER. Yes.

Mr. VINSON. Now, did they have any legislation after they went off the gold standard to affect price levels?

Mr. FISHER. Merely to validate what was done. There they sometimes do things and get Parliament to ratify them afterwards. They suspended the bank act. We have done nothing of that sort in this country, I think, except the Hoover moratorium.

Mr. VINSON. That had a tremendous effect.

Mr. FISHER. They went off the gold standard on Saturday, and people woke up to it on Monday, and the Parliament ratified it at once. It would not be a bad idea if this country could entrust the power to go off the gold standard to some one who could do it quickly, instead of having all the gold taken away to Europe while you are debating it, which is what would happen if we ever got to that situation.

Mr. VINSON. Excepting the validating legislation, you do not recall any legislation that affected the economic condition or assisted in the rise of price levels?

Mr. FISHER. No. I am not sufficiently familiar with all that did go on over there; but there is this economic point: That even if there is no increase in the quantity of money, the fact that they went on to a fiat currency plan would tend to make it turn over a little faster, which would raise the price level of itself.

Mr. CROWTHER. Mr. Chairman, will the gentleman from Kentucky yield to me to ask a question right here?

Mr. VINSON. Yes.

Mr. CROWTHER. With the rise in price levels, has there been a proportionate rise in wage levels?

Mr. FISHER. I do not know. But there has been a decrease in unemployment and an increase in business.

Mr. LEWIS. How much, Doctor; have you heard?

Mr. FISHER. No; I can not give you any figures. I have got that from reading and also from correspondence with two or three men.

Mr. DOUGHTON. When England went off the gold standard, to what extent, or how great, was the inflation or reflation?

Mr. FISHER. The increase in the price level was 13 per cent in a short time; just a few weeks.

Mr. ALDRICH. Doctor Fisher, as I understand the Owen plan, it forces the Federal reserve banks to take these bonds and issue currency against them, does it not?

Mr. FISHER. Yes; I think so.

Mr. ALDRICH. That is your understanding?

Mr. FISHER. That is my understanding; yes, sir.

Mr. ALDRICH. It seems to me that it is very much the same as the Patman plan in its ultimate result. How far could the Government go in forcing the Federal reserve banks to take bonds for the issue of currency?

Mr. FISHER. They could go as far as they liked.

Mr. ALDRICH. You mean, in other words, that by just putting in that additional security they could issue as much currency as they wanted?

Mr. FISHER. Of course, when they went beyond all reason, the Federal reserve notes would come back for redemption, and the gold would be shipped abroad. You would cut your gold reserve down.

Mr. ALDRICH. And if we kept up that policy for any length of time, it would eventually drive us off the gold standard?

Mr. FISHER. Yes.

Mr. ALDRICH. Now, don't you think that any move that we make which indicates to the people of the country that we may eventually drive the country off the gold standard is going to destroy confidence in just the way it has happened here?

Mr. FISHER. Yes; if you get the public excited about it. But I think the real scare would come, if you passed what you call the Owen bill or the Thomas bill, not from the mechanics of it, but from the precedents that you establish.

Mr. ALDRICH. And that would be the ultimate result of the plan?

Mr. FISHER. The ultimate result, a much larger inflation.

Mr. ALDRICH. Do you not think that the business man in the country would either say, or at least fear, that we were going to unduly inflate our currency?

Mr. FISHER. Yes.

Mr. ALDRICH. If that were true, why would not the psychological effect upon the business man of the country be very much the same as if we adopted the Patman plan?

Mr. FISHER. It would. I am glad you brought it out. I wanted to make that clear, but when I replied to the gentleman who asked me what my objection was, it was that it was a bad precedent to give money for what was not due. He said, "Well, that is not what I am asking you," so I confined myself to the question he was asking me. Now, it is there that the danger comes, not from the mechanics of this scheme—the mechanics are all right.

Mr. ALDRICH. Of course, if it were not for the tremendous amount of indebtedness that the country owes at the present time we could issue bonds and sell them to the public, but the proponents of this bill admit that that is not possible at the present time without seriously impairing the credit of the United States Government. I believe that if you force the Federal reserve banks to take these bonds which it can not sell in the open market you are going to destroy the confidence of the general public in the Federal reserve system, are you not, or impair their confidence somewhat?

Mr. FISHER. If the issue were properly limited and had a sufficiently good reason, which I do not think it does have in the bills as now drawn, I would not be afraid of that.

Mr. ALDRICH. But on the whole, do you not think that the effect of adopting either one of those plans at the present moment for the purpose of paying off the adjusted-compensation certificates would be very detrimental to the business confidence of the country?

Mr. FISHER. I do, because of the object; not because of the method.

Mr. ALDRICH. But the method is not the ordinary method that the Government of the United States uses in selling bonds to raise money, is it?

Mr. FISHER. No.

Mr. ALDRICH. It is out of the ordinary and establishes, in my own mind, a dangerous precedent.

Mr. RAINEY. Professor, right in this connection, I understand your definition of fiat money to be money which is based entirely upon the credit of the Government. What is a Government bond? Is not that a promise that the Government will pay at some definite future time?

Mr. FISHER. It is not money.

Mr. RAINEY. It is not money, but that is a pledging of the credit of the Government to pay.

Mr. FISHER. Yes.

Mr. RAINEY. Under the Owen plan, money would be issued upon Government bonds, which are merely promises to pay on the part of the Government. Sould not that be just as much fiat money as money issued under the Patman plan, according to your definition?

Mr. FISHER. It is a demand liability based on a time liability and the time liability implies that there is a presumption that in time the bonds can be paid. You would not say that Government bonds ought to be based, when they are issued, on anything more than the credit of the United States. You could not have a reserve behind them or anything of that sort. They are time obligations.

Mr. RAINEY. Then the difference between the two classes of fiat money would be that fiat money issued under the Patman plan is a promise on the part of the Government to pay immediately and when issued under the bonding plan it would be a promise of the Government to pay at some time in the future.

Mr. FISHER. Yes. Properly speaking fiat money is not a promise to pay. It is generally in that form, but our greenbacks during the Civil War meant that they promised to pay $1 for each dollar that was issued. They did not say what the dollar was, so it meant nothing. They simply were giving you one promise for another, one dollar for another.

Mr. RAINEY. Then the bond is a promise to pay at some time in the future in lawful money?

Mr. FISHER. As I understand it, Mr. Chairman, under the Owen bill and under the Thomas bill—neither of which I approve; I hope I have made that clear—the Federal reserve notes are issued just like the present Federal reserve notes, redeemable in gold and they are obtainable, as they can be now under the Glass-Steagall Act by the Federal reserve banks tendering to the Federal reserve agent, Government bonds and getting the notes from the United States Government. The Patman bill introduces an entirely new kind of currency. This other does not.

Mr. CHINDBLOM. Except, following your last remark, that in the case of the Owen plan bonds are not sold to the public. There is no credit acquired by the Federal reserve banks. They simply hold them, issue money against them and then when the bond is presented for redemption it is presumed that they will sell those bonds and obtain funds from the people who buy them. Is not that your understanding?

Mr. FISHER. Yes. The bonds would be in the custody of the United States really.

Mr. CHINDBLOM. It would be in the custody of the United States, but until the bond is sold, it represents nothing except the credit of the Government. It does not represent what the ordinary bond represents, namely, a sale in the market?

Mr. FISHER. No.

Mr. CHINDBLOM. And a credit acquired by the Government through that sale?

Mr. FISHER. No. The ordinary bond represents the credit of the Government; that is all it does represent.

Mr. CHINDBLOM. But it has been sold.

Mr. FISHER. It does not make any difference whether it has been sold or not. It represents the credit of the Government; when it is first sold it is sold on the strength of the credit of the Government.

Mr. CHINDBLOM. But the Government got something for it and is to pay back the value of what it receives. In this case the Government gets nothing in the first instance.

Mr. VINSON. It gets the adjusted-service certificate.

Mr. FISHER. It makes very little difference whether it is sold. If the Government sells it to the public and the Federal reserve bank buys it of the public, it simply makes two steps instead of one and does not add anything to its security, the fact that it has passed through a third party's hands.

Mr. CHINDBLOM. As a matter of fact, if I have understood you correctly, your approval has been of what you call the mechanics of this process?

Mr. FISHER. Yes.

Mr. CHINDBLOM. As being, of course, preferable to the mechanics of the Patman plan which means merely the issue of currency directly.

Mr. FISHER. Yes.

Mr. CHINDBLOM. You said awhile ago that a reasonable reflation based upon the issuance of currency might not be harmful provided the country were reassured that Congress was not going to embark upon such a policy to an extent which would eventually prove harmful. How could that reassurance be given? Do you think a pronouncement by Congress would be effective?

Mr. FISHER. I do not think it could be given. But we academic folk are accustomed to answering hypothetical questions.

Mr. CHINDBLOM. I understand.

Mr. FISHER. Supposing it could be given, then my answer applies. But I do not believe it could be given. I do not believe you could reassure the country, and the more you try, the worse it would be.

Mr. CHINDBLOM. Of course, every parliamentary body and every government in the past which has started upon this fiat money plan has always intended to remain within limits.

Mr. FISHER. Yes.

Mr. CHINDBLOM. They never intended to go beyond a proper scope. But once you start on it, it is like rolling on downhill.

Mr. FISHER. Yes.

Mr. CHINDBLOM. I was interested a moment ago in what you said with reference to your experience in Germany in 1922 where the taxicab driver told you that the two and a half marks shown on the meter would have to be multiplied. That was used only where they had the old system of marking values, was it not? I was there in 1923, I will say, at the Hotel Bristol in Berlin and they charged me 18,000,000 marks a day for my room, plus a municipal tax of 80 per cent, or 14,400,000 marks, so that I paid for my room 32,400,000 marks. But on the day that I agreed to pay that I bought 5,200,000 marks for a dollar so that I actually paid $6 for my room. In other words at that time values in Germany were based upon the dollar. Was not that your experience?

Mr. FISHER. In 1923 it became so. It was between 1922 and 1923 that there was a very big inflation.

Mr. CHINDBLOM. It just shows the result of starting on the toboggan?

Mr. FISHER. Yes.

Mr. HAWLEY. Doctor Fisher, you said a moment ago that England had balanced her budget. Did she include in that budget her payments to the United States under the war-debt settlements?

Mr. FISHER. I do not think so.

Mr. HAWLEY. Then she has not balanced her budget except at our expense. We are paying on what we loaned to her at about 3¼ per cent approximately $143,000,000, and if she paid her interest and the principal payment she would probably be $160,000,000 to $175,000,000 short of balancing her budget. So that she has balanced her budget at our expense.

Mr. FISHER. Perhaps I should not have said she balanced her budget, but she claims she has.

Mr. HAWLEY. France did that for many years, but she did not include all of the items in the budget.

Mr. FISHER. I do not think we need introduce the intergovernmental debt question here.

Mr. HAWLEY. But it is a very important part of the revenue of this country. We have to balance our own Budget and pay the interest on these bonds.

Mr. FISHER. I was merely making the point that England had gotten into a better fiscal position.

Mr. HAWLEY. That may be true.

Mr. VINSON. Do I understand the gentleman from Oregon to say that his attitude is such that he will join with us in preventing a further moratorium?

Mr. HAWLEY. I think we all stated that on the floor.

Mr. CROWTHER. I would like to ask a question, Doctor Fisher. You stated that England had balanced her budget and that you got that information through the newspapers. I also note that the papers convey to us the information that the balancing of the budget is due in large part to the adoption of tariff rates in Great Britain and they are so overjoyed that they have raised the tariff rates again within the last few days. They find it extremely beneficial. Do you think that has helped them in balancing their budget?

Mr. FISHER. I am not at all familiar with their recent tariff policy.

Mr. LEWIS. Is this a tariff discussion?

Mr. CROWTHER. Well, it is as germane as a good many of the questions that have been asked in this hearing.

Mr. LEWIS. That is not much justification for it.

Mr. CROWTHER. I agree with you. One other question. That is, it has been stated by the proponents of this legislation that the issuance of the $2,400,000,000 in currency is exactly what we need to lift us out of the present depression. That is, what we are suffering from is a lack of currency; that the per capita currency has decreased very materially during the last few years; that this is just the thing we need as a medium for circulation. The bait for it has been put in the record and it shows the distribution of the money in every county in every State in the United States and the news stories have been carried in the papers and the information has been carried to the home folks that in a certain county $1,289,000,000 will be distributed. To what degree would this distribution relieve the existing depression? Would it be a very temporary relief or would it eventually get back into the channels of business? Would it be of any immediate relief? Would it relieve the condition we are in right now?

Mr. FISHER. I think it would have very, very little effect, and would be very, very temporary. It would, of course, help the people who got the money. But in so far, if it did, as I fear it would, destroy or hurt confidence and by hurting confidence would lead to further bank contraction and reduce the deposit currency from forty-five billion to forty-two and a half billion or less, the net effect would be zero or worse.

Mr. LEWIS. Governor Meyer in testifying on the subject of the Steagall-Glass bill gave me to understand that he did not regard that bill as giving the Federal reserve any power to expand the credit elements in the currency, of which you have spoken. Did you hear his testimony yesterday on that subject?

Mr. FISHER. Yes; I understood him to say—I wondered if I could have heard him correctly—that it did not facilitate the issue of Federal reserve notes.

Mr. LEWIS. I would like you to make a brief statement on what your understanding of the matter is, perhaps as the original author of the thought.

Mr. FISHER. The Glass-Steagall bill did two things. It made it possible for member banks who did not have the regulation security, namely, commercial paper, to use some other form of less liquid collateral, to tender it to the Federal reserve in order to secure a rediscount. That is one thing, and I remember Governor Meyer referred to that. He seemed to say that that was the only thing. Of course, the testimony will show exactly what he said.

But the other thing which I understood him to deny—I may not have heard him correctly, because I could scarcely imagine the head of the Federal reserve system saying it and not being familiar with the Glass-Steagall bill which was to help him out—the other thing was it enabled the Federal reserve to substitute Government bonds for commercial paper with the Federal reserve agent in order to get Federal reserve notes. As you know, Federal reserve notes theoretically are United States Government obligations and the Federal reserve can only acquire them from the United States Government by depositing 100 per cent collateral, which hitherto has practically had to be either gold or commercial paper. But under the Glass-Steagall bill it can be Government bonds, and the Glass-Steagall bill by that permission to use Government bonds eased the situation enormously, because commercial paper has gone out of fashion.

The banks for one reason or another have not been willing to use it, so that the Federal reserve banks have not acquired very much of this commercial paper recently and the depression has reduced the amount. They were long on Government bonds. They had plenty of Government bonds. So when they wanted to get Federal reserve notes they either, until the Glass-Steagall bill, could not get them or they had to put up gold almost dollar for dollar, which tied up gold, so there was not free gold. Now, when the Glass-Steagall bill was passed, it became possible for them to use Government bonds. They could substitute Government bonds for the gold that they have already used as collateral, thereby releasing a wonderful amount of gold; about three-quarters of a billion altogether of added free gold was possible under the Glass-Steagall Act. That was the second thing included in the Glass-Steagall Act which I understood Governor Meyer to say had not been changed in that respect, in regard to Government bonds. I think I must have misunderstood him.

Mr. CHINDBLOM. May I be permitted a question?

Mr. FISHER. Yes.

Mr. CHINDBLOM. It occurred to me while Governor Meyer was speaking that perhaps he had in mind the amount of notes that might be issued by the Federal reserve system and that the Glass-Steagall bill did not enlarge the amount of notes that might be issued while, of course, it substituted another collateral that might be issued.

Mr. FISHER. It enlarges enormously the amount of Federal reserve notes.

Mr. CHINDBLOM. I am asking whether it possibly could have been his intention to say that?

Mr. FISHER. I do not know what his intention was.

Mr. VINSON. Certainly Governor Meyer's attention was directed to the question as to the issue of currency and the use of these Government bonds. That question was asked repeatedly.

Mr. FISHER. As I saw it, the main object of the Glass-Steagall bill was not the one Governor Meyer stressed, but the other one. He seemed to say it was only one feature, namely, that the member banks could substitute less liquid collateral than the former kind. The other feature was much more important, as I see it, which he seemed to say did not exist, was not in it. That was that the Federal reserve banks themselves could use Government bonds as collateral with the Federal reserve agent, representing the United States, when they wanted to get notes and not only that, but by this permission they could release the gold that was already handed through that window to the Federal reserve agent by the Federal reserve bank and would cover a lot of gold. So that it untied the hands of the Federal reserve.

As I see, one of the great difficulties that led to this depression was the free gold situation, the fact that we had so little free gold on account of this kink that I referred to, the lack of commercial paper; the need of some promise of this sort to unkink it meant that the Federal reserve system, although it had a lot of gold, could not use it; they had at one time only something like two hundred millions that was free. It was a very dangerous situation, and France knew it, and they made a drive on us at that time to take advantage of that situation. The Glass-Steagall bill took that kink out, gave us three-quarters of a billion more, and not only enabled these two things to be done, but a third thing. It made it safe then for the Federal reserve to go into the open market and buy bonds; and I had supposed that when that bill was approved, February 27, that that would be done instantly, and I am assured that some of the governors of the Federal reserve banks wanted to have it done and would have had it done if they could have had their way. It would, I believe, have put us on the high road to recovery. We would have been on the high road to recovery if it had been done then instead of being delayed as long as it was. Of course, they did do it to a small extent.

Mr. Rainey. Professor Fisher, may I read to you from the Glass-Steagall bill this provision we are discussing? I am reading from page 27:

Provided, however, That until March 3, 1933, should the Federal Reserve Board deem it in the public interest it may upon the affirmative vote of not less than a majority of its members authorize the Federal reserve banks to offer and the Federal reserve agents to accept as such collateral security direct obligations of the United States. On March 3, 1933, or sooner, should the Federal Reserve Board so decide, such authority shall terminate and such obligations of the United States be retired as security for Federal reserve notes.

That is the clause which you are referring to?

Mr. Fisher. As an emergency measure, to run one year.

Mr. Rainey. According to the figures I have had compiled, on the 20th day of April, in the Federal reserve system they had gold in the amount of $3,023,729,000 to cover its note issues and the deposits that it was necessary to keep. This amounted to $1,969,402,000 for notes and for deposits $533,010,850, making a total of $2,502,412,150. Deducting that from the gold reserve left a balance of $521,316,150 as the entire amount that could be utilized under the proviso to which I have called attention. It would not be a billion dollars, as you have said.

Mr. Fisher. It was originally $741,000,000. That was the computation that was made just after February 27, as I recall it.

Mr. Rainey. Then it utilized from February 27 up until the 20th day of April enough gold to leave that balance, so it never utilized over $300,000 worth of free gold.

Mr. Fisher. Very little. The Glass-Steagall Act, as I understand it, has not been used in either of those two ways. It did untie the hands of the Federal reserve banks, but they did not use their freer hands practically for two months.

Now, in my opinion, not only should they have started in immediately when this was passed, but it seems to me if they had realized the importance of this tie-up of gold and how it was causing deflation and making trouble, causing runs abroad, they would not have waited to get this permission which, as I understand it, did not originate with them anyway, but would have asked for it a long time before that.

Mr. RAINEY. Then, the fault of the Glass-Steagall bill was that it did not make it mandatory but left it to the discretion of the majority of the governors of the Federal reserve system.

Mr. FISHER. Yes. That was a mistake. In my opinion, it should have been mandatory.

Mr. RAINEY. Is there any shortage of currency now, in your judgment?

Mr. FISHER. A shortage of currency?

Mr. RAINEY. Yes.

Mr. FISHER. I should not think there was any shortage of currency compared to the whole circulating medium. There is a shortage of fifteen billions in the circulating medium.

Mr. RAINEY. Just what is the difference between currency and the circulating medium?

Mr. FISHER. The circulating medium includes besides the pocket currency, deposits subject to check, $45,000,000,000.

Mr. CHINDBLOM. You mean the shrinkage in the bank deposits from $60,000,000,000 to $45,000,000,000?

Mr. FISHER. Yes.

Mr. CHINDBLOM. Makes a shortage of circulating medium of $15,000,000,000?

Mr. FISHER. Yes.

Mr. CHINDBLOM. Well, that represents the loss of business.

Mr. FISHER. It has caused the loss of business.

Mr. CHINDBLOM. It represents it.

Mr. FISHER. It does not reflect it. That is a mistake. I would like to emphasize that very much. I know many people have that illusion that simply because business has gone down, therefore, there are few deposits. The volume of the deposits determines the price level more than anything else and when you shrink those deposits you shrink the price level and when you shrink the price level, you kill business, because you kill profits.

Mr. CHINDBLOM. Is it not true that when a man is making money he puts more money in the bank and if he does not make it, he can not put it in the bank?

Mr. FISHER. Yes; but it can all be compensated—if it goes too fast or too slow, it can all be compensated by the open-market operations.

Mr. CROWTHER. A nation like Great Britain going off the gold standard, of course, means that they have deflated their currency. Their currency is deflated or revalued. Revaluating it is the expression used. Has a nation at that time and under those conditions any opportunity of getting rid of some of its obligations due with this deflated money, or are they so payable that they can not use deflated money, can not take advantage of it?

Mr. FISHER. The ordinary debts would be payable in pounds, whatever the current pounds were. I do not think they have made as much of a point as we have of gold securities, gold payment securities. We went into that very extensively after the scare of free silver in 1896. So it has become the fashion now.

Mr. Lewis. Pardon me, Doctor. What is legal tender in England? What kind of money is legal tender in England?

Mr. Fisher. I am not sufficiently familiar with the English laws to say. Of course, by custom they have the treasury notes and the Bank of England notes circulating. Those are the two main parts of their circulation, but exactly what their legal status is, I do not know.

Mr. Crowther. Now to continue my question further: You have stated some of the advantages that have accrued to England because of their going off of the gold standard raising the price levels. You say you do not know whether the wage levels have been raised, or not. Of course, that would be a disadvantage to the multitude if the price levels were increased and the wage levels did not increase.

Mr. Fisher. Unless the absorption of unemployment goes on. That is the big thing.

Mr. Crowther. There has been some difference of opinion as to whether unemployment has been reduced. Professor Kemmerer stated his information was unemployment had not been very greatly reduced in England as a result of this. Now, what are the advantages; how long can a country stay off of the gold standard? If no one else went off but them, I can see they would have a continued material advantage; but, with others going off, how long can a country like Great Britain stay off of the gold standard; what are the advantages of staying off, and how long may it continue to be an advantage?

Mr. Fisher. They can stay off indefinitely, and I have been advised by many that they may keep a "managed currency." This is now the idea of a good many men—it was at one time, at least, the idea of J. Maynard Keynes, also the idea of Reginald McKenna, formerly Chancellor of the Exchequer and now president of the largest bank in the world, and also Pethik-Lawrence, who gave a radio address on it recently over a world-wide hook-up, and practically all of the other leading people there. In other words, they are trying themselves to understand this problem, and I suppose there are more people in England who understand this problem than in any other country. They are trying finally to get down to brass tacks on this subject. They want the pound sterling to have 100 per cent purchasing power; they do not care how they get it. They have been tied to the Federal reserve through the gold standard, and the Federal reserve, by not using the Glass-Steagall bill or, before that, not having it passed of their own volition, have given us deflation in this country and all of the rest of the world has suffered by it. Now they have gotten relief from that; they say they are not going to be tied to the apron strings of the Federal reserve any longer and are going to have demand currency. There is a big propaganda over there now for that. What they will do with that, I do not know; I think the chances are they will come back to the gold standard.

Mr. Crowther. If that is such an advantage to them, then is it of material advantage to us to stay on the gold standard? If there is so much advantage to other countries to raise the price level and reduce unemployment, is it to our advantage to stay on the gold standard?

Mr. Fisher. There is no advantage; the only point is we have so much gold there is not any reason why we should go off the gold standard and to go off would scare people to-day. The gold standard is really a fetish to-day, there is no particular value in the gold standard except the people think there is. It was originally some check against inflation. That is the reason we have paper money redeemed in gold, to prevent undue inflation, so as to get a certain amount of stabilization. But to-day with our index numbers and the management of our currency on those, it would be perfectly possible under efficient management to get a better standard of value without gold in most countries; but, in this country and in France, there is no need of going off the gold standard and it would scare people very much to do it. I certainly would not advocate it; but the idea it is sacrosanct is foolish.

Mr. CROWTHER. Of course, that makes some of our people wonder, when we hear the advantages recited that the other countries are obtaining under that plan—it makes some of our people wonder whether we ought to be the goat much longer. Of course, we are the goat because all of those countries who are off of the gold standard are taking advantage of our being on the gold standard and shipping their commodities in here, on which we are losing two ways, and they are taking advantage of that. It seems to me that is what is worrying our people more than anything else and, if it is of such tremendous advantage to others, I wondered why it would not be to us.

Mr. FISHER. Pethik-Lawrence, in his radio address I referred to, spoke of the gold standard as something we must make our servant and not our master. It has been a very tyrannical master, which is true even of the United States, because of this free-gold situation. We have gotten no advantage whatever out of the gold standard in the last few years.

Mr. CROWTHER. Do you think the gold standard might be improved by the adoption of the Goldsborough bill which proposes to stabilize the value of the dollar taking the standard of 1926, as the arbitrary date, of 100 commodities. Do you think that would stabilize the situation in the United States and could we undertake that alone, the United States, without having an international conference regarding it?

Mr. FISHER. Yes, we could; but that feature, if I understand, of changing the price of gold, has been taken out of the Goldsborough bill.

Mr. CROWTHER. It has been taken out?

Mr. FISHER. Yes. As it is now, it is purely a mandate to the Federal reserve to try and reflate and stabilize.

Mr. CROWTHER. There have been other bills; it has been before Congress for a number of years.

Mr. FISHER. Yes.

Mr. CROWTHER. This plan to stabilize the value of the gold dollar with relation to its buying power—commodity prices.

Mr. FISHER. Yes.

Mr. CROWTHER. You are familiar with that, of course?

Mr. FISHER. Yes.

Mr. CROWTHER. And know all about it, and I wondered if you thought we could do it alone, or would we have to consult the other nations of the world—could the United States adopt that sort of a system by itself?

Mr. FISHER. Yes; it could. That is one advantage of that system over most of the plans of gold control. There is another plan that

Professor Lehfeldt, of South Africa, developed by which the Governments of Great Britain and the United States, at least, should control the gold mines of the world and shut them up if they were pouring out too much, and work them at a loss, if necessary, in order that they should pour out enough.

Mr. CROWTHER. You probably noticed that Senator Owen suggested the adoption of some such plan.

Mr. FISHER. That Lehfeldt plan could not be adopted by one nation alone, because all of the gold standard countries have fixed gold parities, such as between England and the United States of \$4.86⅝ cents a pound. As long as those figures were fixed, you would have to have the price levels of the world go up and down together. But if you adopted what was in the Goldsborough bill of 1922 and in a modified form in the first draft recently, it would be possible for the United States to cut itself loose from other countries and the difference would be taken up in changing the rate of exchange. Instead of its being \$4.86⅝ all the time, sometimes it would be that; sometimes it would be \$4.70, and sometimes \$4.90, and so on instead of communicating the change to any other country. However, to-day people are so afraid of any change that for that reason, or whatever the reason was, this was taken out of the Goldsborough bill and now it is simply a mandate to the Federal reserve system to reflate and stabilize. And I believe that, gentlemen, is a very important thing. If we had had that mandate to the Federal reserve before this, you would have had the Glass-Steagall bill, or its equivalent, demanded by the Federal reserve long before they had this job of stabilization on their hands. They would find a way to do it; they would not wait until it was thrust upon them and then neglect for two months to use it.

Mr. CHINDBLOM. While we are on this subject, notwithstanding the fact that so many countries have eliminated their gold standard, international settlements are still all made on the gold basis, are they not?

Mr. FISHER. Yes.

Mr. CHINDBLOM. And must be so made?

Mr. FISHER. Practically so; yes.

Mr. VINSON. You mean affecting our country, or all countries?

Mr. CHINDBLOM. I said "all countries." All countries make their international settlements on the gold basis; even those which are off of the gold standard. Is not that right, Professor?

Mr. LEWIS. The standard must be single, whatever it is.

Mr. FISHER. Of precious metals and usually gold. Of course, gold is the easiest.

Mr. RAINEY. Are there any further questions?

Mr. FISHER. Mr. Chairman, I have brought in here some documents. I do not know whether you would like me to hand them to you for the committee, or not. I have here the hearings on the Goldsborough bill and some reprints of my particular part in those hearings, and mimeographed copies of my forthcoming book on Booms and Depressions. I will be glad to leave them with you, if any member of the committee would care to have them, and I could supply more of these copies of my book if any one would like to have it.

Mr. RAINEY. We would all like to have it.

Mr. FISHER. I wish you would tell me how many you want and I will send them to this committee.

Mr. RAINEY. There are 25 members on this committee. We are very much obliged to you, Doctor Fisher.

(The committee thereupon adjourned until Monday, May 2, 1932, at 10 o'clock, a. m.)

PAYMENT OF ADJUSTED-COMPENSATION CERTIFICATES

MONDAY, MAY 2, 1932

House of Representatives,
Committee on Ways and Means,
Washington, D. C.

The committee met at 10 o'clock a. m., Hon. Charles R. Crisp (acting chairman) presiding.

The Acting Chairman. The committee will please come to order. I have necessarily been absent for the last few days and am not in as close touch with the situation as I would like to be. The clerk advises me that the opposition to this legislation has only two other witnesses, Mr. Janney and Doctor Goldenwiser. The committee has practically two hours and a half to-day and it is the hope of the committee that we might hear both of the witnesses to-day. The Chair will call Mr. Janney. Mr. Janney, will you please give your name and address to the stenographer?

STATEMENT OF JOHN JANNEY, CHAIRMAN EXECUTIVE BOARD AMERICAN SOCIETY OF PRACTICAL ECONOMISTS, VANDERBILT HOTEL, NEW YORK CITY

Mr. Janney. John Janney, originally of Virginia; have lived in Idaho, Utah, and Nevada, and for the last eight months in New York.

I have been interested in the development of resources in the West, agricultural and mineral resources; and during the World War became chairman of the executive board of this Society of Practical Economists, the purpose of which was to mobilize in the Nation a force of practical business men who have to deal practically with these elements that the theoretical economists write about and study, with a view of bringing to play upon these very important subjects a little more practical point of view than we get from the theoretical economists; in other words, a counterbalance.

We found that during the World War a great deal of attention must be paid in such a crisis to the practical aspect of these economic questions. We devoted ourselves in the initial stages of the war to pointing out the necessity for preparation.

A letter was written to the President of the United States in 1915 pointing out that there would be 100,000 officers needed to go to the front, 100,000 officers to remain at home for training and inspection purposes, and that those men could not be trained on short notice; and that there were other things that required much time, such as artillery equipment; the idea being to look into the future as practical men are trained to do. Then when it came to the period of the Russian revolution letters were addressed to the President of the United States pointing out the practical aspects of that question with the view of saving Russia and at the time of the Versailles conference letters were written to the President of the United States and to the Prime Minister of Great Britain, urging the very great importance of considering at the Versailles conference the economic conditions which have led to this crisis that is now upon us, which in our view was inevitable at that time.

The world changed completely from one basis to another as a result of the World War.

I will read you just very briefly from a letter written to the Prime Minister of Great Britain on January 7, 1919, suggesting that—

> advantage be taken of the powers and opportunities of this international conference to the end that the economic condition of the world may be normalized and stabilized during the reconstruction period and longer if found desirable by the nations.

I just want to quote a paragraph on the second page of the letter stating the purposes of that suggestion:

> In order that the peoples of the world may have satisfied all reasonable demands for economic justice * * * in order to provide a sound, just, stable and permanent basis for the economic affairs of the world; in order that nations newly formed may be enabled to exist in some measure of economic freedom in the face of the inevitable gold reserve situation; in order to avoid the economic war that must follow in the present situation from the efforts of each of the great powers to maintain and increase their gold reserves to a point called for by the enormous war debts they have incurred and the commerce that will be required to offset these debts—to avoid the necessary consequence of this in armaments.

I will not quote any more from that communication, but I have a copy which I will offer if any of the members of the committee desire to read it.

Gentlemen, this quotation I have read, mainly for the purpose of showing to the committee that these fundamental economic situations in the world are basic and simple. They can be foreseen and they can be remedied. Nature's laws are simple, when you get them down to fundamentals. The discussion of these questions becomes ramified and complicated when you get into the details, but these details I find in my study of this subject are relatively unimportant and inconsequential. When you get down to first causes you reduce your problem to simple terms.

This condition that exists in the world to-day was obvious prior to the Versailles conference. It was obvious to this Society of Practical Economists that the great work before the Versailles conference was to work out a plan to stabilize money and the exchanges and the commerce of the world.

But that was not done. Political questions were boiling; they were seething; they demanded and directed the attention of the great men that assembled at that conference to the great misfortune of the world which has suffered ever since from the economic conditions that have prevailed—conditions of instability, to prop up the results of which, first this and then that and then the other thing has been done. All of these things are temporary expedients and naturally the patient has grown worse and worse until now the patient is very, very ill, critically ill, and something has got to be done. Something, gentlemen, has got to be done that is a fundamental cure; something that gets at the basic cause of the trouble.

The thing I want to emphasize, if I may, is that things have got to be done quickly and things have got to be done that are curative rather than remedial in this situation.

I listened with a great deal of interest, while I was waiting here to testify, to Governor Eugene Meyer, of the Federal Reserve Board, and Doctor Fisher, of Yale University.

As far as the soldier bonus bill is concerned, I am in complete agreement with those gentlemen and with others who have testified before you to the effect that whether or not the veterans of the World War are worthy of this help they ask for, and whether or not Congress wishes to extend this help that they ask for, Congress can not do this thing.

If I can make plain to this committee why Congress can not do this, I will have performed the most useful service, as I see it, that I can offer to this committee.

The reason why Congress can not issue $2,000,000,000 of Federal reserve bank notes is not because the United States Government would find that $2,000,000,000 was any very large percentage of the wealth of this Nation. It would not be because $2,000,000,000 would be an unreasonable additional increment to add to the cost of the war. It certainly would not be because the section of the personnel of the veterans who are in need and want or are in distress should not be given the help that they have asked for. It would be because we are asked to give a pledge or an obligation which we have not the ability to redeem.

I want to make, if I may, the answer to this question of why we can not do this thing in plain simple language. I would like to get right down to fundamentals.

If we issue under this bill $2,000,000,000 of Federal reserve bank notes—whether you put them in the form as provided in the Patman bill or the Owen bill or the Lewis bill—you must remember that you have agreed when you issue these notes to pay the bearer on demand in gold. We get right down to the instability of gold.

It is a serious thing for us to have to admit where we have built a huge structure of credits on our currencies and the currencies rest upon gold, that that gold is unstable. But if we do not look that fact in the face and if we do not find out exactly why it is unstable and in what respect it is unstable, and what, perchance, we may do to stabilize it, there is a wreck ahead for civilization.

It seems to me, gentlemen, that we have gotten to the point where we must recognize the fact that gold is subject to the law of supply and demand, and that reserve money is subject to the law of supply and demand, just as any other commodity is subject to the law of supply and demand.

I do not believe that there is any difference of view among economists on that subject. They draw charts for you, to show you the law of supply and demand, how the supply is going up, at the rate of the annual production of gold from the mines of $200,000,000 a year, and they draw on that chart a line to show you that the requirements of money are increasing at about the same rate, $200,000,000 a year, and from that they deduce the conclusion that there is plenty of gold and that gold is stable.

To get to that conclusion, though, they leave out the principal fluctuating factors that constitute the variable elements in the demand for gold. So that those charts which show the stability of gold do not take into consideration all the fundamental elements. The most violently fluctuating elements in the demand factor for gold and for money reserves are left out.

You have got to consider the fact that practically all of the great bankers of the world have announced to the world that gold is fluctuating and gold is not stable.

At this point, it might be well to read from authorities of very outstanding repute in the world on that subject.

Quoting from Montague Norman, former governor of the Bank of England:

> Real stabilization will come about only when we realize that gold itself fluctuates in purchasing power as does the silver and copper, wheat and cotton, and when we have taken steps to make our monetary system really the servants instead of the masters of society.

Owen D. Young has made this statement:

> The stability of money goes to the very basis of life and when any sudden change affects the purchasing power of money, it touches every kind of obligation and every kind of moral question.

Sir Josiah C. Stamp of England made this statement:

> When I have said quite seriously, as I have done on a number of occasions, that the problem of the price level is the most important single problem of our age, I have been accused either of exaggeration or flippancy. "What about trade depression in the basic industries, unemployment, labor unrest, class hatred, high taxation, and the rest?" My answer is that the problem of the price level is fundamental to a solution of them all. The future outlook is quite uncertain. We treat what happens as an act of God and hope for the best as we go on making civilization more and more complex. We make it more dependent for its survival upon a single factor and that we treat empirically and fantastically.
>
> Compared with 10 years ago the number of people who catch a fleeting glimpse of the meaning of the problem when they are thinking of it especially is increasing. But still it forms no real background to their minds and is lost sight of altogether when concrete problems are under discussion. That is the sad tragedy of the present situation. With business men there is still a sneaking feeling that reference to the price level and index numbers are academic and highbrow, not practical and immediate. They move unfirmly among its conditions and feel uneasy as compared with the sureness with which they discuss comparative manufacturing costs, or a fair wage, or six months off for the income tax. When they listen to any close analysis of the problem they claim curiously enough to be exempt from the necessity of understanding it because they are essentially practical. And yet it is the most bitterly practical of all questions.

If we issue these $2,000,000,000 of Federal reserve notes we will agree to pay on demand in gold. If we do that, the gold in the United States is subject to that additional demand factor.

Their statement of April 20 shows that there are $2,544,000,000 of notes of the Federal reserve bank issued and outstanding.

The deposits in the Federal reserve bank under that statement amount to $2,131,371,000.

Forty per cent is required to be kept in gold against the note circulation of the Federal reserve bank and 35 per cent is required to be kept against the deposits. We must remember, gentlemen, that the 40 per cent against those notes and the 35 per cent against those deposits is a minimum amount, which means that the Federal Reserve Board in its judgment can work down to that amount if times are propitious. But it also means that if times are dangerous and gold is in a great fluctuating state as far as the demand factor is concerned, safety requires them to increase the 40 per cent. This is the vital point. The soldiers bonus bill comes on the heels of an act that recently passed through Congress which practically appropriates for the use of the Federal Reserve Board in their discretion, nearly all of what they call free gold. There is a tendency to get into error there.

This free gold in the Federal reserve bank is now largely being used as a reserve, in addition to the 40 per cent, because of the small amount of eligible paper. Now, that free gold has been appropriated under the Glass-Steagall bill, and the Federal Reserve Board has the right to issue additional notes, supplementing the absence of the acceptable paper with Government securities.

I have come here with the utmost resolve to be perfectly frank with this committee, yet I now find myself somewhat embarrassed as to how far to go because of the danger of being misunderstood and the danger of spreading the feeling of lack of confidence. I would like very much to address myself to this subject in such a way that I do not do that. But it would seem necessary that you analyze this situation to the point of clarifying the reason why you can not issue these two billion dollars of notes. And we owe it to the veterans in this country, if we deny them the right to appeal to us for help in this situation, especially those who are in need and in want—we owe them to make it clear why we can not do it.

We have something like $213,000,000 of free gold that is left over, as I have computed these figures from the statement of April 20, with the assistance of one of the clerks in the Treasury Department, and there are some computations here that might be questioned. For instance, this $12,000,000 held in the 5 per cent reserve account, whether that should be in addition to the gold reserve or whether that is a part of it. But those items are small in consequence.

But the total gold reserve in the Federal reserve bank on Aprll 20, was $3,023,729,000. Subtract from that the 40 per cent on the notes in circulation and the 35 per cent for deposits plus the amount of notes not covered as to the 60 per cent by eligible paper and you have $2,810,000,000. This gives you $213,729,000 of free gold.

I have taken out the $613,000,000 of eligible paper in making that calculation. You have got $613,000,000 of eligible paper, which is equivalent to gold under the law, but I have not taken out of that the amount that you will supplement as eligible paper under the Glass-Steagall bill when you add in the Government securities to your eligible paper, enough to bring you down to 40 per cent.

I want to point out that you can not bring this down to 40 per cent under present conditions.

The Federal Reserve Board will not go that far in the administration of the Glass-Steagall bill—they will not take up all the slack and if they did bring it down to the 40 per cent, there would not be any left for the soldier bonus.

Doctor Fisher said in his beautiful and interesting exposition of this subject that we are suffering from two diseases, the money disease and the debt disease.

I regretted that Doctor Fisher stopped at that point. When you have two such diseases as that, we need a diagnosis to show us the cause of the trouble—the basic, fundamental cause. You can not have a remedy for a disease that is intelligently applied until you know the cause of the disease.

I can perhaps be of most service in going beyond what Doctor Fisher has said by way of analysis attempting to work into the cause of these diseases.

The money disease must be understood. Money in its strict sense is the simplest thing in the world. But when you get into the credit structure of these nations, where one who wishes to engage in trade has not the money and still wishes to trade, and arrangement is made whereby credit is substituted for money, and one credit is pyramided on top of another credit and another credit pyramided on top of that credit, it brings us into the complicated mazes of the credit structure. That credit is not money.

A man has a horse and he wants to sell the horse and buy a suit of clothes; he goes to the tailor and the tailor says, "I do not want a horse, but I would like to sell my clothes." This illustrates the necessity for money. The man who owns the horse finds a buyer who pays him something of value equal to the value of the horse, which the tailor can accept and pass on to others. That is money. The only money we have in this country which is money of full value, where the value is intrinsic is gold or gold certificates.

If he takes a Treasury note, that is a promise of the Treasury at some later time to pay that money. If a Federal reserve bank note—that is a promise of the Federal reserve at some later time to pay that money. The buyer of the horse may give his own personal note at 30, 60, or 90 days to pay.

These various forms of obligations or promises to pay money, the date of payment being deferred and all of them contemplating that payment will be made to some holder, at some future time, in money of ultimate redemption, which is to say the full value money of the nation, go to make up our credit structure.

This credit structure has grown and grown until its dimensions are out of control. Our efforts to reduce it have caused it to grow larger. By paying off a part we have actually increased the weight of what is left because we have, by increasing the demand for gold, so increased its value that we have increased the actual burden of paying off what is left, we have destroyed our ability to pay. This is the debt disease. And the diagnosis finds us face to face with the study of the fluctuating demand factor for money—and here we find the cause of the debt disease.

Money then, is what we have designated by law as the thing of value with which all debts are ultimately to be paid and this thing so designated fluctuates in its value as does all other things with the variations in its supply or in its demand.

We have designed, under our system of civilization in the Occident, a plan whereunder we use gold to perform that function of money. In the Orient for centuries past silver has been so used and the stores of wealth of Asia in the form of silver are important to them and to their ability to trade and to prosper just as our stores of wealth in the form of gold are important to us and a diagnosis that brings us to the basic cause of our depression must lead inevitably to a study of this relationship, because the money of one system can be converted into that of the other.

I will review briefly the steps that lead us into our present monetary situation:

Until right after the Napoleonic wars, we had gold and silver as money in Europe and America on a bimetallic basis. Up to 1873 we had gold and silver in this country on a bimetallic basis. But I wish to say that there was never a time in the history of this country when we used both gold and silver as money on a sound and equal basis, because there was set up two yardsticks of value and because there was absent the mechanism to adjust the demand-supply ratio of the two metals, and as a result there was lacking the element of stability.

When we first formed this country, we had gold and silver on a bimetallic ratio basis.

In the first instance, we had a ratio of 15 to 1; you could come with 15 ounces of silver and get an ounce of gold or its equivalent. They rushed over here with their silver, because we paid a bigger price than any other nation.

France and the Latin Union had a ratio of 15½ to 1. We found that we had no gold in this country, and that we were getting silver, so we changed that ratio to 16 to 1. Then the shoe was on the other foot and silver went to Europe where the highest price prevailed and we got no more silver.

Silver was demonetized in the United States when we adopted the ratio of 16 to 1, so far as practical purposes and effects were concerned.

There was a committee of Congress that made a survey of our money situation during the 16 to 1 ratio period and submitted a report to the Congress that the total amount of silver dollars at that time in this country was only $5,000,000.

In 1873 we formally demonetized silver in the United States. Then came the depression. Commodity prices were forced to lower levels, and then, as an intended remedy came the Bland-Allison Act, followed by the Sherman law, which was also an unsound application of silver to money. It required the United States Treasury to buy $2,000,000 worth of silver a month and coin it into silver dollars. The silver in the dollar was worth maybe 50 cents or 60 cents and yet the dollar was circulating as part of the money of the United States.

The United States Government, in order to make good the difference required the Treasury of the United States to redeem that money on demand in gold.

In other words, that was "token money". In practical effect it was a promise to pay of the United States Government, printed on a piece of silver instead of on a piece of paper.

So there has never been a time in the history of the United States when we had silver and gold as money on a sound basis, and when I am pointing out the unsoundness of our gold situation, which I am now going to attempt, I want to make it very clear that I am not in favor of an unsound application of any other money, because I am showing up the weaknesses of the gold situation.

Now, what is the unsoundness of this gold money situation of these gold-standard nations?

For us the commodity price level is the reflection of the value of gold. This can be stated, in other words, as "the purchasing power of money." The commodity price level being a world condition rather than a local condition is effected by reserve money variations rather than by national currency variations.

When England demonetized silver in 1819 and thus reduced her reserve money situation the world commodity price level fell about 30 per cent. When silver was demonetized in France and in the United States in 1873 the commodity price level fell almost another 30 per cent to the lowest point prior to the present depression. Both of these major phenomena are pictures of the supply/demand law as applied to money. Fluctuations of commodity values so hurtful to prosperity have always followed important changes in money volumes.

What then is the unsoundness of this gold money situation as applied to present conditions. In 1929 the Central Banks of Europe reflected the result of the Bank of India selling silver in such a way as to destroy Asia's confidence in her silver holdings. Hundreds of millions of dollars of silver capital in Asia were converted into gold exchange in one way or another. The threatened depression of silver took the form of setting up a new and abnormal demand for gold. This has resulted in a scramble for gold and in upsetting confidence in the stability of the credit structures of gold standard countries.

So when this inflated condition of the central banks, reached a state of affairs in the year 1929—

If you will excuse me I will read the exact figures as showing the situation with Europe in 1929.

Europe, with a population of 525,548,000, had a total gold reserve of $4,749,694,000, which was $9.03 per capita. As against that gold reserve, there was a total gold currency issue of $22,979,000,000, which was 20.6 per cent.

Mr. VINSON. That is a gold reserve of that amount?

Mr. JANNEY. Yes; a gold reserve of four billion and odd dollars against a gold currency issue which was payable in gold of $22,000,000,000, which put Europe on a 20.6 per cent basis.

These central banks inflating their credit structure, illustrates an extreme of what has been recommended by Professor Fisher and by the Federal Reserve Board, and you will notice, they always make it subject to a discretionary supervision. The sequel of that European situation is that practically all the nations of Europe are off the gold basis except France. They have been driven off the gold basis by the loss of gold.

The United States of America, gentlemen, can not go off the gold basis. The Bank of England could see their gold reserves dwindle and get down to a point where they were no longer able to redeem and pay in gold and they could say, "We are off of gold." They could say, "These pound notes are payable in gold, but we will not pay in gold."

That was not a vitally serious situation with Great Britain. The contracts of Great Britain mainly were drawn to be payable in pounds, shillings and pence. The paper money of Great Britain is in the main the basis of Great Britain's transactions. The chief need Great Britain has for gold under her system is to settle her foreign trade balances. But what will happen in the United States if we go off the gold standard? The Pennsylvania Railroad has a bond issue which comes due of $250,000,000, we will say. Those bonds are now usually paid in currency through the banking system, by checks. Those bonds, however, are payable under their provisions in gold of the present weight and fineness and the reason why the currency is accepted in payment of those bonds is because we can go to the Treasury or the Federal reserve bank and get gold for it. But the moment you let a situation develop where that gold is more valuable than the currency, which is exactly what will happen the minute the United States of America goes off the gold basis, the holders of those bonds and those gold obligations will naturally demand the higher value money.

Mr. ESLICK. Will the gentleman yield for a question? There is less than $5,000,000,000 of gold in this country, and it is estimated that there are probably private, municipal, and national bonds aggregating fifty to a hundred billion dollars payable in gold. How are you going to pay all of that?

Mr. JANNEY. There are $153,000,000,000 of bond obligations—Government, State, municipalities, incorporations—a large part of which are payable in gold; and we have got to stay on the gold basis because of the fact that those obligations which are payable in gold will be demanded in gold and the failure of the issuing corporation to meet such demands will precipitate a receivership with possible insolvency and bankruptcy.

Mr. ESLICK. May I ask you this question? Let us say that the holders of the first $5,000,000,000 of these bonds go to the Treasury and get gold. How are you going to pay the rest of them?

Mr. JANNEY. You can not pay the rest of them. Therefore we must see to it that the confidence element is not broken down, so that those fellows do not go and ask for that gold. That is just why you have got to give careful consideration to this situation in the Federal reserve and in the Treasury of the United States.

Mr. ESLICK. Your idea then is to pay in confidence instead of in gold?

Mr. JANNEY. No, you can not pay in confidence.

Mr. ESLICK. Well, you can not pay in gold, can you?

Mr. JANNEY. You can not pay in gold.

Mr. ESLICK. Then how are you going to pay?

Mr. JANNEY. We have got to maintain our present system, our present credit structure, and we have got to study the fundamental basic situation, and find out what things we can do to maintain the confidence element. That is what I will go into a little later on, because that is the problem before this Congress and the problem before the people of the United States.

We can not go off the gold standard and take ourselves out of a tight situation as England has done and these other nations of Europe have done.

We have got to maintain the gold standard, and at the same time we do that we have got to maintain confidence in the financial structure we have built up here. Ours is an unusual problem.

Now, as I said, there are two things, the debt disease and the money disease. Corporations have issued bonds, municipalities have issued bonds, the Government of the United States has issued bonds, private individuals have issued notes, and $58,000,000,000 represents the amount of money that banks owed depositors about 12 months ago and now $45,000,000,000 represents that sum of money which the banks owe their depositors.

If you consider the amount of money that the banks owe depositors, you must realize, gentlemen, that we have got to maintain confidence in the currency of the United States, because it is the currency of the United States that is back of the bank deposits.

You must also maintain confidence in the reserves of the United States, because it is the gold reserves of the United States that maintain confidence in the currency issues.

We have built up these debts to a point where we can not build them up any more. We can not safely incur additional indebtedness.

The reason is because of the fact that this volume of debts that has been built up in the United States has been built up based on a very high earning power of all our corporations and of our industries and we also had a reasonable earning power of farmers and productive industries in the United States.

In the last two years we have gone through such a change as far as earning power is concerned, that we are on an inflated basis with reference to debts and we can not increase the debts. But how are we to pay off and reduce these debts unless we restore a profit earning basis to productive industry which is the source of our national wealth.

I would agree with Professor Fisher that we could go back from the $45,000,000,000 of bank deposits pyramided to the $58,000,000,000 provided we were in the earning condition we were in 1927 and 1928.

But what was our situation at that time?

Our corporations engaged in the manufacturing industry and those engaged in the production of commodities, copper and cotton and things of that kind were operating against a fictitious trade balance. We were living in a fool's paradise. We were lending the money to European nations with which to buy our products, and that prosperity that we built up in those years was a false prosperity.

We would be very much better off to-day if we had gotten down then, at that time, to a basic proposition which we now face of remedying the thing that is wrong.

So I say that if you attempt now to increase the amount of debts of the banks, that banks owe their depositors, and add $15,000,000,000 to that, you are going to break down the confidence in the banks and where we had nearly 2,000 bank failures last year, that was approximately the figure, we will probably have 2,000 year after next, if we go into that type of pyramiding. We have got to get down to a point where we realize these things. If the banks issue $15,000,000,000 of credits to their clients, the customers of the banks, the Federal reserve bank has got to issue additional money to the banks. If the Federal reserve issues that additional money, they must carry additional reserves upon which to superimpose it, or else they are going to take the risk of withdrawals of gold from the Federal reserve bank.

Doctor Kemmerer was on the witness stand about three weeks ago before one of the Committees of Congress when he was asked the question, Were we going to lose any more of our gold to France, he answered, he did not think there was any danger of that, because the Glass-Steagall bill fortified that situation. But within a week there was such a substantial withdrawal of gold that the bankers of New York held a meeting and informed the French that if they were going to continue to withdraw gold, they could take it all, all that they had on deposit.

We do not know what the withdrawals of gold are going to be. We do not own this gold. We must recognize the fact that the Federal reserve bank is offering every day to sell gold.

If you have a house or a farm or if you own $10,000,000 worth of bonds of the Government and you think things are getting shaky in the United States, you sell those $10,000,000 worth of bonds and convert that money into a bank deposit in the form of currency and then buy exchange with that bank balance and later $10,000,000 of gold is withdrawn to the Bank of France or where is the safer place for it. You have got there an illustration of a type of transaction that is going on all the time.

When we have broken down confidence, that expresses itself in withdrawals of gold. An important part of the gold that is in the world to-day is in the form of what they call capital in flight. I dislike to use these technical terms, because I think they soon become dislocated by misuse. But capital in flight seems to me a good term now. Capital in flight is where you have made a deposit expecting at any minute to withdraw it, and you put it in various forms. It may be a deposit in a savings bank, it may be an investment in Government bonds, but it is always in some very liquid form of investment.

When you reach a stage in the history of your financial affairs where there is a great rush to convert property into the form of a liquid investment, you must keep larger gold reserves on hand, because if you do not, the rushes to withdraw gold will induce in turn additional demands for gold purely from the fact that you are not fortified to meet those withdrawals of gold.

Mr. Eslick. We have the same money standards now that we had in October, 1929, when the crash came, have we not?

Mr. Janney. The standard is 23.22 grains of gold to a dollar. That has not changed.

Mr. Eslick. We have the same general standards of currency, of gold and currency based on gold?

Mr. Janney. They are the same. Their value is not the same.

Mr. Eslick. Certainly not, there has been a continual downward trend in confidence and in business, has there not?

Mr. Janney. Yes, sir.

Mr. Eslick. We have now reached the point where we have about the lowest standard of commodity values and confidence that the country has ever seen.

Mr. Janney. Yes, sir.

Mr. Eslick. What is your remedy to get us away from those rocks?

Mr. Janney. If the gentleman will be kind enough to forebear that question, I would rather work a little further toward that question so that we all are sure that we understand what the causes of the disease are.

Mr. Eslick. I am speaking as one member of the committee, but I am sure the committee would be glad to hear of some remedy to get away from the present standard of conditions. We know what the conditions are, but how to get away from them is what we want to learn.

Mr. Janney. Pay off your debts, reduce your loans, retire your bonds, get yourself on a sound basis, or else put something in under the foundation of your credit structure. Deflate your credits or else increase currencies and increase the reserves, back of the currencies.

Mr. Eslick. Will you tell us how to put that something in under it and how to pay these debts with 25-cent corn and 5-cent cotton and 3-cent hogs and 3-cent cattle?

Mr. JANNEY. I will attempt to do that, if you will permit me, as I go on.

The ACTING CHAIRMAN. The rules of the committee allow a witness an hour and you have only about 15 minutes left.

Mr. RAINEY. I would like to hear Mr. Janney discuss the effect of the issue of $2,400,000,000 of new money. That is what we want to hear about from him, if he will discuss that in the brief time remaining.

Mr. JANNEY. That increases the debt disease to that extent and it increases those debts in the form of obligations payable in gold. It brings the reserves of the Federal reserve system down and also the reserves of the United States Treasury; our total gold reserve in this country is brought down to the danger point by the issuance of that $2,000,000,000. When it goes to the danger point, you are going to find that there will be withdrawals of gold to be taken out of a place where it is dangerous or questionable and removed to some place where it is safe. You will find gold in flight from the United States.

Mr. RAINEY. Would that be desirable or not?

Mr. JANNEY. That would ruin us, because we can not go off of gold. If we could do like England did, I do not think we need fear that situation at all. I think England has been benefited by going off of gold. Bur England, you must remember, gentlemen, is being directed in her economic and financial affairs by men who have studied these things for their lifetime. They have studied this subject all their lives and their fathers before them during their lifetime. They have students of these economic questions in the position of perpetual advisers. English affairs have been conducted with the utmost skill, in my judgment.

Mr. VINSON. In what way were the national securities of England, the securities of its subdivisions paid before England went off the gold standard?

Mr. JANNEY. They were paid in pounds, shillings, and pence quite generally.

Mr. VINSON. Were any of them payable in gold?

Mr. JANNEY. Sometimes.

Mr. VINSON. What was the amount of securities payable in gold in relation to the amount of gold in the English Treasury?

Mr. JANNEY. My understanding is that there were two things in connection with that. In the first place, in England generally there is very little of their obligations that are made payable in gold. They are payable in pounds, shillings, and pence.

Mr. VINSON. What I am trying to get at is how much of the national securities and those of the subdivisions of England were payable in gold before England went off the gold standard?

Mr. JANNEY. I could not answer that. I do not think there is any figure available, I do not think there is any available data on that point; but except for payments outside of England it was small; probably 10 per cent.

Mr. VINSON. If there is no available data, Mr. Janney, why do you say that it is probably 10 per cent?

Mr. JANNEY. I do not think there is any correct data on that.

Mr. VINSON. Then why would you guess at 10 per cent?

Mr. JANNEY. I would only guess at 10 per cent with the distinct understanding that it was a guess.

But I will go further in answer to your question.

If the English pass a law that these gold obligations are payable in English currency, that law is valid. If we pass a law that the bonds of the Pennsylvania Railroad Co., for instance, that are now payable in gold, should be payable in currency, that law is in violation of the right of the citizens of Pennsylvania to sue the Pennsylvania Railroad in the courts of the State of Pennsylvania. The laws of the United States would not prevail in that action, and the citizen of Pennsylvania would still have the right to demand payment in gold. So the requirements in this country would be very complicated. The State of Pennsylvania could not pass such a law, because of the constitutional prohibition that a State can not pass a law that impairs the obligation of contracts.

Mr. ALDRICH. Mr. Janney, do not you think it is a little early to reach the conclusion that going off the gold standard by Great Britain is going to be beneficial to them in the long run?

Mr. JANNEY. I certainly do think so; but I say it has not hurt them up to now. There is a benefit and a penalty, and up to now they have realized more from the benefit than they have had to pay the penalty. But you are getting now, sir, into a question that is very, very intricate, and it involves the fact that the move of Great Britain to go off the gold standard is one of a series of moves on the chessboard. There is an economic war going on between Great Britain and the United States. That is merely one move. It is like moving up your knight to protect your castle on the chessboard.

Now, you must see the difference between England and America to get that picture. England is a great manufacturing country. England draws raw materials from all over the world into England, manufactures and fabricates them, and sends them out as finished products into the markets of the world. England is a great embodiment of centralization. Now, for England to reduce the costs of raw materials and to reduce the costs of foodstuffs is lowering relatively her costs of manufacture. For the United States, where we are dependent upon productive industry, where we have as our basic source of wealth the profits from our productive industry—for us to lower the prices of commodities means to ruin the source of our profits which drift through into the manufacturing profits by means of the fact that they furnish the great home market that we have.

The great home market in America is dependent upon high commodity prices. We are interested in the stabilization of the dollar from two angles: first, to maintain the stability of the purchasing power of the dollar, and, second, to maintain the profits to productive industry.

Now, Great Britain is not interested in maintaining the profits to productive industry, but on the contrary Great Britain takes advantage, and in three different periods in the last hundred years has taken advantage, of the fact that it can alter the volume of money in the world and create a different status whereby you reduce the prices of commodities by increasing the value of money.

Mr. ALDRICH. As I understand it, England contracted the volume of her currency at the time that she went off the gold standard, rather than expanded it?

Mr. JANNEY. Yes, sir.

Mr. ALDRICH. Do you know anything about that?

Mr. JANNEY. That is true; but they preserved their gold. Their gold was only subject to demand for foreign settlements, the payment of foreign debts, and could not be taken out internally. Now, our gold is subject to internal withdrawal; and that is the great danger, in my view, in issuing additional claims upon that gold.

Mr. ALDRICH. But if we adopt a plan like the Patman plan, and go off the gold basis at the same time, we are taking, as far as the Congress is concerned, a very different attitude toward the situation than Great Britain did when they went off the gold standard; because they, rather than expanding their currency, contracted it at the time they went off the gold standard.

Mr. JANNEY. Of course it would be a benefit to us to expand our currency, as a deflation remedy. That is a remedy for deflation—to expand our currency. But we must support our currency by reserves but you do not create a profit to productive industry in this country by expanding your currency unless at the same time you expand your commerce. You have got to restore normality of commerce in conjunction with the inflation of your currency, or else you are still in a position where productive industry is not on a profitable basis.

Mr. McCORMACK. Mr. Janney, you said that one of the necessary elements is to maintain the stability of the purchasing value of the dollar?

Mr. JANNEY. Yes, sir. That is the "dollar disease" that Doctor Fisher speaks of.

Mr. McCORMACK. What machinery would you suggest that might be used to maintain that stability?

Mr. JANNEY. I would get the cause of the trouble firmly before my view, and then I would remedy the cause. Now, the cause of the trouble of the fluctuation in the value of the dollar does not come from any variation in the production of gold. You hear something said and written about the production of gold; that it is going to fall off. That is a very slight factor. The variation in the value of gold comes about from the fluctuation of the demand factor. The demand factor of gold is very, very fluctuating. For instance, when Great Britain passed the law that put the Bank of India on a gold reserve basis. In order to build up the gold reserve to maintain the changed condition of her currency—it was in the plan to melt up and sell her silver rupees—and when the Hilton-Young commission was sitting in London and determined that that plan was going to be enacted, it meant that enough silver was going to be suddenly thrown on the silver market to equal one or two years' production of silver.

We all know that that will destroy the market value of any commodity. Imagine yourself as a director, for instance, of the Bank of Hong Kong in China, where you have your capital in silver, approximately a hundred million dollars. What would you do if you knew that the value of the silver was going to be knocked down? You would convert that capital into gold by some route, and when you convert that capital into gold you are creating a demand factor on your gold reserves that is in amount so thoroughly abnormal that you immediately have a potential increased value of that gold that is so great that there is superinduced a rush for gold. There is a scramble for gold. There is liquidation of securities. You put your securities through a process of liquidation. You want to get your money in liquid form. Everything is going down. Money relatively is going up. You convert property into money. You put it in the savings bank, or perhaps you put it in the form of bonds; and when you do that, you are withdrawing it from the uses of money that involve long-time loans and put it into uses that imply short-time loans. Money is withdrawn from profit-earning channels of commerce and trade, and you are shutting down your activities in creative business. You are killing the goose that lays the golden egg.

Now, it is the blow that England has aimed at the value of money through her old familiar plan of attacking the value of Asia's money, creating a scramble from Asiatic money into the money of the Occident, that is the answer to that question. There is an artificial demand set up for gold, and there is your basic cause. You can not say what is the cause of that, you can only say who caused it.

Now, then, if you want to cure that, you have got to make a counter move to the move that Great Britain makes. You have got to move up and maintain a dominant position.

Mr. VINSON. What is that move?

Mr. JANNEY. To stabilize the moneys. You have gold money in this country and you have silver money in Asia, and you must stabilize silver in terms of gold. The trouble is that I can not stand here and use plain English to you, because the word "stabilization" has been ruined, by the so called stabilization plan for cotton and wheat and that is a misnomer.

Mr. VINSON. Just tell us how you would do it. Maybe we can understand that.

The Acting CHAIRMAN. What is the remedy?

Mr. JANNEY. We keep getting back to that question. I do not know whether we are prepared for that question or not, but I yield to the better judgment of the members of the committee. I wished to analyze the "dollar disease" as well as the "debt disease," because they both get down to the same cause. To review this picture briefly, Asia is so far away from America that we think we can ignore the conditions of Asia's money and we can go on a gold basis regardless of what Asia does. Asiatic silver money becomes a potential demand against gold, creating such tremendous fluctuations in the demand factor of gold that you raise the value of gold 30, 40, 50, or 100 per cent above normal, by a sudden violent demand coming in. At the same time you create a lack of confidence in what is the bottom of that situation. Now what has happened? You have taken your yardstick of value—your gold—the thing that you measure the value of things by, and you get to the point where that becomes the object of an investment; and it becomes the best investment a man can make when conditions reach the point where the central banks of Europe were in the position I have quoted to you. Then comes a demand for a billion dollars or more from Asia.

I will read, if you wish, the testimony of some very competent witnesses on that subject, where a billion dollars is placed as the minimum estimate of these cover operations to insure Asia's silver capital against this kind of depreciation. When you withdraw a billion dollars in this way from the arteries of trade in America and Europe and place it in the form of a liquid investment, you have upset the equilibrium of your banks of issue; and we should not permit

200,000,000 or 400,000,000 ounces of silver, which can be purchased for a few dollars, to be used as a bludgeon to strike us over our heads. If you are being held up in a dark alley, and the man is going to hit you over the head and take away from you your property, and you can buy that bludgeon for $5. Would you buy the bludgeon? That is the situation on silver. We must stabilize silver, gentlemen, or else we must have these depressions.

Now, when I say "stabilize silver" and I use the word "silver" I am reminded of Doctor Fisher when he said he could not use "inflation." "Reflation" is the word he used. Why did he use the word "reflation"? He used the word "reflation" because "inflation" had become abused so by proponents of certain crazy ideas that that word had to be disregarded. We must disregard the use of the word "silver" because silver has been abused by the advocates of bimetallism, by token-money advocates and various and sundry plans for doing something to silver. This bill that is before the Senate to-day reviving a plan for token money, the bills reviving the 16 to 1 proposal of Bryan, the bill proposing silver payments for war debts, those crazy things, essentially unsound, that do not stabilize silver at all, immediately bob into your minds the minute you use the word "silver." The central banks of gold-standard countries have got to pay attention to the stability of silver and the stability of gold, because they are interwoven.

Now, then, the remedy. I would suggest that the Treasury of the United States, in order to effect the stabilization of silver, put into its reserves—let us coin a word, and let us call it "auxiliary gold."

Let us take the silver that we take off of the market, take it away from the bulk of silver that is rated as a commodity, and put it in the vaults of our Treasury as a reserve, and let us call that auxiliary gold; then let us avoid the pitfall of bimetallism and token money; and let us use this silver, for whatever its value is as measured in terms of gold, as a reserve.

Now, there is nothing unsound at all about that. You have established a new use for silver as money. You have put silver in your reserve as gold is in your reserve. You have monetized silver on the basis of the gold standard. We do not, any longer, have to carry the bulky metal around with us. We have a demonstration, through the gold certificate, that the title can remain with the paper and that the bulky commodity can remain on deposit. A gold certificate is good all around the world. Anywhere you go, this form of certificate of the United States Treasury is good because it is not a promise to pay. It is not an obligation. It is a storage receipt. It is like the check for your trunk. You can pass the check for your trunk over to A, B, or C, and they can go and get your trunk. Now, you can utilize that fundamental and well-established fact that the bulky metal can be separated from its ownership in the form of title paper. You can deposit this silver in your reserves of the central banks of gold-standard countries against bearer certificates payable in its gold equivalent in value. Then the big point comes as to the amount that you so deposit.

You deposit the silver as it is necessary to maintain its stability.

The Acting Chairman. Mr. Janney, I have to notify you that you have used an hour. That is the maximum time, under the rules of the House and the committee, unless the committee sees fit to extend your time.

Mr. Aldrich. Mr. Chairman, I would like to ask one or two very brief questions.

Mr. Crowther. Mr. Chairman, the witness is just getting to a very interesting point, and I ask unanimous consent that he be permitted to proceed for 15 minutes from the point where he has now arrived.

The Acting Chairman. You hear the request. Is there any objection? [After a pause.] The Chair hears none. Mr. Aldrich.

Mr. Aldrich. How much silver would you have to take into the United States Treasury to have a stabilizing effect upon silver?

Mr. Janney. Four hundred million ounces is the amount that is estimated was used to break the silver market. The 400,000,000 came in this way: Three hundred and fifty million silver rupees from the Bank of India; the coins of Great Britain and other European nations were melted up; they took in trade from Russia silver plate, and it aggregated something like 400,000,000 ounces. If we had purchased 400,000,000 ounces of silver at the right time, in 1928 and 1929, there would not have been any depression in the price of silver due to that being thrown on the market. Now, if you wanted to stabilize the price of silver to 60 cents an ounce, which was the normal price before the World War—before India went on to gold—to give you a very, very safe, conservative estimate, 1,000,000,000 ounces of silver placed in reserve in the Treasury of the United States would be more than abundant to reinstate the 65-cent price of silver.

Mr. Aldrich. How much would that cost in gold?

Mr. Janney. At the present price of silver, let us say 30 cents an ounce, that would be $300,000,000; but you would not have to pay $300,000,000 in gold for that silver, because you could issue silver certificates against a part of that silver after you had established the stabilization principle.

Mr. Aldrich. How much silver is there in the world to-day?

Mr. Janney. There is less than 12,000,000,000 ounces, by the most conservative possible estimate.

Mr. Aldrich. Does that include silver in the trades?

Mr. Janney. That includes monetary silver which is not consumed in the arts.

Mr. Aldrich. Is there not as much more, almost, in the arts?

Mr. Janney. No. I am counting the bullion in India and the bullion in China as part of that 12,000,000,000 estimate. As a matter of fact, 8,000,000,000 ounces would be very much nearer correct.

Now, you should bear in mind that after the Pittman Act was passed, and in that period when silver was a dollar an ounce, none of the silver in China or in India was sold out during that period. Those people over there have invested their money for generations and for centuries in silver. With confidence in silver restored, they are going to continue to do that. In India there are 800,000 villages, and each village has a silver market, and they are going to continue to buy silver. That is where the silver all goes. It is not the question that we must reach out and buy all this silver. The question is to stabilize it, and to stabilize it we have only got to buy the amount of silver that is thrown on the market with what would seem the deliberate purpose in view of depressing the commodity price level.

Mr. DOUGHTON. What effect would the plan that you recommend have on the price of silver?

Mr. JANNEY. The price of silver would be stabilized at the point that stabilizes the commodity price level. You would start in buying silver on a very conservative basis, and you must know, if you are dealing with this subject from its commercial aspect, that in the trade with the Orient you want stability more than you want high price. So you would gradually put the price up to where the commodity price level is back to the normal, or to what would be the par value of commodities expressed in debts.

In this way, at the same time you revive your export trade and restore commerce, you restore the commodity price level. The profits of productive industry in the United States is then assured permanently and that is your main objective. As far as the United States of America is concerned, unless we restore a profit to productive industry, we are going to be taxing our capital and not our profits.

Mr. ALDRICH. One of my colleagues has asked me to ask you how long a period of time it would take to make such purchases?

Mr. JANNEY. Ninety days, if you want to do it, would restore silver to 60 cents an ounce, and that is a conservative estimate. The minute the United States of America said to the world, "We know the game; we see what is going on; it is to our interest to stabilize silver; we are going to do it, and here is the law that we have enacted," you would find that there would be very little silver sold. This conversion of capital from Asia into gold would go back the other way, and they would reconvert from gold into silver, and they would relieve about a billion dollars, or such an amount, of excess demand on gold, so we would not only restore the purchasing power of Asia for our goods, but we would relieve the great pressure on gold, and then you could issue your two billion dollars of notes for the soldiers.

Mr. ALDRICH. If we once started on that policy, would we not have to keep it up, more or less?

Mr. JANNEY. Yes; we would have each year to buy the amount of silver produced that was not consumed in the arts, and which was not purchased in India and China. That would be less than 50,000,000 ounces a year.

Mr. ALDRICH. But we would have to keep it up from now on?

Mr. JANNEY. We would have to keep buying 50,000,000 ounces, or such a matter, a year, putting that in our reserves as a metallic reserve, which we need anyway to maintain a sound basis for our credit structure.

I figure that we could use, in the United States alone, an additional 50,000,000 ounces of silver, or its equivalent in money, and use it to very great advantage in a way which I was trying to work toward.

The debt disease of Doctor Fisher is remedied by additional reserves, so that more of your business is transacted in money and less with debts. That is the one sure route to unwind the skein of credits.

Mr. HAWLEY. If you established that plan, would you not greatly stimulate the production of silver in the world?

Mr. JANNEY. No, sir; you would not; and the reason for that is very clear, because of the fact that silver is a by-product from other metals. Now, there is a confirmation of that which is very interesting and which I can give you. In the years 1919, 1920, and 1921, when we boosted the price of silver to a dollar an ounce under the Pittman Act, the production of silver was as follows: In 1919 it was 179,000,000 ounces; in 1920, 173,000,000 ounces; in 1921, 171,000,000 ounces.

That was your high-priced silver. That was when you artificially stimulated the price of silver to a dollar an ounce.

Mr. VINSON. What production is that? Is that world production?

Mr. JANNEY. That is world production.

Now, for 1927, 1928, and 1929, when we had low prices, we have a production of 253,000,000, 257,000,000, and 261,000,000, respectively.

So silver is not affected as we assume it would be by high prices. Of course, if you do establish a stabilization of silver, you are going to stimulate the production of silver. That is inevitably true. But the amount that you will stimulate it will be very small. It will be a negligible factor. I am trying to cover a good deal of ground in a very little time, gentlemen.

Mr. CHINDBLOM. Mr. Janney, you are advocating this, of course, for the purpose of benefiting our own situation. What effect would it have upon the rest of the world?

Mr. JANNEY. It would be very beneficial to the rest of the world except in one respect. It would increase the costs of Great Britain in the purchase of foodstuffs and raw materials, because Great Britain is essentially a manufacturing country. You have got to divide the world up into France, England, Germany and Japan, which are in a class that you might call nonproducing nations—they manufacture and they buy their raw materials for manufacture, roughly speaking; then you have America, the United States and South America, which are producing countries, and the productive industry of those countries is the industry that must be protected.

Now, there is a big distinction to be drawn there. Before the World War, when we were a debtor Nation, we could ship against the favorable trade balance to Europe, and we pulled ourselves out of every panic, every depression that we had, by the sale to Europe, against the favorable trade balance due to the settlement of debts, of about $800,000,000 a year. We can not do that any more. If we are going to pull ourselves out of this depression, it must be done by means of establishing profit to productive industry, which must be expressed, in other words, as Doctor Fisher expressed it—"a cure of the dollar disease." We must stabilize the value of commodities. That means, stabilize the value of money. That means to withdraw from money this excess demand which comes from the instability of silver.

The ACTING CHAIRMAN. Doctor Janney, let me ask you this question: I can understand, of course, how your proposition would increase the commodity price of silver. What effect would that have on the commodity prices of wheat, corn and cotton?

Mr. JANNEY. We normally export a large quantity of wheat from the flour mills of the Northwest to China. Now we are exporting none. China is in a precarious condition for lack of food. Hundreds of thousands of people in China are hungry. Our commerce with

China has been disrupted to a certain extent by the instability of Chinese exchange.

Now, if you would like me to, I will read you some figures on that, from a paper that I secured from the Department of Commerce of the United States.

It shows the value of China's imports expressed in dollars rose from 1900 to 1910 from $155,000,000 to $305,000,000. In 1920, 10 years later, it was $940,000,000, which is an increase of over 300 per cent. Now, if the same increase had continued between 1920 and 1929, you would have $2,700,000,000 of imports into China. But, on the contrary, you have an actual loss, because the imports were reduced to $810,000,000. So there has been an actual falling off of trade in China in the last 10 years, as expressed in dollars.

The reason you have been informed that the trade with China is increasing, probably is because if you express those figures in taels, you have for 1910, 460,000,000; for 1920, 750,000,000; for 1929, 1,265,000,000. You have a very big increase as expressed in taels, but a decrease as expressed in dollars. Whereas based on the normal development of trade in China, you should have a tremendous increase in dollars.

In the last year there is a slight increase in China's trade over the previous year. The violent fluctuations in silver steadied down last year. This is bound to help commerce. Their money was low in value but steady.

Here is a small table showing the value of China's foreign trade from 1870 to 1929, both inclusive, expressed in both dollars and taels.

Year	Millions of haikwan taels		Millions of dollars		Tael value
	Imports	Exports	Imports	Exports	
1870	70	60	110	95	$1.57
1880	80	80	110	110	1.39
1890	125	85	155	105	1.25
1900	210	160	155	120	.74½
1910	460	380	305	245	.66
1920	760	540	940	670	1.24
1929	1,265	1,015	810	650	.64

Mr. McCormack. What effect would it have on wheat? Was that your question, Mr. Chairman?

The Acting Chairman. I can understand how it would raise the price of silver. I was asking what effect it would have on other commodities.

Mr. McCormack. A very good inquiry.

Mr. Janney. The price of commodities is varying exactly with the price of silver, according to the charts of the commodity price level. There has been a chart recently issued by the Federal reserve bank, which could be filed as a part of this record, to show that, as a matter of statistics. But as a matter of fact I think we approach the subject from a better angle to comprehend it.

In China you have a system of payment of duties, for instance, to illustrate it from the standpoint of tariffs, which we understand in this country very well. In China their duties are payable in gold. If you depress the price of silver, as was done by this action of the

Bank of India, you double the value of gold as expressed in Chinese taels, and it means that it takes twice as many taels to buy the same amount of gold, which is equivalent to doubling the tariff. We can understand the effect of doubling the tariff.

Mr. McCormack. To summarize, England drove India off the silver standard, did she not?

Mr. Janney. Yes, sir.

Mr. McCormack. And before she drove her off the silver standard, the value of silver for exchange purposes was somewhere between 60 and 70 cents; is that right?

Mr. Janney. I can give you the exact figures here. Yes; 65 cents, we will say.

Mr. McCormack. And when England drove India off the silver standard, silver became only valuable as a commodity?

Mr. Janney. No; silver is still money in China.

Mr. McCormack. I know, in China; but I mean in the world market. It lost its exchange value, between 60 and 70 cents.

Mr. Janney. It dropped down to 50 per cent of its value.

Mr. McCormack. What is it selling for now?

Mr. Janney. About 28 cents.

Mr. McCormack. It has been selling as low as 21 or 22 cents?

Mr. Janney. It has been down to 25 cents and a fraction.

Mr. McCormack. In other words, your contention is that if we brought back India, which means China—because they have been a silver country for centuries, and about fifteen hundred million people have been using silver for centuries have they not, in one form or another?

Mr. Janney. About 875,000,000 people.

Mr. McCormack. All right. If we brought them back, we would bring back a considerable purchasing power? That is your contention?

Mr. Janney. You would bring back the purchasing power by stabilizing their money.

Mr. McCormack. And you would bring back the capital value that those people enjoyed prior to what you claim was this destructive act?

Mr. Janney. That is a very good way to put it. But there is a lot more to the subject than that.

Mr. McCormack. Oh, I realize that.

Mr. Janney. This is a subject that we can not cover in a brief discussion. For instance, the condition in India, where India has gone off of silver and on to the gold basis, does not at all mean that India is entirely off the silver basis, because nearly half the silver of the world resides in India.

The Acting Chairman. Mr. Janney, we regret to call you down. Of course we appreciate your appearance, but I think your testimony as to this silver matter is more before another committee than it is before this committee. This committee has no jurisdiction of that subject.

Mr. Janney. It was with reluctance that I got on that subject, and only when I was forced to answer that question.

The Acting Chairman. You will be permitted to extend your remarks and put in any tables, or whatever else you see fit to put into the record. We appreciate your coming before us and giving us the benefit of your wisdom and counsel.

Mr. McCormack. May I ask just a few more questions, Mr. Chairman?

The Acting Chairman. Yes.

Mr. Ragon. If that means an extension of his time, I object, and I want to give my reasons for it. This session of Congress is growing pretty late, and this legislation ought to be gotten out of this committee. It was generally understood that the opponents of this measure would close to-day, and that the others would open to-morrow, and I think we ought to adhere to that. We have only one hour now to finish with these other witnesses, if that program is adhered to.

The Acting Chairman. Mr. Janney has had an hour and twenty minutes.

Mr. Rainey. Mr. Janney, will you put in the record that Federal reserve table which you mentioned, which shows that the price of commodities goes down as the price of silver goes down?

Mr. Janney. Yes; I can put that in.

This chart, originally compiled in 1930, by the Federal Reserve Bank of New York, shows the course of silver prices superimposed upon the course of the general commodity price level from 1913 to the end of 1931. It will be noticed that until the beginning of the war, the average price of silver fluctuated around 60 cents an ounce. In 1918, under the Pittman Act, the United States Government was authorized to sell silver to the Indian Government at $1 an ounce. On this basis some 200,000,000 ounces were sold. What effect did it have on silver? If we look to No. 1 on the chart, we will notice that the advance in silver prices was stopped and held stable during the months that this act operated. We further observe that some very few months later the movement in commodity levels is rather strikingly reflected.

In late 1919, the Government of the United States announced that it would sell silver in large amounts. As a result, the course of silver turns down as will be seen under No. 2 of the chart. Several months later, there is an almost identical drop in the commodity price level.

In 1920, the British Government debased its silver coins and sold its surplus upon the markets of the world. The drop in silver as shown by the chart is followed by a similar general fall in commodity prices. For a period from 1921 to 1925, silver was relatively steady as was the level of commodities.

In 1925, the Royal Commission on Indian Currency and Finance sat in London under the chairmanship of Mr. E. Hilton-Young. As a result of their deliberations, India was put upon a gold bullion standard. Gold reserves were to be partially created through the sale of silver rupees, consisting of several hundred million ounces. The threat of dumping by India of huge amounts of silver on the markets of the world laid the basis for the monetary dislocation which we are still witnessing. The depression in the price of silver is again followed as the chart shows by a like decline in price levels.

Again in 1928 and 1929, Indo-China and Belgium demonetized, melted up and sold silver coins in the world markets. The course of silver prices shown on the chart dropped downward to its present low level of approximately 28 cents an ounce. The course of commodity price levels corresponded with the same downward movement.

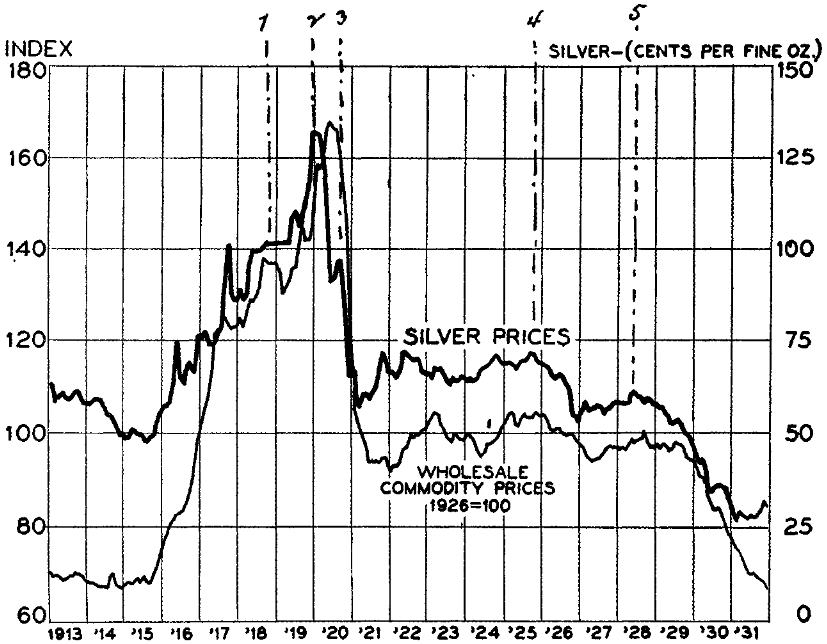
The blow which silver received during the interval of 12 years is attributable to governmental action and not to an abnormal increase of silver production, as no increase has taken place. Debasement and demonetization and the flight of capital which they superinduced are the direct consequences of legislative acts. If the stability of money has thus been destroyed by governmental acts, it can be restored by the same process.

I will file another chart. This second chart shows the commodity price level range since the Napoleonic wars. It pictures the three great legislative acts that have reduced the world's buying medium and hence the world's buying power, by destroying part of the world's money.

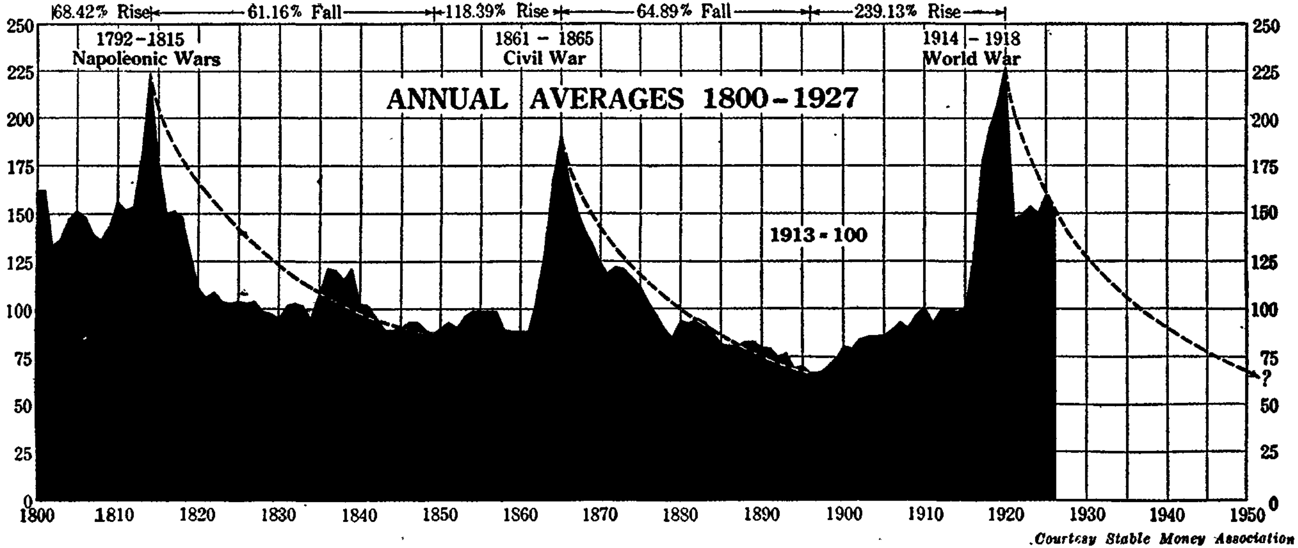
1. The demonetization of silver in England after the Napoleonic wars.
2. The demonetization of silver in France and in the United States in 1873.
3. The depression in silver due to action in the bank in India and other nations enforced sale of silver.

Economists are agreed that the supply and demand of world money determines world's commodity prices. From this chart the relation is pictured as to the priority in point of time. That is to say, the cause of the depression on silver precedes the depression of silver and the commodity price level falls in adjusting itself to the change in money volume and money values.

(The charts referred to follow:)



1. Pittman Act.
2. United States sold silver.
3. Debasing of coins by British Government.
4. Hilton-Young Commission.
5. Indo-Chinese Government going on gold basis.



Significant dates in monetary history as shown by a chart of annual wholesale commodity prices as computed by the U. S. Bureau of Labor Statistics.

The ACTING CHAIRMAN. The next witness is Doctor Goldenweiser.

STATEMENT OF DR. E. A. GOLDENWEISER, DIRECTOR OF RESEARCH AND STATISTICS, FEDERAL RESERVE BOARD

The ACTING CHAIRMAN. Doctor Goldenweiser, will you please give your name and position to the stenographer?

Doctor GOLDENWEISER. E. A. Goldenweiser, director of research and statistics of the Federal Reserve Board.

The ACTING CHAIRMAN. Doctor Goldenweiser is economist for the Federal Reserve Board.

Doctor GOLDENWEISER. Mr. Chairman, I come here at your invitation, and with the understanding that I am not to speak in my capacity as a member of the staff of the Federal Reserve Board, but in my individual capacity.

I should like to have time to make a brief statement, and then endeavor to answer any questions that you may wish to ask me.

The ACTING CHAIRMAN. You have that privilege. Under the rules of the committee you have a right to complete your statement without interruption, and then to be subject to cross-examination.

Gentlemen of the committee, the Doctor asks permission to complete his statement before being questioned.

Doctor GOLDENWEISER. I should like to make a very brief statement, Mr. Chairman.

The fiscal phases of the problem before you have been discussed by the Secretary of the Treasury and the Governor of the Federal Reserve Board, and I shall not touch upon them.

I should like to speak primarily about the currency phases of the proposal.

You have before you a proposal for an issue of about two and one-half billions of currency by the Treasury of the United States for the payment of the adjusted-service certificates. The adoption of this proposal would mean reverting to a policy of currency issues which the Government of the United States abandoned about 60 years ago.

The currency history of the United States, as of most other countries, has been a varied one. It has been a struggle to establish a uniform and sound currency system. We have had continental currency, we have had wildcat banknotes, we have had greenbacks, and we have had silver coinage. It was not until 1900, and really not until 1914, when the Federal reserve system came into operation, that sound currency was firmly established.

It would be an extremely undesirable step, on this ground alone, to go back to currency that is not a part of a system that has been carefully worked out, and functions in a manner that gives satisfaction, particularly in that there has been no question anywhere in the world about the value and validity of American currency. In spite of all the difficulties through which we have been going, there has been no discrimination between different kinds of currency in this country. All of them have stood up, and that was possible because of the fact that no new currency is issued by anyone except the one agency created for that purposes—the Federal reserve system—and that that currency is based on the kind of security and is handled through the kind of machinery that insures its soundness at all times.

The question was raised here during one of the hearings about some of the other kinds of currency which are outstanding that have not the same backing as gold certificates and Federal reserve notes. I made a calculation about that yesterday, and I find that out of the $5,400,000,000 of currency outstanding there is about $1,700,000,000 which is not gold or Federal reserve notes.

The reasons that these currencies can remain in circulation without upsetting the machinery are, first, that they are issued in fixed amounts that can not be increased; secondly, that in the aggregate they constitute only about a third of our currency; and thirdly, that the aggregate of all these currencies is far below the minimum to which currency can fall at any time. In other words, they are the rock-bottom foundation which at this time no longer can disturb our currency system. Each one of these currencies, if one had time to review them, has in its day created trouble and disturbance and depreciation; and the reason that they are now harmless is that they are restricted in amount and constitute a small part of the currency. The injection of a new kind of currency, in large amount, without the assurance that it would be the last dose, would upset at once the entire structure of our currency which has been built up so painfully.

I should like to take a few minutes of your time to explain the workings of the currency system under the Federal reserve.

Currency has become, in this country, the "small change" of business. Currency payments are not made for any great sums, and currency is not used for anything except retail trade, pay rolls, and various items of petty personal expenditure. The total amount of currency outstanding is only $5,400,000,000, whereas the volume of business done in this country varies from six hundred to twelve hundred billion dollars a year. It is clear, consequently that currency is the medium of payment in only a small proportion of our business. It constitutes only about one-tenth of the total amount of means of payment that we have, counting deposits and currency, and the whole economic structure of the country depends—its stability depends—on the substantial maintenance of this ratio of currency to deposits. With the limited amount of currency in existence, if there were any effort to convert any considerable proportion of the deposits into currency, it would be ruinous to the country. The withdrawal of about a billion or a billion and a half of currency for hoarding, that we went through during the last year—a figure that in itself is relatively small—has been a very upsetting factor in our system, because the whole system depends on our practice of using currency only for small amounts and in small quantities.

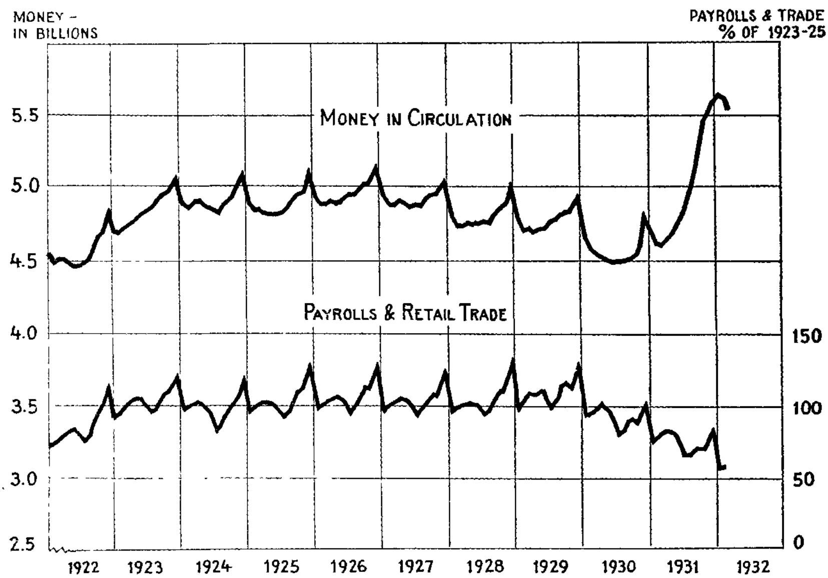
The proposal to issue currency as a means of remedying the financial and economic situation is out of keeping with the system which we have developed. No one proposes to issue 250,000,000,000 of pennies or 25,000,000,000 of dimes in order to remedy the situation. And yet the issuance of Federal reserve notes for the purpose of changing economic conditions in this country would fundamentally be in the same class as issuing small subsidiary coins. Currency, I repeat, is nothing but small change in our business transactions.

I wish to show you one chart which brings out the fact that currency fluctuates from month to month primarily in accordance with two items—pay rolls and retail trade. There are other small items for which currency is used, but these two are so dominant that you can see that the two lines have moved together at all times, until about the middle of 1930, when retail trade and pay rolls continued to go down and currency shot up.

There is the situation. There is currency [indicating]. It has increased at a very rapid rate, but this has not been due to prosperity. It has not reflected good conditions.

Here [indicating] is your curve of pay rolls and retail trade, which indicates the volume of the country's business, and it was going down. This great rise in currency was due to hoarding. It was due to lack of confidence, to a panicky condition, and the withdrawal of this currency has been a very important factor in making the situation much worse than it was originally.

When currency is issued, if there is no demand for it in those lines of activity which utilize currency—that is, primarily retail trade and pay rolls—the currency immediately comes back to the issuing institution—to the Federal reserve bank. No one carries more cash in his pocket simply because there has been more issued; nor do the banks carry more cash in their vaults because more currency has been issued; for they know that currency in their vaults is a dead



asset. They have found by experience the relative proportion of currency that they have to have for meeting the demands of their customers, and in normal times, if they have anything in excess of that, they take it to the Federal reserve bank, where it counts as reserve, and therefore becomes a basis of credit instead of a completely dead asset.

So, by paying out currency, you are not going to increase the volume of currency outstanding. You are simply going to make that currency back up at the reserve banks and be credited to the member banks' reserve accounts at those banks. Now, when that occurs, when the reserve accounts of the member banks increase, they have the choice of either paying off their indebtedness at the reserve banks, if they have such indebtedness, or else of using their excess reserves as a basis for expanding their loans. In other words, I should like to have you get the thought that, in its effect on credit conditions, the issuing of currency is equivalent to an open market operation by the Federal reserve banks through the purchase of United States securities. It has exactly the same effect on the reserve balances of the member banks as has the purchase of securities by the Federal reserve banks, and it has no other effects; because currency has no mystical powers. It does not, in some mysterious way create trade. If there is no demand from trade, currency backs up and comes back to the Federal Reserve and creates balances for the member banks. Whether those balances are going to be used for expansion or for reduction of indebtedness, or whether they are going to be allowed to lie idle, depends on the general character of the business and credit situation. Their arbitrary creation by decree is likely to cause a shock to confidence and result in their dissipation through gold exports and domestic hoarding.

Last summer the member banks had excess reserves of a hundred millions or so for many months, and yet they did not do any more lending or buying of securities. They had in addition, in their portfolios, very large amounts of securities that were earning one-half of 1 per cent and three-quarters of 1 per cent, because acceptances and short-term Governments had gone down to that low level of yield. They carried those amounts of low-yielding paper, and yet they did not see fit to buy bonds or to make loans to business customers, and the reason they did not is that they did not feel that the likelihood of success of the enterprises to which they would loan the the money was sufficient to make it possible for them to take the risk, nor were the people who were engaged in the enterprises sufficiently confident of being able to earn the money to repay the banks to feel free to borrow the money. In other words, the existence of excess reserves is not in itself an assurance of business recovery, and money in circulation, paid out in any fashion whatever prescribed by the law, would in the end result in an accumulation of those balances, and whether they would be used or not would be highly problematical. In the meantime, whether that currency succeeded in accomplishing anything or not, it would have an extremely bad effect on our banking system, because it would drive into the Federal reserve banks a large amount of balances not produced by any policy of the system nor in response to any demand from business. These excessive balances, if they be not dissipated through gold exports and hoarding, would make the system powerless to exert its proper influence on economic developments for a long time to come.

Excess reserves created by the issuance of two and one-half billions of currency would make the reserves of the member banks larger than they were at any time during the very active years of 1928 and 1929; very much larger than they have ever been; and those reserves would be at the disposal of the member banks at a time when they have no occasion to use them, when they have no demand for their funds, because there is not the confidence and the activity in business which would make the banks feel free to expand their operations.

Whether an accumulation of reserves, therefore, and especially an accumulation of reserves created by order of Congress, not as a result of a demand that arises directly out of business, leaving out any other effects of such a policy whether such reserves would have any affect in stimulating business is highly problematical. The chances are that it would not.

At the same time, it would cripple the influence of the Federal reserve system, and would in all probability bring into operation forces that have been enumerated and discussed here before; that is, a lack of confidence in the stability and soundness of our finances which would be likely to lead to gold exports and to hoarding, and might lead to discrimination between different kinds of currency in this country and even to the hoarding of gold by Americans.

I think that of all the financial dangers that we might face, the one of hoarding gold by Americans would be the greatest, because it would present the largest possible drain on our resources. There are fifty billions of deposits, and if the public should not only withdraw part of that in currency, as they did last year to the extent of a billion and a half, but if they wanted to convert that currency into gold, no system of credit that has been built up on the basis of fiduciary currency and credit transactions could withstand the shock.

The proposal might possibly at first create a slight improvement in business, when the people who get the money, the two and a half billions, spend it for consumption goods. But we had a little experience with that last year. A billion dollars was spent in that way, and it did not have the slightest effect on business. It has been said that that was because those payments did not create money, but simply transferred it, since it was not a currency issue. As a matter of fact, at the time when that money was created, it originated through the Government borrowing money and the banks buying the Government securities, so that it was created credit. When the Government borrows money and the bonds are bought by people out of their savings, that does not create money, but simply transfers money from private individuals to the Government. But when the Government borrows money and the bonds are bought by the banks, and the banks obtain the required reserves from the Federal reserve banks, that is a creation of credit. Twelve hundred million dollars of credit was created when the legislation was passed authorizing the borrowing on the adjusted service certificates, and it had absolutely no effect on business. There is nothing to assure you that two billions and a half would have more effect.

When you think of those two billions and a half, you have to compare this amount with the amount of business that is done in this country. It has been said by some witnesses before your committee that since we can not increase the velocity of turnover we are going to try to increase the volume of funds so as to make up for the decline in velocity. In the face of the statistical facts, that is an astounding statement, because the total volume of transactions in this country in 1929 was about twelve hundred billions of dollars, and it decreased by 1931 to about six hundred billions of dollars. This is a decrease if six hundred billions, largely due to a decline in velocity; and two and one-half billions would be less than a drop in the bucket in that respect. You can not make up for velocity by volume, because velocity is so much more of a factor than volume. When you issue currency on that basis you are issuing it under a misapprehension.

The amount involved is not sufficient to make a ripple in business, and yet it is too large for the currency system and the banking system to absorb without damage.

The question may be asked whether it is possible for the United States to issue two and one-half billions of currency and yet have no disastrous consequences. I think that is a fair question in view of the criticisms of the proposal that have been made.

My answer to that is that it is possible to go unscathed through a barrage of fire; it is possible to go through the plague and recover; but it is a terrific responsibility for anyone to take that risk.

That is all, Mr. Chairman, that I wish to say as an opening statement.

The ACTING CHAIRMAN. Are there any questions?

Mr. DOUGHTON. Doctor Goldenweiser, I would be glad to have your definition of hoarding. There has been a great deal said about hoarding. Now, when a man has money in the bank, on savings, and he draws it out and hides it somewhere in his home, or buries it, of course that is hoarding.

Doctor GOLDENWEISER. Yes, sir.

Mr. DOUGHTON. If he has money there in a checking account, and if his confidence in the bank is somewhat disturbed, and he takes that money out to pay his bills with—his current, everyday business transactions—and pays in currency rather than by check, would you call that hoarding?

Doctor GOLDENWEISER. No, sir; I would not call that hoarding. And that money would not stay out. He would pay it, for example, to a department store, and the department store would deposit it in the bank, so that it would come right back. It would not be hoarding, because it would not stay out. The only time it stays out is when the man buries it in his safe deposit box or in his tin can.

Mr. DOUGHTON. How do you determine the amount that is hoarded? How is that determined?

Doctor GOLDENWEISER. You mean, how do we measure the amount; how do we estimate it?

Mr. DOUGHTON. Yes.

Doctor GOLDENWEISER. That is a fairly difficult problem, and it involves certain elements of uncertainty. We take the amount of currency that was outstanding in the autumn of 1930, before there was any movement in the direction of hoarding, and compare it with the amount outstanding now; we know that none of the factors that make for an increase of money have increased during that time; in fact, we know that they have decreased; and we make our estimate of the increase in the hoarding by comparing the amount of currency that is outstanding now, with allowance for seasonal changes, with the amount that was outstanding at the time when the movement began.

There are elements in that figure that are uncertain, as I think the governor has pointed out, because the use of currency has increased in communities where there are no banking facilities, and people have to have a little more cash because they have no banks. There may be other factors. But our statistics show that the great increase in the currency has been in the big financial centers where there are banking facilities, so that it is fairly safe to say that the estimates we make give a generally correct picture of the amount of money that has found its way out of circulation and into hoards.

The ACTING CHAIRMAN. Doctor, let me ask you this question, not in your official capacity as connected with the Federal reserve system, but as a very intelligent citizen, and one who has some knowledge of what is going on: It has been repeatedly stated in the press that the Federal reserve system was going in and buying bonds for the purpose of increasing the circulation. Will you explain how that is going to work out?

Doctor GOLDENWEISER. Yes, sir; I shall be very happy to do that. When a Federal reserve bank buys a hundred millions of bonds, as it did last week, the immediate transaction is that the reserve bank buys the bonds from a dealer and gives him what is known as a cashier's check, a check on the Federal reserve bank. The dealer deposits that, presumably in a member bank—if it is not a member, it finds its way ultimately into a member bank—and the member bank redeposits it with the Federal reserve bank. So the net effect of the transaction is that a hundred million dollars has been added to the reserve account of some member bank; and then what happens with that hundred million dollars depends on the situation.

I would like to show you what has happened, as a matter of actual fact, since the system's policy of buying Government securities began in February.

The ACTING CHAIRMAN. We would like to have it.

Doctor GOLDENWEISER. During that period, between February 24, 1932, and April 27, 1932, the Federal reserve banks bought $450,000,000 worth of Government securities.

Mr. VINSON. Give us the dates and amounts purchased.

Doctor GOLDENWEISER. From February 24 to April 27, 1932, $450,000,000.

Now, $390,000,000 of that was used by the banks to pay off what they owed the Federal reserve banks, and to reduce the acceptance holdings of the Federal reserve banks. That has the effect of putting the banks out of debt, and when a bank is out of debt it has a better attitude toward its borrowers. When the bank owes the Federal reserve, it is likely to be extremely careful about lending money or doing anything in the way of investment. But when it finds that it is out of debt, that improves the situation. And, as a matter of fact, that decline in indebtedness was not limited to the banks in the financial centers, where the purchases were made, but through the workings of the Reconstruction Finance Corporation and the Treasury the money has been spread all over the country, and discounts have diminished in every district.

During that same period there was a decrease of about $194,000,000 in money in circulation. That has been due to the fact that with a decline in bank failures people have brought money back into the member banks, and the member banks have brought it to the Federal reserve banks. Questions have been asked here whether that meant currency deflation. It means nothing of the sort. It means a reestablishment of a sound condition. It means that the people have regained confidence in the banks and have been redepositing their money. But the net effect of that currency coming back into circulation is the same as though the Federal reserve banks had bought that much more Governments; because when a bank deposits cash it also gets credit in its reserve balance, just the same as though it had deposited a cashier's check of a Federal reserve bank. As a consequence of the security purchases by the reserve banks and the return flow of currency there has been, in addition to the decrease of $390,000,000 in member bank indebtedness, an increase of $236,000,000 in the member banks' reserve balances. This increase of $236,000,000 followed after a most precipitous decline in these balances, that had lasted for half a year, and had reflected the tremendous credit contractions through which we were going; so that up to date the net effect of the Federal reserve system's purchases of Governments and the return flow of currency has been, in round amounts, to put the banks out of debt to the extent of $400,000,000 and to increase the basis of their operations by another $200,000,000.

That process lays the predicate for a possible financial recovery.

The ACTING CHAIRMAN. When these credits are entered into the Federal reserve system, the banks can obtain currency and Federal reserve notes on it if they desire?

Doctor GOLDENWEISER. Yes, sir.

Mr. ESLICK. May I ask what was the difference in the currency between the two dates that you have given?

Doctor GOLDENWEISER. It decreased by $194,000,000, if I have the figure right.

Mr. CHINDBLOM. Doctor, has any currency been issued by Federal reserve agents during this time, and if so, how much?

Doctor GOLDENWEISER. I have not the figures. We were going to put them in the record yesterday. But if there has been any issue, it has been returned. You see, there is a constant come and go. Old currency comes in and new currency is issued in its place. I do not believe that you are really interested in that amount, except as it is a net increase, and there has been no net increase. There has been a net decrease, because people who had buried money, have taken it out of hiding and redeposited it.

Mr. CHINDBLOM. You are able to state as a fact that during the period to which you have referred, during which this $450,000,000 of bonds were purchased by the Federal reserve banks, there has been no net increase in the outstanding circulation of Federal reserve notes?

Doctor GOLDENWEISER. Yes, sir; I am able to say that the outstanding Federal reserve notes diminished by $116,000,000, and other currency diminished by $78,000,000.

Mr. VINSON. Doctor Goldenweiser, how many bonds did you buy last week?

Doctor GOLDENWEISER. According to the latest figure we had, we bought $113,000,000.

Mr. VINSON. And the week before that, I believe, $93,000,000?

Doctor GOLDENWEISER. $93,000,000.

Mr. VINSON. And the week before that a hundred million?

Doctor GOLDENWEISER. That is right.

Mr. VINSON. And your purchases of bonds from February 24 or 27, when the Glass-Steagall bill became law, up until three weeks back were in small quantities?

Doctor GOLDENWEISER. In smaller amounts.

Mr. VINSON. You referred to the fact that there was $1,700,000,000 in currency not backed by gold.

Doctor GOLDENWEISER. There is a certain amount of gold back of it, but only the $156,000,000 that is back of the greenbacks. I grouped in that all currency that is not gold certificates or Federal Reserve notes. It includes greenbacks, national-bank notes, silver certificates, and other kinds of currency.

Mr. VINSON. What I wanted to get was a table or a statement showing just what constituted that $1,700,000,000. I wanted that in the record at one place.

Doctor GOLDENWEISER. I would be glad to do that. As a matter of fact, we are doing that on the request that you made of the governor.

Mr. VINSON. I was not certain of the specific nature of the table.

Doctor GOLDENWEISER. That will be put in the record.

(The table referred to follows:)

Money in circulation March 31, 1932

[Currency outside of United States Treasury and Federal reserve banks]

Kind of currency	Amount	Secured by—
Gold coin	$403,585,716	
Gold certificates	779,361,509	$779,361,509 gold held in Treasury.
Federal reserve notes	2,545,943,397	$2,255,707,774 gold held by Treasury and Federal reserve banks and $666,999,872 eligible paper pledged by Federal reserve banks with Federal reserve agents.
Total gold and Federal reserve notes	3,728,890,622	
Standard silver dollars	30,773,073	
Silver certificates	355,494,593	$355,494,593 standard silver dollars held by Treasury.
Subsidiary silver	258,805,069	
Minor coin	114,067,454	
United States notes	274,199,015	$156,039,088 gold held in Treasury. This gold is also security against $69,976,044 United States notes held by Federal reserve banks.
Treasury notes of 1890	1,225,500	$1,225,500 standard silver dollars held in Treasury. These notes which are being retired may also be redeemed out of gold held against United States notes.
Federal reserve bank notes	2,792,406	General assets of the Treasury. These notes are in process of retirement. The Federal reserve banks have extinguished all liability for these notes by depositing with the Treasury lawful money in the amount still outstanding.
National bank notes	692,837,653	United States bonds bearing the circulation privilege and $29,885,917 lawful money held on deposit in the Treasury by national banks as a redemption fund against these notes.
Total currency other than gold and Federal reserve notes	1,730,194,763	
Total currency of all kinds outside the Treasury and Federal reserve banks	5,459,085,385	

Mr. VINSON. What is the treatment of gold certificates by the Federal reserve system when they reach the Federal reserve banks?

Doctor GOLDENWEISER. If they are physically in bad condition, they send them back to the Treasury to get new ones. But I think that is not what you have in mind?

Mr. VINSON. No.

Doctor GOLDENWEISER. Actually they keep them in the Federal reserve bank just as all the other currency that is paid in, and they pay them out on demand.

Mr. VINSON. Is there any purpose as expressed by the Federal reserve system toward the withdrawal of gold certificates and the physical recovery of gold certificates by the system?

Doctor GOLDENWEISER. You mean recently, Mr. Vinson?

Mr. VINSON. Well, I do not know how recently.

Doctor GOLDENWEISER. I will give you very briefly what the situation is. During the war, most of the certificates were retired and Federal reserve notes issued instead as a part of the general policy of concentrating gold reserves during the war crisis. In 1922 the principle was adopted of paying out any kind of currency without discrimination and something like a billion dollars of gold certificates went out into circulation again. Since that time, that amount has not fluctuated a great deal, but in the last seven or eight months there has been a decrease in gold certificates outstanding of about $200,000,000.

Mr. Vinson. Of course, when a gold certificate comes in and a member bank gets credit for that amount of money, and there is need of currency by that member bank, Federal reserve notes are the medium of exchange used.

Doctor Goldenweiser. They issue notes or they pay out the gold certificates. Whenever any request is made that they pay in gold certificates, there is no difficulty about that whatsoever.

Mr. Vinson. Are there very many requests for gold certificates?

Doctor Goldenweiser. I am not aware that there are many requests.

Mr. Vinson. As a matter of fact, a bank would just as soon take a Federal reserve note for $20 as a gold certificate for $20?

Doctor Goldenweiser. That is quite right; yes. As I stated before, this country has been very fortunate in the fact that the people accept the currency of the United States no matter in what form, at par. The Secretary of the Treasury is under the legal obligation to keep the currency at par and it has been at par in the people's preference as well as in reality.

Mr. Vinson. Now, you referred to the velocity of the currency?

Doctor Goldenweiser. Yes.

Mr. Vinson. You referred to the fact that if we had $2,400,000,000 of new currency, you did not think that would affect the velocity?

Doctor Goldenweiser. That is correct.

Mr. Vinson. You referred to the $50,000,000,000 of deposits that turned over approximately 12 times to make your $600,000,000,000 of business last year.

Doctor Goldenweiser. That is correct.

Mr. Vinson. Do you not think that if $2,400,000,000 were distributed throughout this country its relation to the total turnover would be more than the mere sum of $2,400,000,000?

Doctor Goldenweiser. I think it is very likely that it would be more than that, but it is hard to say how much more. It is not likely to be more than two or three times as much, for the reason that money has a homing instinct in our system.

Mr. Vinson. Is not that one of the troubles?

Doctor Goldenweiser. It may be, but you put $500 in the hands of a veteran, and assume that he buys himself an automobile with that money. The automobile dealer will put the money in the bank and the bank will find that it has more cash than it requires for its operations and will redeposit it in the Federal reserve bank. If that is what happens, that $500 has only figured in one transaction.

Mr. Vinson. Yes, but if the fellow takes the $500 and pays his taxes and his grocery bill and his fuel bill——

Doctor Goldenweiser. The grocery man and the tax collector will put the money in the bank.

Mr. Vinson. That will go through more than one transaction, will it not?

Doctor Goldenweiser. No, sir, I do not think so, because if he pays his taxes, the tax collector will deposit the money.

Mr. Vinson. I will just give you an illustration. In my district a week or two ago a gentleman issued a check for $10. He indorsed on the back of it the statement that it must be used in the payment of an obligation within 15 minutes after it was received and it went through 41 hands in a business day.

Doctor GOLDENWEISER. Yes.

Mr. VINSON. It was used in the payment of $410 of obligations before it went to the bank for payment.

Doctor GOLDENWEISER. You are not proposing to have such an indorsement on the currency?

Mr. VINSON. No. I am merely giving you some notion of how money will turn over and a $10 bill certainly will turn over more than once before it goes to the bank.

Doctor GOLDENWEISER. It might and it might not. My statement about the relationship of the two and a half billion dollars to the $600,000,000,000 is not altogether fair. I do not intend to leave that impression. The two and a half billions might possibly turn over five or even ten times and be the basis of transactions aggregating twelve and one-half or twenty-five billions before it comes back.

Mr. VINSON. How much money do you have that is turning over in order to make this $600,000,000,000?

Doctor GOLDENWEISER. We have $50,000,000,000 of deposits.

Mr. VINSON. That is not money. How much money have you? You have got about four and half billion dollars in currency?

Doctor GOLDENWEISER. $5,400,000,000.

Mr. VINSON. In currency?

Doctor GOLDENWEISER. That is right.

Mr. VINSON. And that, coupled with your deposits took care of $600,000,000,000 of business in 1931?

Doctor GOLDENWEISER. That is correct.

Mr. VINSON. And you say that $2,400,000,000 of new currency would probably turn over ten times or twelve times?

Doctor GOLDENWEISER. I can not say how many times. I said my personal opinion is that it would not turn over more than once or twice, but to make the best showing you can, let us say that it turns over ten times. You would then only have about 25 billions out of 600 billions.

I have some figures here that will interest you. They show that of the five and a half billion dollars of currency outstanding, there is about $750,000,000 in the banks, and about $1,250,000,000 probably still in hoards accumulated in the past 18 months, and about $500,000,000 also in hoards but not created in this panic; just ordinary hoards, people having a little nest egg tucked away. There are about 300 millions that are abroad, of which 100 millions are in Cuba and 200 millions in other countries, and about $100,000,000 has been destroyed. So that the total amount of money that does not do any actual business is $2,900,000,000 and the active money is about $2,500,000,000.

Mr. VINSON. How do you figure that $100,000,000 of the $562-000,000, that is outstanding in the large sized, old sized currency, has been destroyed?

Doctor GOLDENWEISER. I do not think the destruction has all been necessarily of that large-sized currency. • But we do know there are some $600,000,000—you had the figures the other day that there were about $600,000,000 of that large-sized currency outstanding. That is where we got our clue as to how much is in those little nest eggs.

Mr. VINSON. That is the old currency that is outstanding?

Doctor GOLDENWEISER. Yes.

Mr. VINSON. $562,000,000.

Doctor GOLDENWEISER. Yes.

Mr. VINSON. If the homing instinct is so strong and the $2,400,000,000 would just be drawn back into the Federal reserve system with one or two turnovers, how is that going to upset the financial structure of this Government overnight?

Doctor GOLDENWEISER. It is going to upset it by the process that I have described, by building up enormous excess reserves in the reserve bank, paying off all of the obligations to the bank and having the Federal Reserve out of touch with developments; or else, and that is more likely to happen in the present circumstances, by impairing confidence in the soundness of our financial structure and leading to a resumption of gold exports, hoarding, and credit contraction.

The Federal reserve is constantly studying the situation, day and night. It adopts a policy that in its best judgment and in its best endeavors is framed for the benefit of the country. If an avalanche of currency were to come in from the outside, this would throw out its entire calculations and its plans so that it could no longer function properly. It would be deprived of its freedom of action. That is how it is going to upset the Federal reserve system.

Mr. VINSON. I thought you said that this new currency would fly right back into the Federal reserve?

Doctor GOLDENWEISER. Exactly. That is what would happen to it. But in flying back, it would place the Federal reserve system high and dry, out of touch with the situation, and make it unable to cope with any developments that might arise.

Mr. VINSON. The interest earnings of the Federal reserve system, does that have any effect upon its position with reference to the currency that would issue under the Patman bill?

Doctor GOLDENWEISER. No, sir.

Mr. VINSON. Would that currency issued under the Patman bill have any effect upon the Federal reserve notes?

Doctor GOLDENWEISER. Yes; it would probably drive Federal reserve notes out.

Mr. VINSON. Why?

Doctor GOLDENWEISER. No. Let me state that a little more accurately, because I believe that so long as your Patman notes were accepted by everyone on the same basis as Federal reserve notes, it would not drive out the Federal reserve notes except to an extent in proportion to other kinds of currency. There would simply be that much more currency coming in and the Federal reserve notes would constitute as large a proportion of the money that is coming as the money that is going out. I do not think there would be any discrimination.

Mr. VINSON. What about the currency that would be issued under the Thomas bill where an interest charge is involved? Would that currency have the same effect as the currency issued under the Patman bill?

Doctor GOLDENWEISER. I think it would, for this very important reason, that all of these plans would result in nothing different than an accumulation of balances to the credit of the member banks. The currency feature of these plans is simply based on a lack of knowledge of the mechanism.

Mr. McCormack. As a matter of fact, if we follow your argument through, we could wipe out practically all currency and get along better, could we not?

Doctor Goldenweiser. No, sir. There are certain lines of business that require currency.

Mr. McCormack. You have conceded that there is not 100 per cent gold reserve for the outstanding currency?

Doctor Goldenweiser. I do not concede it. I know it.

Mr. McCormack. Then if you know it, you will concede it.

Doctor Goldenweiser. I am merely taking exception to the word; that is not a concession, that is a fact.

Mr. McCormack. To concede it is to establish the fact. Have you studied the bill reported by the Committee on Banking and Currency, H. R. 11499?

Doctor Goldenweiser. The Goldsborough bill?

Mr. McCormack. Yes, sir.

Doctor Goldenweiser. Yes; I know of it.

Mr. McCormack. Do you approve of the policy expressed in that bill?

Doctor Goldenweiser. I prefer not to discuss matters of Federal reserve policy, because of my connection with the system.

Mr. McCormack. You are here personally. You have been discussing them all morning and you are only expressing your personal opinion.

Doctor Goldenweiser. I would rather express my personal opinion to you than give you the impression of any evasion.

Mr. McCormack. It is your personal opinion that you are expressing anyway; that is understood.

Doctor Goldenweiser. My personal opinion is that it would be a very unfortunate thing to adopt.

Mr. McCormack. That is what I want to get your opinion on. This is a very excellent time for the group with a fixed income, is it not?

Doctor Goldenweiser. If the income remains fixed, if the capital back of the fixed income is not lost.

Mr. McCormack. Well, we are generalizing here. I say these are very good times for the group with the fixed income.

Doctor Goldenweiser. If the income remains fixed; yes.

Mr. McCormack. Of course, when I say fixed income, I assume that the income is fixed. Take, for example, the interest on a Government bond. That is fixed income, is it not?

Doctor Goldenweiser. Yes, sir.

Mr. McCormack. That is pretty safe, is it not?

Doctor Goldenweiser. Yes, sir.

Mr. McCormack. Have you any opinion as to whether or not a reasonable expansion of the currency, properly controlled, would impair the value of the American dollar?

Doctor Goldenweiser. I think if it is reasonably expanded and properly controlled it would not impair the value of the American dollar.

Mr. McCormack. What would you consider—I want information; do not misunderstand my questions——

Doctor Goldenweiser. No; surely. I am very glad to give it to you in so far as I can.

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Mr. McCormack. What would you consider to be a reasonable expansion or what reasonable expansion would be justified, having in mind the preservation of the dollar? What amount, for example?

Doctor Goldenweiser. I can not answer that question as to amount, for the reason that it involves an implication which I do not accept. That is, that you can expand currency. My conviction is that it is impossible to expand currency unless there is a demand for it.

Mr. McCormack. Is there not a greater demand for currency in a depression than there is in prosperous days?

Doctor Goldenweiser. Only when the depression reaches the point of shaking confidence, with the result of hoarding. Otherwise it is less.

Mr. McCormack. You have admitted that already, that there has been a shaking of confidence and there is hoarding.

Doctor Goldenweiser. Yes. But for the last two months and a half we have been fortunate enough to get money back from hoarding.

Mr. McCormack. Of course, in prosperous days we use the check. The check has superseded currency to a great extent, practically altogether.

Doctor Goldenweiser. Yes.

Mr. McCormack. And in prosperous days we do not resort to the use of currency as much as we do when we are in conditions such as confront us to-day; is that correct?

Doctor Goldenweiser. I do not think that as far as business is concerned there is any great difference. The difference is in the amount of money that is in the ground.

Mr. McCormack. Then the demand for money is greater to-day than it was prior to October, 1929?

Doctor Goldenweiser. The amount of money outstanding is greater, yes.

Mr. McCormack. The demand is greater; the public demand is greater.

Doctor Goldenweiser. The demand is going down, as is indicated by the fact that currency is diminishing.

Mr. McCormack. But the general public use money more to-day than they did two years ago.

Doctor Goldenweiser. I think that is very doubtful, as far as business transactions are concerned. It is sometimes difficult to be sure that we are referring to the same thing. As far as the amount of money that people have in tin cans is concerned, there is still probably a billion outstanding. But so far as business transactions are concerned, I do not think there is any evidence that they are using more money for business transactions now than they did before.

Mr. McCormack. A check is in the nature of currency, is it not?

Doctor Goldenweiser. A check is deposit currency and it is by far the most important part of our currency.

Mr. McCormack. Accepted by common consent as a medium of exchange?

Doctor Goldenweiser. Yes.

Mr. McCormack. Underlying all of this credit structure which you have so ably referred to, these hundred of billions of dollars of business, from six hundred billions to one thousand two hundred billion dollars in the countries of the world, with those tremendous transactions, before Japan and England went off the gold standard, there was only $11,000,000,000 of hard, clean money to cover those transactions, was there not? Eleven billion dollars of gold was the basis upon which all of our credit structure was predicated?

Doctor GOLDENWEISER. That is correct.

Mr. McCORMACK. That includes your Treasury notes and your Federal reserve notes, and credit of all kinds.

Doctor GOLDENWEISER. And in all countries.

Mr. McCORMACK. It is all predicated upon $11,000,000,000.

Doctor GOLDENWEISER. That is right.

Mr. McCORMACK. Have you got any idea as to the total transactions of the whole world in the last year?

Doctor GOLDENWEISER. I am sorry, but I have not.

Mr. McCORMACK. If it was $600,000,000,000 here, it would probably——

Doctor GOLDENWEISER. It would probably be three or four times that much, but there is no way of estimating. It is just a shot in the dark.

Mr. McCORMACK. Just one or two more questions and I am through.

Doctor GOLDENWEISER. Will you excuse me for one second, Mr. McCormack? To clear up the point that you were talking about a minute ago about there being a greater demand for currency, this is what usually constitutes the demand for currency—pay rolls and retail trade [indicating on chart]. It is going down. Pay rolls are the biggest single item of demand. That is going down. Retail trade is going down. Therefore, the increase in the demand [indicating on chart] is not in the demand for business currency, but for hoarding.

Mr. McCORMACK. The $450,000,000 that you say is a reserve in bonds, the purpose of that is to try to put that circulation into the market to sort of force an extension of credit, is it not?

Doctor GOLDENWEISER. I should not say that.

Mr. McCORMACK. That was the primary purpose.

Doctor GOLDENWEISER. I should not say that exactly.

Mr. McCORMACK. It was for the purpose of issuing currency for circulation purposes.

Doctor GOLDENWEISER. It was, in the first place, to reduce the indebtedness of member banks which was created at the time that gold was leaving this country, after England went off the gold standard.

Mr. McCORMACK. Was the reduction of that obligation reflected in an effort by the banks to extend credit?

Doctor GOLDENWEISER. It puts them in a better position to do so.

Mr. McCORMACK. Have they done so?

Doctor GOLDENWEISER. They had not done so up to the last week or so.

There has been some indication in the last week or so that there is an increase, but there was not up until then.

Mr. WATSON. In accordance with your last statement, how much money has the reserve system loaned to its member banks under the rediscount system?

Doctor GOLDENWEISER. How much can it loan to them?

Mr. WATSON. How much did it loan to the member banks?

Doctor GOLDENWEISER. At the present time it is about $600,000,000.

Mr. WATSON. How much was it in 1929?

Doctor GOLDENWEISER. It reached as high as $1,200,000,000.

Mr. WATSON. That is the difference between the business in 1929 and now. There are a great many people who have found that since the $2,000,000,000 has been authorized to the Reconstruction Finance Corporation to take care of the banks, the business men have not been able to borrow money. The only good it has accomplished is that it has helped banks and saved individuals from withdrawing their money. Do you believe that the banks do not loan money now; that is, that the $2,000,000,000 authorization has not enabled banks to loan money?

Doctor GOLDENWEISER. I should say that there has been no material increase. There has been no increase until recently in the amount of money banks are loaning. But the very rapid decrease in bank credit, which lasted from September to the end of last year or the early part of this year, has stopped, and just recently there seems to be an indication of an increase. It takes some time to reestablish the workings of that machinery.

The ACTING CHAIRMAN. Doctor, there were several questions I wanted to ask and Doctor Watson asked one of them. As a matter of fact, $2,000,000,000 has not been loaned by the Reconstruction Finance Corporation, has there? As a matter of fact, how much has actually been loaned by the Reconstruction Finance Corporation?

Doctor GOLDENWEISER. The latest figure I have seen is around $400,000,000.

Mr. HAWLEY. It has been urged that the issuance of $2,500,000,000 of money under the Patman plan would increase farm prices among other prices. What is your opinion?

Doctor GOLDENWEISER. My opinion is that it would prolong the depression and have a bad effect on farm prices as well as on other business conditions.

Mr. HILL. Would the issuance of $2,400,000,000 in currency have a tendency to lessen the present purchasing value of the dollar?

Doctor GOLDENWEISER. That is another way of saying, or of asking, will prices go up? I think not.

Mr. HILL. You think it would have no effect on the commodity prices?

Doctor GOLDENWEISER. I think it is very unlikely to, because I think it is much more likely to disturb confidence and make for gold export and for renewed hoarding which will much more than offset the good effect that that money may have. That is my judgment.

Mr. HILL. If it should have the effect of decreasing the present purchasing value of the dollar, the inducement for hoarding would be lessened by that much, would it not?

Doctor GOLDENWEISER. It all depends on the confidence that we have in the banks. I think it is a safe opinion that if this bill were passed, there would be very large withdrawals of gold from abroad and that would give an impetus to people here to have doubts about the banks again, the way they did in October when they withdrew $400,000,000 during five weeks at the time gold was going out. If they begin to withdraw, then you will see hoarding, and it will not have any effect of decreasing the value of the dollar.

Mr. HILL. What in your opinion would be the effect on the economic condition of the country if commodity prices should be raised from their present low level?

Doctor GOLDENWEISER. I think it is the most important single thing we can look forward to in economic conditions to-day.

Mr. HILL. Are you opposed to any action that would tend to lower the present purchasing value of the dollar?

Doctor GOLDENWEISER. No, sir; I am not.

Mr. HILL. How do you want to bring that about?

Doctor GOLDENWEISER. I do not know of any way to do it other than the things that have been done, the establishment of the various organizations that stopped the panic and placed a foundation under the banking system, and the policies of the Federal reserve system at the present time, to have as much money available at low rates as there is the slightest indication that business enterprises can absorb.

Mr. HILL. The Federal reserve system has not done anything up to date, so far as I can gather from the witnesses who have been here, to alleviate this situation.

Doctor GOLDENWEISER. The Federal reserve system has throughout the depression followed an extremely liberal policy as to credit. It reduced its discount rate from 6 per cent to a low of 1½ per cent. It purchased twelve hundred million dollars of Government securities which paid off member bank indebtedness and it has followed closely, step by step, as the situation has permitted; it has done all in its power to have the banking machinery of the country stand ready to finance business recovery.

Mr. HILL. Have they lowered the discount rate to the member banks in the agricultural sections?

Doctor GOLDENWEISER. Yes, sir; not as low as 1½ per cent but to 2½ and 3 per cent.

Mr. VINSON. Referring to the homing instinct, is that a characteristic of all our currency at present?

Doctor GOLDENWEISER. Yes, sir.

Mr. VINSON. And that is not just a novel characteristic to propose new currency.

Doctor GOLDENWEISER. No.

Mr. VINSON. Now, if you take the currency that would be issued, say, under the Thomas bill?

Doctor GOLDENWEISER. Yes, sir.

Mr. VINSON. And it would turn over twice, or say, 10 times, before it went to a member bank?

Doctor GOLDENWEISER. Yes, sir.

Mr. VINSON. And then assume that the member bank would transfer that currency, with the homing instinct, to the Federal reserve system, and there they would receive credit for that money, would they not?

Doctor GOLDENWEISER. Yes, sir.

Mr. VINSON. Now, in addition to the turnover of the particular $2,400,000,000 new currency itself, would not the fact that the member bank secured the credit of the $2,400,000,000, tend toward the further liberalization of credits by the banks?

Doctor GOLDENWEISER. It would create those credits. It might in the first instance accomplish on a large scale what the Federal reserve system is accomplishing now on a more modest scale. But the method of doing it, having the credit imposed from outside, by decree, being, in substance, fiat credit, would create distrust of the machinery, both here and abroad, and would offset the effects of the creation of the credit.

Mr. VINSON. Do you call an issue under the Thomas plan fiat money?

Doctor GOLDENWEISER. That is a question of definition. Yes, I do. I call it fiat money, because fiat means "let there be," and fiat money is where the Government says, "Let there be" money; and therefore this is fiat money.

Mr. VINSON. And therefore any money based on bonds would be called "fiat money"?

Doctor GOLDENWEISER. Any money that is arbitrarily imposed upon the country without any demand for it from trade and industry, according to my definition, is fiat money.

Mr. VINSON. According to your definition?

Doctor GOLDENWEISER. According to my definition.

The ACTING CHAIRMAN. We thank you very much, Doctor Goldenweiser.

Doctor GOLDENWEISER. Thank you for your courtesy, Mr. Chairman.

The ACTING CHAIRMAN. So far as I know, that concludes the witnesses for the opposition. Representative Patman is present, and I would like to know how much time you think you will require for your rebuttal, Mr. Patman. At the commencement of the hearing I think I stated to you that the committee would permit the proponents of the measure to introduce rebuttal testimony.

Mr. PATMAN. Mr. Chairman, we appreciate the liberal time that has been extended to us. As I understand it, we have had six days and the opponents of the measure have had nine. We will do our best to close to-morrow. It is possible that we will not be able to close to-morrow.

The ACTING CHAIRMAN. We will not limit you at all.

Mr. PATMAN. No; and we can not limit ourselves too much. But personally I am anxious to close.

The ACTING CHAIRMAN. Personally, I should like to close the hearings also; but I want to let you have all the time you want.

Mr. PATMAN. I am personally apprehensive that this session will not last as long as the long sessions usually last, and we would like for the measure to be voted upon at the earliest date, and we will do our best to close to-morrow; but if we fail to close to-morrow, I believe I can safely assure the committee that we will not take over half of the time the following morning.

Mr. RAGON. Mr. Chairman, let me make this suggestion: Why could not this committee set a time for this rebuttal testimony of 30 minutes to each witness, or not to exceed 30 minutes, and then not permit any questions until they have concluded their statements? I think perhaps if we can do that some of them would not take their 30 minutes.

The ACTING CHAIRMAN. Mr. Ragon, I know nothing about the matter; but of course, we all know each other pretty well, and we can guess at things. I have seen Congressman Rankin in here constantly in attendance, and I just presume he will be one of the rebuttal witnesses; and if so, I would not like to cut him off with 30 minutes.

Mr. RAGON. Well, how much time has he already had?

The ACTING CHAIRMAN. I did not understand that he had had any.

Mr. RAGON. Well, he has appeared here; how much time has he had?

The ACTING CHAIRMAN. I do not know. That occurred when I was away.

Mr. ESLICK. Neither Mr. Rankin nor anybody else has had any rebuttal time.

Mr. RAGON. No; and I do not think that ought to be requested. I am in favor of all the liberality in the world, but to have Bill Jones to come in here and speak half an hour, and then have half an hour in rebuttal, I think is taking too much time. I have a great deal of work to do, and I presume the other members of the committee also have a great deal.

Mr. ESLICK. Well, we can not presume that Mr. Rankin, having been here throughout this hearing, would not address his remarks to rebuttal.

The CHAIRMAN. I am sorry I made that statement. I did not know that Mr. Rankin had appeared before the committee. It happened in my absence.

Mr. VINSON. The proponents having had six days and the opponents nine, would it not be reasonable to say that they shall have three days for rebuttal, and let them divide the time as they see proper?

Mr. RAGON. I do not think the proponents would want that much time. They want to close as soon as they can.

Mr. PATMAN. Yes; we want to close as soon as we can.

Mr. RAGON. And to give everybody who wants to talk on this subject an opportunity to appear before the committee would delay this thing very much, and we want to get through.

The ACTING CHAIRMAN. Gentlemen, we will take this course: Mr. Patman can present his witnesses to-morrow at 10 o'clock, and we can proceed as we have done, and then when he gets through the hearings will be closed and the committee will commence consideration of the bill.

Mr. PATMAN. Thank you.

The ACTING CHAIRMAN. The committee concluded some time ago that at the close of these hearings it would have hearings on the bill before it on the depreciation of the currency. Mr. Hawley, who has one of those bills, asked me to set it for May 12, at 10 o'clock, so as to give interested parties an opportunity to appear. Without objection on the part of the committee, I will set that hearing for May 12, at 10 o'clock.

Mr. CHINDBLOM. Mr. Chairman, that is on the question of the traiff, is it not?

The ACTING CHAIRMAN. Well, they call it on depreciated currency, Mr. Chindblom.

Mr. CHINDBLOM. Well, is it not? I am asking for information.

The ACTING CHAIRMAN. Well, I know the effect of it; but the bills are for depreciated currency, and the committee six weeks ago agreed that it would have the next hearings, after this legislation was disposed of, on those bills. Is there any objection to that?

(There was no objection.)

(Thereupon, at 12.40 o'clock a. m., the committee adjourned until Tuesday, May 3, 1932, at 10 o'clock a. m.)

PAYMENT OF ADJUSTED-COMPENSATION CERTIFICATES

TUESDAY MAY 3, 1932

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D. C.

The committee met at 10 o'clock a. m., Hon. Charles R. Crisp (acting chairman) presiding.

The ACTING CHAIRMAN. The committee will please be in order. Mr. Patman, you may proceed.

FURTHER STATEMENT OF HON. WRIGHT PATMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. PATMAN. Mr. Chairman, we expect to close this morning, if it is possible to do so.

I am going to devote a little time to answering or attempting to answer some of the points that I believe I am familiar with and I am going to ask that some matters be inserted in the record that I believe are material to the matters at issue here before us. After I have finished, Judge Rankin wants some time, and then Senator Owen will close for the proponents. Senator Owen has consented to appear before this committee again and give you the benefit of his knowledge, and I believe that he is the best informed man in the United States to-day on financial matters.

Being one of the authors of the Federal reserve banking system, I think he is acknowledged and recognized as one of the best informed men in the United States on matters of this kind, and we are particularly anxious that he appear before you to answer such questions as you desire to ask him, in addition to making such statements as he desires to make.

The other day Mr. O'Neill, who has a very distinguished war record, appeared before this committee. I have no word of criticism for Mr. O'Neill. I admire him. At the same time, we have many congressional medal of honor men who have indorsed this proposal. Take, for instance, Dan Daly, who is one of the two men in the United States who hold two congressional medals of honor. He has sent a very strong telegram indorsing this proposal, as have many other congressional medal of honor men; and for the information of the committee I have had taken out of the congressional medal of honor book that Mr. Rainey was reading from a few days ago, when Mr. O'Neill was testifying, the record of each man.

I would like to insert these telegrams, none of them long—they are all short—in the record, without reading them, along with their records.

The ACTING CHAIRMAN. Without objection, that may be done.

Mr. PATMAN. The following congressional medal of honor men have forwarded telegrams to me favorable to the proposal of paying the adjusted-service certificates:

Sergt. Maj. Dan Daly, New York, N. Y.; Frederick V. McNair, Annapolis, Md.; Michael B. Ellis, Chicago, Ill.; Sergt. Jake Allex, Chicago, Ill.; Capt. Louis Cukela, Norfolk, Va.; Capt. George H. Mallon, Minneapolis, Minn.; Edward F. Gibson, Oakland, Calif.; Charles D. Barger, Kansas City, Mo.; Louis M. Van Iersel, Los Angeles, Calif.; Capt. Dwite H. Schassner, Akron, Ohio; P. B. Keefer, Washington, D. C.; David D. Barrow, Portsmouth, Va.; Joseph F. Scott, Cambridge, Mass.

I have prepared a copy of each man's war record to be inserted immediately preceding his telegram.

(The matter referred to follows:)

Daly, Daniel, sergeant, Seventy-third Company, Sixth Regiment, United States Marine Corps, Second Division: As a private in the United States Marine Corps, for distinguished and gallent conduct in the presence of the enemy in the Battle of Peking, China, August 14, 1900, he was awarded the congressional medal of honor.

The second medal was awarded when acting as gunnery sergeant, United States Marine Corps, on October 22, 1915, near Fort Liberte, Haiti.

He was cited for exceptional bravery again on November 17, 1915.

While serving as first sergeant, Seventy-third Company, Sixth Regiment United States Marine Corps, Second Division, Sergeant Daly repeatedly performed deeds of heroism and great service on June 5, 1918. At the risk of his life he extinguished a fire in an ammunition dump at Lucy-le-Bocage. On June 7, 1918, while his position was under violent bombardment, he visited at the gun crews of his company, then posted over a wide portion of the front, to cheer his men. On June 10, 1918, he attacked an enemy machine-gun emplacement unassisted and captured it by use of hand grenades and his automatic pistol. On the same day, during the German attack on Boureschesa, he brought in wounded under fire. For this he was awarded the distinguished service cross.

NEW YORK, N. Y., *April 18, 1932.*

Hon. WRIGHT PATMAN,
House of Representatives:

Heartily indorse House Resolution No. 1 and concur in statements made by Maj. Gen. Smedley D. Butler.

Sergt. Maj. DAN DALY,
United States Marine Corps, retired.

McNair, Frederick V., lieutenant, United States Navy: For distinguished conduct in battle, engagement of Vera Cruz, April 22, 1914. Was eminent and conspicuous in command of his battalion. He exhibited courage and skill in leading his men through the action of the 22d and in the final occupation of the city.

ANNAPOLIS, MD., *April 20, 1932.*

Hon. WRIGHT PATMAN,
House Office Building, Washington:

Payment adjusted service certificates to service men now will save many veterans severe loss if not actual want. If our Government intended adjusted compensation as a little relief to veterans in future years the time is here when relief will have ten times the value as five years hence.

FREDERICK V. McNAIR.

Ellis, Michael B., sergeant, Company C, Twenty-eighth Infantry, First Division, near Exermount, France, October 5, 1918: During the entire day's engagement he operated far in advance of the first wave of his company, voluntarily undertaking most dangerous missions and single-handed attacking and reducing machine-gun nests. Flanking one emplacement, he killed 2 of the enemy with rifle fire and captured 17 others. Later he, single handed, advanced under heavy fire and captured 27 prisoners, including 2 officers and 6 machine guns, which had been holding up the advance of the company. The captured officers indicated the location of four other machine guns, and he in turn captured these, together with their crews, at all times showing marked heroism and fearlessness.

CHICAGO, ILL., *April 18, 1932.*

Hon. WRIGHT PATMAN,
House Office Building, Washington:

Honorable Mr. Patman, I congratulate you for your courageous fight for the immediate cash payment of the adjusted service certificate. I have met hundreds of buddies who are in dire need, and since Congress admitted the bonus a just debt to the vets pay it now during this depression and cease the vets from being the laughing stock at once.

Sincerely yours in companionship,

MICHAEL B. ELLIS.

Allex, Jake; at Chipilly Ridge, France, August 9, 1918. Corporal, Company H, One hundred and thirty-first Infantry, Thirty-third Division: At a critical point in the action, when all the officers with his platoon had become casualties, Corporal Allex took command of the platoon and led it forward until the advance was stopped by fire from a machine-gun nest. He then advanced alone for about 30 yards in the face of intense fire and attacked the nest. With his bayonet he killed five of the enemy, when it was broken, used the butt of his rifle, capturing 15 prisoners.

CHICAGO, ILL., *April 19, 1932.*

L. S. RAY,
Legislative Chairman Veterans of Foreign Wars,
Washington:

Deflate the depression by paying the debt long due the veterans. This transfusion will stimulate the streams of industrial life and turn the tide. The nation that raised billions for us to fight with in 1918 will not be bankrupted in paying us what they owe now.

JAKE ALLEX, *Sergeant.*

Cukela, Louis, sergeant, Sixty-sixth Company, Fifth Regiment, United States Marine Corps, near Villiers-Cotterets, France, July 18, 1918: When his company, advancing through a wood, met with strong resistance from an enemy strong point, Sergeant Cukela crawled out from the flank and made his way toward the German lines in the face of heavy fire, disregarding the warnings of his comrades. He succeeded in getting behind the enemy position and rushed machine-gun emplacement, killing or driving off the crew with his bayonet. With German hand grenades he then bombed out the remaining portion of the strong point, capturing four men and two damaged machine guns.

NORFOLK, VA., *April 20, 1932.*

Congressman WRIGHT PATMAN,
Office Building, Washington:

My attitude reference immediate payment adjusted service I approve and I believe there are many men of the world war who, at present, are destitute, and I believe at this time if Congress passes this bill it will help the country at large. There are many families in need of immediate help and the only way in my opinion is the passage of H. R. 1 good rule.

Captain CUKELA.

Mallon, George H., captain, One hundred thirty-second Infantry, Eighty-third Division, in the Bois-de-Forges, France, September 26, 1918: Becoming separated from the balance of his company, because of a fog, Captain Mallon, with nine soldiers, pushed forward and attacked nine active hostile machine guns, capturing all of them without the loss of a man. Continuing on through the woods, he led his men in attacking a battery of four 155-millimeter howitzers, which were in action, rushing the position and capturing the battery and its crew.

In this encounter Captain Mallon personally attacked one of the enemy with his fists. Later, when the party came upon two more machine guns, this officer sent men to the flanks while he rushed forward directly in the face of the fire and silenced the guns, being the first one of the party to reach the nest. The exceptional gallantry and determination displayed by Captain Mallon resulted in the capture of 100 prisoners, 11 machine guns, four 155-millimeter howitzers, and one antiaircraft gun.

MINNEAPOLIS, MINN., *April 19, 1932.*

Congressman WRIGHT PATMAN,
House Office Building, Washington, D. C.:

Immediate payment of adjusted-service certificates will help idle men who are receiving rent and food from public relief. Also serve many homes, as the majority of them are paying for same on contract and have not worked for months. Therefore I urgently request immediate payment of adjusted-service certificates.

GEORGE H. MALLON, *Captain.*

Gibson, Edward H., sergeant Company M, Twenty-seventh Infantry, United States Volunteers, at San Mateo, P. I., December 19, 1899: Attempted under a heavy fire of the enemy to swim a river for the purpose of obtaining and returning with a canoe.

OAKLAND, CALIF., *April 19, 1932.*

Congressman WRIGHT PATMAN,
House Office Building, Washington, D. C.:

For the soldiers that served their country in the hour of need a great honor could not be conferred on the Government than pay soldiers bonus in this their hour of need.

EDWARD F. GIBSON.

Barger, Charles D., private, first class, Company L, Three hundred and fifty-fourth Infantry, Eighty-ninth Division, near Bois-de-Bantheville, France, October 31, 1918: Learning that two daylight patrols had been caught out in No Man's Land and were unable to return, Private Barger and another stretcher bearer upon their own initiative made two trips 500 yards beyond our lines, under constant machine-gun fire, and rescued two wounded officers.

KANSAS CITY, MO,, *April 20, 1932.*

Congressman WRIGHT PATMAN,
House Office Building, Washington, D. C.:

Private, first class, Charles D. Barger, medal of honor man, serial No. 2205271, requests immediate payment of adjusted-service certificates so these ex-service men everywhere can obtain food and clothing for their families. We want only what is due us.

CHAS. D. BARGER,
Veterans of Foreign Wars, Post 18.

Van Iersel, Louis M., sergeant, Company M, Ninth Infantry, Second Division, at Mouzon, France, November 9, 1918: While a member of the reconnaissance patrol, sent out at night to ascertain the condition of a damaged bridge, Sergeant Van Iersel volunteered to lead a party across the bridge in the face of heavy machine-gun and rifle fire from a range of only 75 yards. Crawling alone along the débris of the ruined bridge he came upon a trap, which gave way and precipitated him into the water. In spite of the swift current he succeeded in swimming across the stream and found a lodging place among the timbers on the opposite bank. Disregarding enemy fire he made careful investigation of the hostile position by which the bridge was defended and then returned to the other bank of the river, reporting this valuable information to the battalion commander.

LOS ANGELES, CALIF., *April 19, 1932.*

Congressman WRIGHT PATMAN,
House Office Building, Washington, D. C.:

In view of fact any cash renumeration would be God send to majority of ex-service men, I herewith declare myself unconditionally in favor of immediate payment adjusted-service certificates.

LOUIS M. VAN IERSEL.

Schaffner, Dwite H., first lieutenant, Three hundred and sixth Infantry, Seventy-seventh Division, near St. Hubert's Pavillion, Boureuilles, France, September 28, 1918:

In command of Company K, Three hundred and sixth Infantry, he led his men in an attack on St. Hubert's Pavillion through terrific enemy machine-gun, rifle, and artillery fire and drove the enemy from a strongly held intrenched position after hand to hand fighting. His bravery and contempt for danger inspired his men, enabling them to hold fast in the face of three determined enemy counter-attacks. His company's position being exposed to enemy fire from both flanks, he made three efforts to locate an enemy machine gun which had caused heavy casualties in his company. On his third reconnaissance he discovered the gun position and personally silenced the gun, killing or wounding the crew thereof. The third counterattack made by the enemy was initiated by the appearance of a small detachment advancing well in advance of the enemy attacking wave, calling as they advanced "Kamerad." When almost within reach of the American front line the enemy attacking wave behind them appeared, attacking vigorously with pistols, rifles, and hand grenades, causing heavy casualties in the American platoon holding the advanced position. Lieutenant Schaffner mounted the parapet of the trench and used his pistol and grenades with great gallantry and effect, killing a number of enemy soldiers, finally reaching the enemy officer leading the attacking forces, a captain, shooting and mortally wounding the latter with his pistol and dragging the captured officer back to the company's trench, securing from him valuable information as to the enemy's strength and position. The information so secured enabled him to maintain for five hours the advanced position of his company despite the fact that it was surrounded on three sides by strong enemy forces. The undaunted bravery, gallant soldierly conduct, and leadership displayed by Lieutenant Schaffner undoubtedly saved the survivors of the company from death or capture.

AKRON, OHIO, *April 19, 1932.*

WRIGHT PATMAN,
House Office Building.

My opinion immediate cash payment adjusted service certificates will be blessing to practically all ex-service men and likewise a big help toward ending present depression.

DWITE H. SCHAFFNER,
Captain Officers Reserve Corps.

Keefer, Philipp B., coppersmith serving on board U. S. S. *Iowa:* For courageous and zealous conduct in hauling fires from two furnaces of boiler B when fireroom was completely filled with live steam from a blownout manhole gasket, and fireroom floor plates were covered with boiling water, on board of that vessel off Santiago de Cuba, July 20, 1898.

APRIL 19, 1932.

Hon. WRIGHT PATMAN,
House of Representatives, Washington, D. C.

DEAR SIR: I am taking this opportunity to inform you that I am in favor of immediate payment of adjusted service certificates.

Very truly yours,

PHILIPP B. KEEFER.

Barrow, David D., ordinary seaman, serving on board the U. S. S. *Nashville:* For extraordinary bravery and coolness while cutting the cables leading from Cienfuegos, Cuba, May 11, 1898, under a heavy fire of the enemy.

PORTSMOUTH, VA., *April 18, 1932.*

Hon. WRIGHT PATMAN, M. C.
House Office Building, Washington, D. C.:

Am heartily in favor cash payment adjusted service certificates. Hope the cash bonus legislation will pass, thanks to your untiring efforts in its behalf.

DAVID D. BARROW,
Aide de camp, Veterans of Foreign Wars, Craddock Post, No. 1119.

Scott, Joseph F., private United States Marine Corps: Serving on board U. S. S. *Nashville*, for extraordinary bravery and coloness while cutting the cables leading from Cienfuegos, Cuba, May 11, 1898, under a heavy fire of the enemy.

CAMBRIDGE, MASS., *April 18, 1932.*

Hon. WRIGHT PATMAN,
House Office Building, Washington, D. C.:

In the name of 6,000 Spanish War Veterans in Massachusetts we ask for immediate payment of adjusted service certificates we are with you in this soldier's fight for justice.

JOSEPH S. SCOTT,
Department Adjutant, United States War Veterans.

Mr. PATMAN. I would like to insert in the record a copy of a letter written by the president of Del Monte Properties Co., of Del Monte, Calif.

This letter discloses that all employees of that company, which is a $7,000,000 concern, are requested to wire their Members of the House and Senate immediately. The president of the concern says that he has already arranged to pay the charges, and even suggests the kind of language that should be used in the telegrams. I understand there was a memorandum attached to each one of these letters intimating that the telegrams were compulsory.

I would like to insert the letter.

Mr. HAWLEY. Does it indicate the nature of the answer they were to send?

Mr. PATMAN. Yes, sir. However, after it quotes the kind of telegram they should send in, it says:

These are my words. Use your own. If you send a night letter, hand it to the head of your department or deliver it to the Western Union office at your home address. I have arranged to pay the charges. If you are an ex-service man, it would help to say so.

That just shows the type of expensive propaganda that we have had to meet.

The ACTING CHAIRMAN. Without objection, the letter may go in the record.

(The letter referred to is as follows:)

DEL MONTE PROPERTIES CO.,
Del Monte, Calif., April 16, 1932.

To Employees of Del Monte Properties Co.:

Organized minorities are endeavoring to enforce legislation in Washington that will be disastrous to the business of the country. I refer particularly to the cash bonus, which at a time like this would well nigh wreck the industrial situation. Unbalanced taxation is nearly as bad. These matters directly affect you. Successful industry is the only answer to employment. Without factories there can be no factory workers. For example, if this company's business is wrecked, where is your job?

I suggest that each one of you who receives this communication send a night letter, preferably, or write in any event to Hon. A. M. Free, House of Representatives, Hon. Hiram M. Johnson, and Hon. Samuel Shortridge, United States Senate, Washington, D. C., sending separate wires or letters to each one, along the following lines:

"I respectfully suggest that you use your efforts to approve legislation that will balance the Budget, oppose the payment of a cash bonus at this time, avoid raids on the Treasury, to reduce Government expenses radically but preserve national defense, to pass a fair sales and stamp tax, to amend the Volstead Act, and to tax light wines and beers. I believe that favorable action in these matters would bring us out of our difficulties, and as one of those whom you represent I urge your vigorous support."

These are my words. Use you own. If you send a night letter, hand it to the head of your department or deliver it to the Western Union office at your home address. I have arranged to pay the charges. If you are an ex-service man, it would help to say so. I would be glad to personally give any of you additional information on these subjects.

Sincerely yours,

S. F. B———, *President.*

Mr. PATMAN. The Kansas City Southern Railway Co. has engaged in a similar campaign, and has written all its employees to wire or write their Members of Congress against proposals of this nature, and even suggesting the forms of letters. It has six forms of letters or telegrams that can be used, and every one is a little bit different. This form of letter is not long, and I would like to insert it in the record.

The ACTING CHAIRMAN. Without objection, it may go in the record.

(The matter referred to is as follows:)

TEXARKANA & FORT SMITH RAILWAY CO.,
Texarkana, Tex., April 21, 1932.

CIRCULAR LETTER NO. 17

All employees:

Inclosed herewith is copy of the president's circular April 17, addressed to all employees outlining action which the conservative element of the population should take in an effort to bring about, during the present session of Congress, some economy in Government which will result in a corresponding easing of the tax burden.

This refers particularly to reduction in wages of Government employees, which practically everyone feels should be made, in view of the fact that employees in practically every other line of work have already taken a cut.

At this time Congress is now in session and one of the most important matters confronting the country is the balancing of the Nation's Budget. So much propaganda has been directed at the Congressmen looking to additional appropriations for all kinds of schemes and to prevent the accomplishment of any real economy that it is going to be necessary for the conservative element to make their position known to Members of Congress.

We have a large number of employees, who, with their relatives and friends, are in position to exert considerable influence and the president's circular attached has been prepared to indicate the importance of informing Congress of the desire that they should take prompt action along the lines mentioned.

As proposals are under consideration by Congress now which are likely to have a disastrous effect on the Nation if they are permitted to pass, the necessity for prompt action in the matter is obvious.

C. H. WRIGHT, *Superintendent.*

THE KANSAS CITY SOUTHERN RAILWAY CO.,
Kansas City, Mo., April 18, 1932.

To all employees:

Government employees from the highest to the lowest are servants of the people and as such are paid by taxes collected from the people. Practically all industry has been forced to cut the compensation to its officers and employees and all individual business has been forced to lower profits. Why should Government employees be exempt?

That it is necessary to balance our Budget, namely, equalize our expenses and our revenue, is agreed by every sane-thinking person and if our Nation is to endure and return to prosperity the quicker this is accomplished the better. Federal employees should be willing to help bring about this balanced condition.

Millions of employees, including our company's, are taking their cut, and if this is to be accomplished with the Government employees our Senators and Representatives must have the moral support of their constituents. If you and the leading citizens of your community or among your acquaintances feel that it is right that Government employees should take a fair reduction in compensation, wire or write and tell your congressmen. I hope you will individually take this action and will endeavor to get others to do the same. Eight or 10 leading men from your community or circle with a positive declaration in favor of this action will have great influence. The sooner we meet this situation and face it courageously the sooner we will get back to normal.

Couple your suggestion to your Senators and Representatives with an earnest appeal to refrain from appropriations of all kinds except the normal expense of conducting the Government until such time as this depression passes.

It would be best, of course, to send your message in your own language, but as suggestion you may find in the accompanying sheets something that may assist you in expressing your views. Pick out one, change it to suit you, make it emphatic and mail it quickly. For your convenience you will find attached a list of Senators and Congressmen from the various States and districts. Address both Senators from your State and the Congressman from your district.

C. E. Johnston:

SUGGESTIONS

I respectfully urge your support for reduction in pay of Government employees. We have taken our cut and private labor throughout the Nation has done same. Reductions must help taxes to balance the budget. If you will vote for this and against all appropriations not justified under present distressing conditions, we will back you up.

Government employees are servants of the people and are paid out of taxes collected from the people. Employees of practically every industry have had their wages reduced and are taking more. We feel that Government employees should do the same. Their scale of wages has been equal to and in some cases higher than ours and if they are exempt our representatives will be held accountable for it. I hope you will not fail to vote to adjust Government salaries to present-day requirements and that I may depend on you for no appropriation beyond the actual necessities of normal Government. We who pay the taxes have more votes than the Government employees and we and our families are entitled to the same consideration. They should share the burdens of the people and we will support our representatives in bringing this about.

We all recognize the urgent necessity for quickly balancing our Nation's budget. Instead of imposing new and increased taxes, the solution of our economic difficulty lies in cutting expenses so as to relieve the tax burden. Activities undertaken in times of prosperity should be discontinued or curtailed, new expenditures should not be permitted and Federal employees should be compelled to bear their part of the load by taking a cut in pay. The voters have had to do this and Government employees paid by the people should be treated likewise. Congress should insist that this be done and I hope that you individually will do everything possible to bring about strict economy in Government expenses.

All labor, except Government, is taking its cut in wages. Railroad employees in every branch voluntarily accepted a 10 per cent cut. I can think of no reason why Government employees, whose hours of labor are few and whose compensation is liberal, should not accept a similar cut in these distressing times. The sentiment in this community is for a wage reduction in all Government departments and no more appropriations except for normal expenses. Your constituents will be back of you in the work you must do to balance the budget. This will help end the depression.

I do not believe there is any reason why Government employees should be exempt from salary reductions. Every other form of labor—white collar and blue overalls—has taken the cut. Government expenses are very great. Government workers have good pay and easy hours and many other compensations others can not command. There should be an immediate reduction in the pay of all Government employees. This is no more than fair to other forms of labor. Government expenses should be reduced; appropriations should be limited to actual necessities. The situation is serious. You may rest assured that this is the feeling among your constituents here.

The press is full of the efforts of Congress to "balance the Budget." This balancing process has been effected by industry in the only possible way—cutting expenses. My income and the income of practically every other person, except Government employees, has been affected. I urge you, therefore, to use your influence to see that Government forces bear their share of this necessary economy and that you support no appropriations or expenditures than can be avoided.

Mr. PATMAN. The Lamm Lumber Co. of Oregon, did the same thing, and it shows inspired propaganda from all sections of the United States. The letter is short, and I would like to insert it in the record.

Mr. HAWLEY. What is the post-office address of that letter?

Mr. PATMAN. It is Modoc Point, Oreg.

The ACTING CHAIRMAN. Without objection, it may go in the record.

(The letter referred to is as follows:)

LAMM LUMBER CO.,
Modoc Point, Oreg., April 14, 1932.

DEAR SIR: Federal expenditures have been increasing year by year until the estimated report of disbursements for the fiscal year ending June 30, 1932, shows more than 60 per cent increase in major departments over 1927 when the prices of all commodities and services were much higher than to-day.

There is already a deficit of about $2,000,000,000 which will require increased taxation at a time when taxes should be lowered to conform with general business conditions. In addition to that situation Congress is considering a soldiers bonus bill calling for about $2,000,000,000 more expenditure.

I think it is advisable for every business man, who believes that taxes should be reduced instead of increased, to write his Senators and Congressmen, requesting that they use their best efforts to kill the bonus bill and to effect all possible economies in the expense of government.

Very sincerely yours,

——— ———.

Mr. PATMAN. Here is a newspaper advertisement—it is not long, but it covers a page—that says: "To Americans."

I do not suppose there are over 150 words in it. It was published in several daily newspapers over the United States. In Chicago it was sent, I understand, to every voter in the city, and in Florida it was published in the Sunday Times-Union at an expense of $375. Other newspapers over the country carried it—of course, as an advertisement. It is anonymous. We have had a very difficult time finding out who paid for it. We have not found out yet.

Mr. HAWLEY. The name of no sponsor appeared?

Mr. PATMAN. No, sir. It just says, "Paid advertisement." I wired the Sunday Times-Union at Jacksonville, and I suspect I received 25 of those from different people in the South. I wired each of them to find out who put that advertisement in, and they have been unable to do so, and the newspaper offices refused to disclose information to me except to say that it cost $375, which they received for inserting it.

The ACTING CHAIRMAN. Without objection it may be included in the record.

(The matter referred to is as follows:)

TO AMERICANS

Ask any ex-soldier why he went to war.

His sincere answer would be: "For my country."

It would never be: "For money."

America owes a debt to those who were willing to risk their lives for her. It can never be repaid. Assume it could be; assume it could be measured in terms of money. No true American would want it. And if such payment hurt his country, he would never accept it.

What is this "soldiers' bonus"? A partial reward to ex-service men? Yes. But payment now will hurt their country.

Our Treasury deficit exceeds $2,000,000,000. This necessitates large Government financing.

Taxes are increased so the Budget may be balanced. Government credit must be maintained.

Bonus payment by attempted sale of two billion more bonds unessential for the reconstruction of the country would impair Government credit.

Bonus payment by issuance of two billion more currency would probably force us off the gold standard.

Remember, nations don't dissociate their currency from gold from choice, but from necessity. Incidentally, nothing would please certain foreign countries more than to see us do this. For the dollar then would cease to be the soundest currency in the world. And we would forego our financial leadership.

Your Senators and Representatives in Washington are honestly trying to do what is best for America. When in doubt they are influenced by their constituents.

If you are against paying the bonus now, wire or write them so.

Do it to-day.

For your country.

Mr. PATMAN. That sprang up all over the Nation at one time. Some of the advertisements—the most effective part, I presume, of the advertisement from their viewpoint—stated:

If you pass this bill it will throw us off the gold standard.

Some of the advertisements changed the wording and said:

It will probably throw us off the gold standard.

But that was the only change that was made in that advertisement over the entire Nation, and it appeared at the same time.

C. F. Childs & Co., 120 Broadway, New York, N. Y., issued a bulletin in April, 1931, in which the Secretary of the Treasury, Mr. Mellon, and the Under Secretary of the Treasury, Mr. Mills, were criticized for their statements before the Senate committee in opposition to the payment of the adjusted service certificates.

The statement is significant for this reason: The same erroneous statements are now being made before this committee for the purpose of misleading the country as to what will be the results on our economic situation if the legislation is passed to pay the adjusted service certificates.

I do not care to insert the whole statement, but I would like to insert just the short part that refers to the misleading statements.

The ACTING CHAIRMAN. Without objection, that may be done.

Mr. HAWLEY. You have identified that by date of publication?

Mr. PATMAN. Yes; and I have the publication before me. It says:

Undignified, misleading statements characterized much of the testimony directed to the congressional committee for the purpose of dissuading Congress from authorizing a bonus payment and a bond issue. Congress was erroneously informed that the issuance of additional Government securities would necessitate paying a high interest rate, cause bank failures, portfolio losses, and demoralization of the Government bond market. Holders previously content with long-term bonds recognized the possibility of a shrinkage in their market value.

I have before me a very fine letter that was addressed to Representative J. Hamilton Fish and myself. I showed the letter to Mr. Hill of Washington. He read the letter over carefully and said that it contained so much interesting information that he asked that it be inserted in the record.

Mr. HILL. That is correct.

The ACTING CHAIRMAN. Without objection, it may go in the record.

Mr. PATMAN. The particular information in this letter to which I would like to invite the committee's attention is this, with reference to gold:

The United States owns about four and three-tenths billions of gold; France owns three and two-tenths billions of gold. In other words, the United States and France own $45 per capita of the gold of the entire world, and for the rest of the world there is only $2.25 of gold per capita. That is for the rest of the entire world outside of France and the United States.

(The letter referred to is as follows:)

BOSTON, MASS., *April 20, 1932.*

HON. J. HAMILTON FISH.
Representative WRIGHT PATMAN.

DEAR SIRS: If the psychological reaction of the depression, aside from the many deplorable symptoms, has signalized the breakdown of the idea with which most of us are imbued, namely, the belief of undoubted and undisputed superiority of all things American—if it has awakened in us the sense of social and individual responsibility to cooperate in face of the failure of a vacillating Government sailing the ship of state without a compass—the cloud which has darkened the past and obscures the outlook certainly has its silver lining.

The neurot.c reaction from Washington has been to consider the depression as an ordinary matter. "We had it before and will come out of it, things will adjust themselves." The myth "Prosperity is just around the corner and depression just a passing dream" has almost become a national anthem. Such a misconception emanates from a minority of people well entrenched and financially independent, who are blind to the starving workmen, unemployment and the misery they entail—"it's just too bad"; or from people who, though well aware of facts, hide the truth to protect personal and political interests.

As this is supposedly a Government of the people, for the people, and by the people, the Nation must be apprised of the truth. A serious blame, therefore, falls on the Government, a blame which is shared by many newspapers, especially by those which, for political tendencies, have grossly violated their duty by disfiguring the truth.

The question of the gold standard has never come to the foreground for the very reason that our financial, economic and self-sustaining walls were considered "impregnable." It, therefore, needs a more serious study than derived from what little has been said about it in most of our papers.

Going off the gold standard is a transitory measure preparatory to finding the level to which the dollar should be devaluated in accordance with capital assets and debts, and thus to establish the equilibrium.

The real reason for world-wide depression is gold. Standardized by weight, it is a commodity subject to the laws of supply and demand. A yardstick which has been generally considered as a medium with which to value merchandise but which by accumulation of gold can be lengthened or by lack of gold must be shortened, loses its rights to figure as such.

The fact that about 28 nations are off the gold standard or have devaluated their paper currency is the evident proof.

The situation which we are facing is that the United States holds about four and three-tenths billion gold and France about three and two-tenths billion gold, or, out of the world's total monetary gold supply of eleven and three-tenths billion, about 66.5 per cent. That means per capita for the United States and France about $45, and for the rest of the world about $2.25.

About 45 per cent of the world's population—the best outlet for manufactured goods—are on a silver standard, depreciated by about 50 per cent, paralyzing their purchasing power.

It is, therefore, evident that international debts owed to us can not be paid in gold which we hoard and of which the rest of the world is deprived. But this international question, important as it is because it does away with the idea of isolation and self-sustaining, may seem of lesser value than our national situation, because it is the people represented in Congress who have to decide upon the means of balancing the Budget, in which every American citizen is primarily interested.

The purchasing power of the dollar to-day is about 140–145. Hence capital issues are inflated to this extent. Wages and cost of distribution have been deflated but little. The value of commodities is deflated to the bone.

It is evident that all of the legislative measures, well intended as they are, such as the Credit Corporation, the Glass-Steagall bill, the Finance Reconstruction Corporation, are palliatives and will not produce work for one man or an order for a ton of steel.

That seems an audacious statement. However, it is true because these laws—and prosperity can not be made to order—do not establish the necessary equilibrium of the three cardinal conditions outlined above. Until that is done there is not the shadow of constructive action in sight.

Debts of all kinds, international and national, are payable at a 40 to 45 per cent premium, which is the artifically inflated purchasing power of gold.

Cotton quoted 18 cents in 1929, more or less; to-day it is 6 cents more or less. Wheat quoted $1.50 in 1929, more or less; to-day it is 60 cents more or less.

These prices are "delivered," and the farmer gets much less money for his work and his products on the farm.

If we devaluate the dollar, it remains the authorized currency, and a mortgage for $18,000 contracted in 1929 would be payable for $18,000 (dollar greenbacks) and thus help to establish an equilibrium between capital issues and debts.

To illustrate the inflation of debts in face of sweeping shrinkages of commodity values, let us examine the position of the average commodity producer. It is assumed that a cotton grower who produces 200 bales of cotton annually might have paid off a mortgage on his farm of, say, $18,000 during 1929 with the total proceeds of one crop (in 1929, 200 bales of cotton were worth about $18,000). To-day, however, it would be necessary for him to apply the total proceeds of three crops to pay off his debt ($18,000 will buy 600 bales of cotton now). Since practically all commodities have declined in more or less the same or greater proportion, this condition applies almost universally to Mr. Commodity Producer. The creditor, on the other hand, benefits in inverse ratio to the producer's distress—i. e., the lender advances the farmer purchasing power equal to 200 bales of cotton, $18,000—but the value of his loan is now equal to 600 bales. Expressed in terms of an average unit of all commodities, the lender's mortgage has likewise approximately tripled in value. This is a distorted advantage to the creditor and an insurmountable impasse to the debtor. To correct this condition by artificially lifting the price has been found impossible (vide Farm Board). Therefore it is logical to resort to the only other alternative for restoring the proper balance, namely, through the deflation of debts. This disproportion of balance between debtor and creditor is the same wherever debts exist, from the small home owner's mortgage to railroad funded indebtedness and international debts.

By departing from the present gold basis and reestablishing it on a lower basis, all indebtedness would be brought in line with capacity to pay and the same relationship of value restored that existed at the time the debts were incurred. As for the creditor, while the gold value of his loans would be reduced, it would be more nearly in keeping with the original value in terms of average raw commodity units. While under the present gold exchange standard creditors are entitled to receive two or three times or even more purchasing power in terms of raw material than originally advanced to the debtor, under a new gold standard carefully adjusted to restore equilibrium creditors would receive the same purchasing power that they originally lent, which is as it should be and as it is intended to be.

Space does not allow me to enter at length into the question of partly deflated wages and cost of distribution. I will in short illustrate it by an example:

The value of a pound of clean wool in 1929 was $1.20.

To convert it into combed wool (as it necessary for spinning), cost about $0.27, more or less.

To-day this very combed wool costs $0.69, and the converting cost, with wages and distribution cost little deflated, $0.25, more or less.

Hence, the farmer gets for his wool the equivalent of 44 cents, while in 1929 he got $1.20. It means, therefore, 63 per cent less on the farmer's product and only 2 to 3 per cent is sacrificed on the converting cost.

This amongst many other reasons eliminates the consuming power of the wool grower and of all other producers of agricultural products.

I object to the comparison in regard to currency inflation when France or Germany are mentioned as a parallel. This example is misleading because at the time both countries were debtors, while America is a creditor nation.

It is consequently not a question of necessity but a question of expediency for the United States to adjust the yardstick of gold's purchasing power to its proper length.

We can not sacrifice the welfare of the nation for the benefit of a few.

The sum of value created by human labor is worth infinitely more than all the gold in the world put together.

When it is evident that the collection of debts in gold, national and international, seems and is impossible except for dreamers or politicians who do not want to face the situation, is it not necessary to compromise? A business man confronted with the insolvency of a customer will eagerly agree to a dividend of 60 per cent or less, especially if this compromise would put the customer on his feet and conserve the customer's purchasing power.

That is exactly what must happen. Debts would be collectible at almost the same basis on which the money was lent, striking out the usury of inflated gold power. Wages can be maintained and production cost lowered. The cost of living would by no means increase in any proportion to the dollar's devaluation, but commodities which follow the law of supply and demand according to world production would rise in value. Cotton would go to higher prices and so would wheat. The farmers' and wage earners' purchasing power would be restored and thus create an outlet for our production of essentials and nonessentials. Out international debtors would be enabled to pay and the specter of default as written on the wall would disappear.

For all this we have examples.

France devaluated the franc to 3.91 cents. France is per capita richer in "gold" than the United States. Due to depression and the tariff, the deficit of France is about 4 billion francs or $160,000,000. I venture to say that it could be easily covered by an internal loan.

England abandoned the gold standard partly because its gold covering was insufficient, more so to uphold its leadership as a financial center of the world. England is a creditor country, owning wealth abroad estimated at more than £20,000,000,000. In England unemployment is diminishing; it is paying and anticipating its debts to us and others, its export trade is improving, and its budget balanced.

Let me quote Mr. Winston S. Churchill, who, when asked about the cause of the world depression, stated on March 10:

"I think the root of the whole matter is gold. We have all been made artificially poor through gold being artificially dear. It is folly to try to pay our war debts and reparations across tariff frontiers which will not allow payment in goods. This has forced up the price of gold—has, in other words, forced down all our possessions and exertions. This ugly deflation is pulling down the whole world around our ears."

Prof. Irving Fisher of Yale said on April 9:

"'Reshrinkage' of the dollar and 'reflation' of the price level to let people pay their debts on the same basis as that on which they were contracted is the world's first need to regain economic stability. The depression may be said to consist of the fact that each dollar of debt has grown to be a dollar and a half. It is as if every merchant who agreed in 1929 to deliver 1,000 yards of cloth in 1932 must now deliver 1,500 instead, and as if every delivery of wheat, cotton, steel, and lumber was also magnified by 50 per cent."

You have asked for cooperation of all American citizens. This letter is intended to show the only road to lasting recovery, in my opinion.

The enemy of to-day threatens our national and individual existence. The fruit of arduous labor in the field of material and scientific progress must not be sacrificed on the altar of political and personal interests. Our achievements emanate from the inexhaustible source of labor and progress, and the sum of concrete value thus created is worth infinitely more than the abstract value of all the world's gold put together.

When abstract values are adapted to concrete values, when wealth is no more measured in quantity of gold but in terms of what money or gold can and will procure, we may hope—and then only—for recovery.

Yours very truly,

EUG. SCHWERDT.

Mr. PATMAN. Now, I have some short statements here about the reason that the American Legion has not been more active in sponsoring this proposal, although of the individual posts over the Nation I believe 95 per cent are in favor of this legislation. I believe that the percentage of members in favor of this legislation is higher than 95 per cent.

As evidence of the fact that there is strong demand, although it has not been shown before this committee, Warsaw, N. C., National Commander Stevens's own post, indorsed a resolution favoring immediate payment of the adjusted service certificates. And from Kansas I have an item which I will read, because it is shorter than I can explain it.

Donald W. Stewart, Kansas State Commander of the American Legion, in a message to other Legion officers in the State, urges no agitation for payment of the second half of World War veterans' compensation at this time.

Pressure was brought to bear on them not to say a word.

In Ohio they would not even let them send the returns in to Congress as to a vote that was taken out there. Here is an item explaining that. And in other States they used pressure to try to prevent them from expressing their will on this question where their will was in favor of the proponents of this legislation. But, notwithstanding that pressure all over the United States, you gentlemen are familiar with the interest that has been manifested by the members of the American Legion.

I desire to insert those short statements.

The ACTING CHAIRMAN. Without objection, that may be done.

(The matter referred to is as follows:)

COMMANDER STEVENS'S POST DEMANDS BONUS

WARSAW, N. C., April 13 (AP).—The Warsaw American Legion post, of which National Commander Henry L. Stevens is a member, has adopted a resolution favoring immediate payment of the soldiers' bonus. Stevens has announced he is standing behind the decision of the national convention not to demand payment of the bonus at this time.

[From the Cleveland Press, April 21, 1932]

COUNTY LEGION BEHIND BONUS

NATIONAL STAND, HOWEVER, KEEPS NOTICE FROM CONGRESS

Notice of the action of the Cuyahoga county council of the American Legion in going on record last night in favor of immediate payment of veterans' adjusted compensation will not be sent to Congressmen or Senators.

James W. Suhr, chairman of the council, cited a ruling of the national judge advocate of the Legion, which held that a post can not take action contrary to the dictates of the national convention. The last national convention at Detroit voted against the bonus.

Representatives of 19 posts at last night's meeting voted in favor of the bonus. One, Victory Post, declined to vote and three voted against the proposition.

SEND IN THE LEGION VOTE

Maybe County Legion Chairman Suhr is doing his official and legal duty when he refuses to send in to Congress the action of the Cuyahoga County Council, voting 19 to 3 in favor of the cash bonus bill.

Perhaps the judge advocate of the national American Legion organization is legally justified in ruling that any local outfit which sends in a vote adverse to the action of the national convention last fall is subject to discipline.

But in our opinion this is a peculiar ruling, contrary to the practices of democracy, and one which has led Chairman Suhr into an equally peculiar and undemocratic action in the Cuyahoga County vote.

This newspaper does not favor the cash bonus and has fought hard against it, but we think it is a sound principle of American democracy that every voice, for or against, on any issue, should be given full outlet in effective expression.

That principle should be applied, in our opinion, to the action of the Cuyahoga County Council.

KANSAS LEGION HEAD URGES NO AGITATION FOR BONUS PAYMENT

INDEPENDENCE, KANS., April 16 (AP).—Donald W. Stewart, Kansas State commander of the American Legion, in a message to other Legion officers in the State, urges no agitation for payment of the second half of World War veterans' compensation at this time.

The commander, who lives here, cited the action of the State and national conventions which voted against immediate demands for compensation.

Mr. ESLICK. Will the gentleman yield for one question?

Mr. PATMAN. Yes.

Mr. ESLICK. You have probably kept in closer touch with this situation than anyone else. From the information you have before you, what percentage of the veterans desire this payment?

Mr. PATMAN. I believe it can truthfully be said that 98 per cent desire it. I think that can truthfully be said—that 98 per cent of the veterans of the World War desire this payment.

I have here excerpts from a document printed March 14, 1919, by the war-loan organizations of the different Federal reserve districts. That was when they were putting over the fifth Victory loan drive, and these statements made in those official publications, I think, are interesting, and will have a direct bearing on this legislation. One statement is made here that the war was costing $2,000,000,000 every month, and it went ahead to show that by reason of these war contractors furnishing the material and the supplies and everything it enabled the war to be more quickly terminated and saved $2,000,000,000 a month, and therefore they should not hesitate in raising the money to pay off all the bills of the war.

I desire to insert in the Record an article entitled "Why Germany Quit." It is in a publication known as The Liberty Bell, published on March 14, 1919, by the war loan organization of the ninth Federal reserve district, 418 First National-Soo Building, Minneapolis, Minn.

It is as follows:

WHY GERMANY QUIT

Germany tested the metal of America's fighting men. Germany knew just what America was doing in preparation at home. Germany quit. Why? Because America's tremendous show of spirit and power convinced the Boche that it was only a question of time. This country's fighters "over there" and the makers "over here" ended the war at least six months before the best qualified experts believed it possibly could be ended. As a result, there were saved 100,000 Americans whose sacrifice would have cast shadows on just that many additional American homes. Is that unshed blood worth the cost of unused munitions and unfilled contracts?

Six months more of war would have meant $12,000,000,000 more expense, and instead of facing the last Liberty loan and one year of saving and buying of thrift stamps, the people of America would be facing the fifth loan, with the sixth and seventh and many years of sacrifice in prospect.

Was what may seem to us immense expenditures and colossal contracts justified to save $12,000,000,000? Remember these things all had to be done immediately, and on that account there was some unavoidable waste and some needless expenditures. But because they were done immediately the war ended suddenly. Was it worth the price? Is America going to quibble about expenditures or is it going to set about finishing the job with gratefulness and joy?

The money that was spent scaring Germany to death is the money we must raise by selling Government securities in 1919.

Other excerpts from the same publication, which had for its purpose putting over the fifth Victory loan, are as follows:

The war was a job "wished" on us by the Boche, but it was our job. The fighting part of the job is done. Our honored dead and our victorious returning troops are evidence of the thoroughness with which that part of the job was done.

Now, in order that our heroes "may not have died in vain," we must finish the job, pay our debts.

Shall we hestiate to pay the bills? No! We will thank God and buy to our utmost.

After a successful operation, you can't refuse to pay the doctor.

People say it is going to be a hard job to make the American people do their duty, now that the guns, the shouting, and the tumult have subsided. It's a lie.

Mr. John Maynard Keynes is perhaps the leading economist of Great Britain. Prof. Irving Fisher paid him a very high compliment before the subcommittee considering the Goldsborough bill. I will not read here what Professor Fisher said about him, but I would like to insert that in the record—not with these newspaper clippings, but with an article that Mr. Keynes edited in the Atlantic Monthly. It has been commented on by the leading newspapers in the Nation. In fact, the Indianapolis News had a 2-column article about it; so did the New York Times, and newspapers all over the Nation, and it aroused so much interest throughout the country that I feel that it will be of interest to the members of this committee and the people who read the hearings; and I ask that that article, which directly bears upon this kind of legislation, be inserted in the record.

The Acting Chairman. Without objection, it may go in the record.

(The matter referred to is as follows:)

John Maynard Keynes, perhaps the leading economist of Great Britain to-day, a man whose advice, if followed, would have saved us a great deal of foolishness in regard to war debts and a great deal of foolishness in England in regard to resuming gold redemption without devaluation, and a great deal of foolishness in the last few years—his recent book on his efforts at "persuasion," shows on how many occasions his advice was rejected and ought to have been accepted.—Prof. Irving Fisher.

The World's Economic Outlook

By John Maynard Keynes

The immediate problem for which the world needs a solution to-day is different from the problem of a year ago. Then it was a question of how we could lift ourselves out of the state of acute slump into which we had fallen and raise the volume of production back toward a normal figure. But to-day the primary problem is to avoid a far-reaching financial crisis. There is now no possibility of reaching a normal level of production in the near future. Our efforts are directed toward the attainment of more limited hopes. Can we prevent an almost complete collapse of the financial structure of modern capitalism? With no financial leadership left in the world and profound intellectual error as to causes and cures prevailing in the responsible seats of power, one begins to wonder and to doubt. At any rate, no one is likely to dispute that for the world as a whole the avoidance of financial collapse, rather than the stimulation of industrial activity, is now the front-rank problem. The restoration of industry must come second in order of time. Nowhere, I believe, is this better understood than in the United States.

The immediate causes of the world financial panic—for that is what it is—are obvious. They are to be found in a catastrophic fall in the money value, not only of commodities, but of practically every kind of asset. The "margins," as we call them, upon confidence in the maintenance of which the debt and credit structure of the modern world depends, have "run off." In many countries the assets of the banks are no longer equal, conservatively valued, to their liabilities to their depositors. Debtors of all kinds find that their securities are no longer the equal of their debts. Few governments still have revenues sufficient to cover the fixed money charges for which they have made themselves liable.

Moreover, a collapse of this kind feeds on itself. We are now in the phase where the risk of carrying assets with borrowed money is so great that there is a competitive panic to get liquid. And each individual who succeeds in getting more liquid forces down the price of assets in the process of getting liquid, with the result that the margins of other individuals are impaired and their courage undermined. And so the process continues. It is, indeed, in the United States itself that this has proceeded to the most incredible lengths. The collapse of values there has reached astronomical dimensions. I scarcely need to remind American readers of the facts. But the United States only offers an example—extreme, owing to the psychology of its people—of a state of affairs which exists in some degree almost everywhere.

The competitive struggle for liquidity has now extended beyond individuals and institutions to nations and to governments, each of which endeavors to make its internal balance sheet more liquid by restricting imports and stimulating exports by every possible means, the success of each one in this direction meaning the defeat of someone else. Moreover, each country discourages capital development within its own borders for fear of the effect on its international balance. Yet it will only be successful in its object in so far as its progress toward negation is greater than that of its neighbors.

II. We have here an extreme example of the disharmony of general and particular interest. Each nation, in an effort to improve its relative position, takes measures injurious to the absolute prosperity of its neighbors; and, since its example is not confined to itself, it suffers more from similar action by its neighbors than it gains by such action itself. Practically all the remedies popularly advocated to-day are of this internecine character. Competitive wage reductions, competitive tariffs, competitive liquidation of foreign assets, competitive currency deflations, competitive economy campaigns—all are of this beggar-my-neighbor description. For one man's expenditure is another man's income. Thus, whenever we refrain from expenditure, while we undoubtedly increase our own margin, we diminish that of someone else; and if the practice is universally followed everyone will be worse off. An individual may be forced by his private circumstances to curtail his normal expenditure, and no one can blame him. But let no one suppose that he is performing a public duty in behaving in such a way. The modern capitalist is a fair-weather sailor. As soon as a storm rises, he abandons the duties of navigation and even sinks the boats which might carry him to safety by his haste to push his neighbor off and himself in.

Unfortunately the popular mind has been educated away from the truth, away from common sense. The average man has been taught to believe what his own common sense, if he relied on it, would tell him was absurd. Even remedies of a right tendency have become discredited because of the failure of a timid and vacillating application of them. Now, at last, under the teaching of hard experience, there may be some slight improvement toward wiser counsels. But through lack of foresight and constructive imagination the financial and political authorities of the world have lacked the courage or the conviction at each stage of the decline to apply the available remedies in sufficiently drastic doses; and by now they have allowed the collapse to reach a point where the whole system may have lost its resiliency and its capacity for a rebound.

Meanwhile the problem of reparations and war debts darkens the whole scene. We all know that these are now as dead as mutton and as distasteful as stale mutton. There is no question of any substantial payments being made. The problem has ceased to be financial and has become entirely political and psychological. If in the next six months the French were to make a very moderate and reasonable proposal in final settlement, I believe that the Germans, in spite of all their present protestations to the contrary, would accept it and would be wise to accept it. But to all outward appearances the French mind appears to be hardening against such a solution and in favor of forcing a situation in which Germany will default. French politicians (and in candid moments American politicians may confess to a fellow feeling) are conscious that it will be much easier for them, vis-à-vis the home political front, to get rid of reparations by a German default than to reach by agreement a moderate sum, most of which might have to be handed on to the United States. Moreover, this outcome would have what they deem to be the advantage of piling up grievances and a legal case against Germany for use in connection with the other outstanding questions created between the two countries by the treaty of Versailles. I can not therefore extract much comfort or prospective hope from developments in this sphere of international finance.

III. Well, I have painted the prospect in the blackest colors. What is there to be said on the other side? What elements of hope can we discern in the surfounding gloom? And what useful action does it still lie in our power to take?

The outstanding ground for cheerfulness lies, I think, in this—that the system has shown already its capacity to stand an almost inconceivable strain. If anyone had prophesied to us a year or two ago the actual state of affairs which exists to-day, could we have believed that the world could continue to maintain even that degree of normality which we actually have? This remarkable capacity of the system to take punishment is the best reason for hoping that we still have time to rally the constructive forces of the world.

Moreover, there has been a still recent and, in my judgment, most blessed event of which we have not yet had time to gain the full benefit. I mean Great Britain's abandonment of the gold standard. I believe that this event has been charged with beneficient significance over a wide field. If Great Britain had somehow contrived to maintain her gold parity, the position of the world as a whole to-day would be considerably more desperate than it is, and default more general.

For Great Britain's action has had two signal consequences. The first has been to stop the decline of prices, measured in terms of national currencies, over a very considerable proportion of the world. Consider for a moment what an array of countries are now linked to the fortunes of sterling rather than of gold. Australasia, India, Ceylon, Malaya, East and West Africa, Egypt, and Scandinavia; and, in substance, though not so literally, South America, Canada, and Japan. Outside Europe there are no countries in the whole world except South Africa and the United States, which now conform to a gold standard. France and the United States are the only remaining countries of major importance where the gold standard is functioning freely.

This means a very great abatement of the deflationary pressure which was existing six months ago. Over wide areas producers are now obtaining prices in terms of their domestic currencies which are not so desperately unsatisfactory in relation to their costs of production and to their debts. These events have been too recent to attract all the attention they deserve. There are several countries of which it could be argued that their economic and financial condition may have turned the corner in the last six months. It is true, for example, of Australia. I think it may be true of Argentina and Brazil. There has been an extraordinary improvement in India, where the export of gold previously hoarded, a consequence of the discount of sterling in terms of gold which no one predicted, has almost solved the financial problem.

As regards Great Britian herself, the world has a little overlooked, I think, the change since last September, which represents, if not an absolute, at least a relative improvement. The number of persons employed to-day exceeds by 200,000 the number employed a year ago—which is true of no other industrial country. This has been achieved in spite of the fact that there has been, even during the past year, a further rise in real wages; for, while money wages have fallen by 2 per cent, the cost of living, in spite of the depreciation of the sterling exchange, has fallen by 4 per cent. And the explanation is an encouragement for the future. For the explanation lies in the fact that over a wide field of her characteristic activities Great Britian to-day is once again the cheapest producer n the world. The forces set on foot last September have by no means had time to work their full effect. Yet even to-day—though, since popular knowledge of a foreign country is always out of date, it may surprise you that I should say so—Great Britian is decidedly the most prosperous country in the world.

IV. But there is a second major consequence of the partition of the countries of the world into two groups, on and off the gold standard respectively. For the two groups roughly correspond to those which have been exercising deflationary pressure on the rest of the world, by havnig a net creditor position which causes them to draw gold, and those which have been suffering this pressure. Now the departure of the latter group from gold means the beginning of a process toward the restoration of economic equilibrium. It means the setting into motion of natural forces which are certain in course of time to undermine and eventually destroy the creditor position of the two leading creditor gold countries. The process will be seen most arpidly in the case of France, whose creditor position is likely to be completely undermined before the end of 1932. The cessation of reparation receipts, the loss of tourist traffic, the competitive disadvantage of her export trades with nongold countries, and the importation of a large proportion of the world's available gold, will, between them, do the work. In the case of the United States the process may be a slower one, largely because the reduction of tourist traffic, which costs France so dear, means for the United States a large saving. But the tendency will be the same. A point will surely come when the current release of gold from India and the mines will exceed the favorable balance of the gold countries.

Thus a process has been set moving which may relieve in the end the deflationary pressure. The question is whether this will have time to happen before financial organization and the system of international credit break under the strain. If it does, then the way will be cleared for a concerted policy, probably under the leadership of Great Britain, of capital expansion and price raising throughout the world. For without this the only alternative solution which I can envisage is one of the general default of debts and the disappearance of the existing credit system, followed by rebuilding on quite new foundations.

The following, then, is the chapter of events which might conceivably—I will not attempt to evaluate the probability of their occurrence—lead us out of the bog. The financial crisis might wear itself out before a point of catastrophe and general default had been reached. This is, perhaps, happening. The greatest dangers may have been surmounted during the past few months. Pari passu with this, the deflationary pressure exerted on the rest of the world by the unbalanced creditor position of France and the United States may be relaxed, through their losing their creditor position as a result of the steady operation of the forces which I have already described. If and when these things are clearly the case, we shall then enter the cheap-money phase. This is the point at which, on the precedent of previous slumps, we might hope for the beginning of recovery. I am not confident, however, that on this occasion the cheap-money phase will be sufficient by itself to bring about an adequate recovery of new investment. It may still be the case that the lender, with his confidence shattered by his experiences, will continue to ask for new enterprise rates of interest which the borrower can not expect to earn. Indeed, this was already the case in the moderately-cheap-money phase which preceded the financial crisis of last autumn.

If this proves to be so, there will be no means of escape from prolonged and perhaps interminable depression except by direct state intervention to promote and subsidize new investment. Formerly there was no expenditure out of the proceeds of borrowing that it was thought proper for the State to incur except for war. In the past, therefore, we have not infrequently had to wait for a war to terminate a major depression. I hope that in the future we shall not adhere to this purist financial attitude, and that we shall be ready to spend on the enterprises of peace what the financial maxims of the past would only allow us to spend on the devastations of war. At any rate, I predict with an assured confidence that the only way out is for us to discover some object which is admitted even by the deadheads to be a legitimate excuse for largely increasing the expenditure of someone on something.

V. In all our thoughts and feelings and projects for the betterment of things, we should have it at the back of our heads that this is not a crisis of poverty, but a crisis of abundance. It is not the harshness and the niggardliness of nature which are oppressing us, but our own incompetence and wrong-headedness which hinder us from making use of the bountifulness of inventive science and cause us to be overwhelmed by its generous fruits. The voices which—in such a conjuncture—tell us that the path of escape is to be found in strict economy and in refraining, wherever possible, from utilizing the world's potential production are the voices of fools and madmen. There is a passage from David Hume in which he says: "Though the ancients maintained that, in order to reach the gifts of prophecy, a certain divine fury or madness was requisite, one may safely affirm that, in order to deliver such prophecies as these, no more is necessary than merely to be in one's senses, free from the influence of popular madness and delusion.'

Obviously it is much more difficult to solve the problem to-day than it would have been a year ago. But I believe even now, as I believed then, that we could still be, if we would, the masters of our fate. The obstacles to recovery are not material. They reside in the state of knowledge, judgment, and opinion of those who sit in the seat of authority. Unluckily the traditional and ingrained beliefs of those who hold responsible positions throughout the world grew out of experiences which contained no parallel to the present, and are often the opposite of what one would wish them to believe to-day. In France the weight of authoritative opinion and public sentiment is genuinely and sincerely opposed to the whole line of thought which runs through what I have been saying. In the United States it is almost inconceivable what rubbish a public man has to utter to-day if he is to keep respectable. Serious and sensible bankers, who as men of common sense are trying to do what they can to stem the tide of liquidation and to stimulate the forces of expansion, have to go about assuring the world of their conviction that there is no serious risk of inflation, when what they really mean is that they can not yet see good enough grounds for daring to hope for it. In Great Britain opinion is probably more advanced. I believe that the ideas of British statesmen and even of British bankers are on sounder lines than those current elsewhere. What we in London have to fear is timidity and a reluctance to act boldly.

Nothing could be a greater advantage to the world than that the United States should solve her own domestic problems, and, by solving them, provide the stimulus and the example to other countries. But observing from a distance—a nearer view of the prospect might modify my pessimism—I am unable to imagine a course of events which could restore health to American industry in the near future. I even fancy that, so far from the United States giving the example, she will herself have to wait for stimulus from outside. I, therefore, dare to hope—however improbable it may seem in the light of recent experience—that relief may come first of all to Great Britain and the group of overseas countries which look to her for financial leadership. It is a dim hope, I confess. But I discern less light elsewhere.

Mr. PATMAN. Robert Quillen, a famous columnist, whose articles appear in the press throughout the Nation each day, has recently written a very interesting article on No More Money. It is short, and I ask that it be inserted in the record. It is a well-written article that directly bears on this legislation.

The ACTING CHAIRMAN. Without objection, it may go in the record.

(The matter referred to is as follows:)

NO MORE MONEY

Beyond any doubt this country needs more money.

Even in normal times, commercial paper is used as a money substitute and each dollar of cash must do the work of about $10.

Mr. Hoover's campaign against hoarding is a confession that the country hasn't enough money.

Hoarding, it is conceded, ties up the Nation's capital and restricts credit.

But if the hoarding of a sum equal to less than 2 per cent of the Nation's annual business can have an effect so sinister, it is easy to believe that more money would do the country no harm.

If the Nation's business can be endangered or seriously injured by an epidemic of money saving, something should be done to mend matters.

Nobody knows the exact sum of money in circulation. Certainly it is less than the official figure. Paper money is burned and otherwise destroyed. Money of all kinds goes down in ships. And a great quantity of it is held in foreign lands.

But whatever the sum in actual circulation, it is inadequate for present needs.

Concede that much. Concede further that the Government has enough surplus gold to justify and protect a billion or two of additional currency.

There is no divine rule to determine the amount of money this Nation should have in circulation. If more is needed, and there is gold to support it, let us have it.

But it is one thing to issue paper backed by gold and quite another to issue paper that has nothing behind it except a desire to get something for nothing.

You may not know finance, but you do know the American people. You know they get excited and run wild.

They lost faith in stocks and the resulting crash shook the earth.

They lost faith in banks and are still hiding money behind the barn.

They lost faith in law and the country began to resemble a madhouse.

They still have faith in money. That is the one bit of solid footing they have left.

Destroy that and you wreck the Nation.

If you want unsecured paper money, you can find it in the South. Collectors will sell you a pocket full of pretty Confederate money for a dime. Or that same dime will buy you a bale of German paper marks.

If you wish to eat in future, speak your piece now before this lunacy goes too far.

Once the poison is in the well, you can't get it out until the well is pumped dry.—Robert Quillen.

Mr. PATMAN. I will not ask to have this inserted in the record, because it is a longer statement than I would like to ask the committee to insert. But Mr. Giannini, of the Bank of Italy, who is the head of the Trans-America Corporation, attended a meeting at Portland, Oreg., a few days ago and made this statement: "Inflation will restore prosperity."

And in that article he states that this country can not be prosperous until there has been a certain amount of inflation of the currency.

I will not ask that that be inserted, but will leave it with that statement.

Here is one that I would like to have inserted. It is an editorial from the News-Telegram, published in Oregon, and it explains fully the necessity for expansion of the currency. The title is "New Money, New Hope, New Prosperity."

The ACTING CHAIRMAN. Mr. Patman, of course I want you to put in whatever you please; but you are as much interested in economy in Government expenditures as I am.

Mr. PATMAN. I assure the chairman that I do want to economize.

The ACTING CHAIRMAN. And you know, of course, that all these things cost a good deal of money to print.

Mr. PATMAN. Yes, sir.

Mr. RAGON. This particular one is just a newspaper article, is it not?

Mr. PATMAN. It is a newspaper article, but it is a well written one.

Mr. RAGON. It seems to me that if it is a newspaper article the expense is too great.

Mr. PATMAN. Well, I will withdraw the request for that, Mr. Chairman.

I have here a statement which I would like to have inserted in the record—not the whole statement; I have stricken out one side, but the other side shows the securities owned by the United States Government. This is a statement from the Treasury Department. It gives the names of all the securities held, and the amounts thereof.

Mr. RAGON. What is the date of it?

Mr. PATMAN. The date of this is February 29, 1932. There has been very little change since that time except the accumulation of interest.

Mr. CHINDBLOM. That is the same as this statement, is it not, that just came in, for April 29?

Mr. PATMAN. I do not think that gives it as fully as this.

Mr. CHINDBLOM. All right.

Mr. PATMAN. I think this is gotten out monthly.

Mr. RAGON. That has not been put in before, has it?

Mr. PATMAN. No, sir; it has not, to my knowledge. If I find that it has been, I will ask that it be excluded.

Mr. RAGON. I suggest that there are parts of it that might be eliminated.

Mr. PATMAN. Well, it is not long, taking into consideration that it has been spread over this space.

The ACTING CHAIRMAN. Without objection, it may go in the record.

(The statement referred to is as follows:)

Securities owned by the United States Government compiled from latest reports received by the Treasury February 29, 1932

		Principal amount held	
Foreign obligations:			
Funded bonds—			
Under the debt-funding agreements as authorized by the acts of Congress approved Feb. 9, 1922, Feb. 28, 1923, Mar. 12, 1924, May 23, 1924, Dec. 22, 1924, Apr. 28, 1926, Apr. 30, 1926, May 3, 1926, Mar. 30, 1928, Feb. 4, 1929, Feb. 14, 1929, and Dec. 18, 1929—			
Austria		$23,752,217.00	
Belgium		400,680,000.00	
Estonia		16,466,012.87	
Finland		8,604,000.00	
France		3,863,650,000.00	
Great Britain		4,398,000,000.00	
Greece		31,516,000.00	
Hungary		1,908,560.00	
Italy		2,004,900,000.00	
Latvia		6,888,664.20	
Lithuania		6,197,682.00	
Poland		177,485,000.00	
Rumania [1]		63,860,560.43	
Serbs, Croats, and Slovenes		61,625,000.00	
			$11,065,533,696.50
Unfunded obligations [2]—			
For cash advances made under authority of acts of Congress approved Apr. 24, 1917, and Sept. 24, 1917, as amended—			
Czechoslovakia [3]		61,974,041.10	
Russia		187,729,750.00	
			249,703,791.10
For surplus war supplies sold on credit by Secretary of War under authority of acts of Congress approved July 9, 1918, and June 5, 1920—			
Czechoslovakia [3]		20,604,302.49	
Nicaragua		290,627.99	
Russia		406,082.30	
			21,301,012.78
For relief supplies sold on credit by American Relief Administration under authority of act of Congress approved Feb. 25, 1919—			
Armenia		8,028,412.15	
Czechoslovakia [3]		6,428,089.19	
Russia		4,465,465.07	
			18,921,966.41
For relief supplies sold on credit by United States Grain Corporation under authority of act of Congress approved Mar. 30, 1920—			
Armenia		3,931,505.34	
Czechoslovakia [3]		2,873,238.25	
			6,804,743.59
			11,362,265,210.38
German bonds—			
For account of reimbursements of the costs of the United States Army of occupation and the awards of the Mixed Claims Commission, under the funding agreement of June 23, 1930, as authorized by the act of Congress approved June 5, 1930 (bonds are in reichsmarks, which for the purpose of this statement are converted at 23.82 cents to the reichsmark)—			
Army costs	Rm. 997,500,000	$237,604,500.00	
Mixed claims [4] Rm. 2,040,000,000			
Private awards (estimated) 1,415,000,000			
Government awards (estimated)	625,000,000	148,875,000.00	
	Rm. 1,622,500,000		386,479,500.00
Total foreign obligations			11,748,744,710.38

[1] Original amount ($66,560,560.43) included bonds aggregating $21,970,560.43 representing interest accruing and remaining unpaid during first 14 years, payment of which, under the funding agreement, is extended over the last 48 years.

[2] The figures do not include interest accrued and unpaid.

[3] Indebtedness of Czechoslovakia has been funded under the agreement of October 13, 1925, but the original obligations have not been exchanged for the new bonds of that Government.

[4] Division of German bonds between private awards and Government awards is an estimate based upon best information available at this time When Mixed Claims Commission has completed its duties, a more accurate division may be made. Awards generally bear interest at 5 per cent per annum. Bonds do not bear interest, but the aggregate face amount thereof will be sufficient to cover payment of the principal and interest due on the total awards finally entered by the Mixed Claims Commission. Bonds for private awards are held in trust, the proceeds thereof when received at maturity to be distributed by the Treasury to the claimants. Bonds mature on Mar. 31 and Sept. 30 of each year in the principal amount of R. M. 20,400,000 each. No payments are to be made on Government awards until all private awards are paid in full.

	Principal amount held	
Capital stock of war emergency corporations:		
Capital stock of the Emergency Fleet Corporation	$50,000,000.00	
Less cash deposited with the Treasurer of the United States to the credit of the corporation	28,757,099.23	
		$21,242,900.77
Capital stock of the United States Housing Corporation, issued	70,000,000.00	
Less amount retired plus cash deposits covered into Treasury under act approved July 11, 1919	43,404,001.02	
		26,595,998.98
Capital stock of the United States Spruce Production Corporation		99,993.00
War Finance Corporation (in liquidation)—		
Capital stock oustanding	10,000.00	
Offset by cash on deposit with Treasurer of United States to credit of the corporation	135,908.97	
Capital stock of Reconstruction Finance Corporation		150,000,000.00
Equipment trust 6 per cent gold notes, acquired by Director General of Railroads pursuant to Federal control act of Mar. 21, 1918, as amended, and act approved Nov. 19, 1919, to provide for the reimbursement of the United States for motive power, cars, and other equipment ordered for carriers under Federal control: Minneapolis & St. Louis R. R. Co		100,800.00
Obligations of carriers acquired pursuant to sec. 207 of the transportation act, approved Feb. 28, 1920, as amended:		
Chicago, Milwaukee, St. Paul & Pacific R. R. Co	$3,207,000.00	
Kansas, Oklahoma & Gulf Ry. Co	212,300.00	
Minneapolis & St. Louis R. R. Co	1,250,000.00	
Washington, Brandywine & Point Lookout R. R. Co	50,000.00	
Waterloo, Cedar Falls & Northern Ry. Co	500,000.00	
Total		5,219,300.00
Obligations of carriers acquired purusant to sec. 210 of the transportation act, approved Feb. 28, 1920, as amended:		
Alabama, Tennessee & Northern Railroad Corporation	$151,500.00	
Aransas Harbor Terminal Ry	44,304.67	
Charles City Western Ry. Co	140,000.00	
Chicago & Western Indiana R. R. Co	6,169,000.00	
Des Moines & Central Iowa R. R., formerly the Inter-Urban Ry. Co	633,500.00	
Fernwood, Columbia & Gulf R. R. Co	18,000.00	
Fort Dodge, Des Moines & Southern R. R. Co	200,000.00	
Gainesville & Northwestern R. R. Co	75,000.00	
Georgia & Florida Ry., receivers of	792,000.00	
Greene County R. R. Co	6,000.00	
Minneapolis & St. Louis R. R. Co	1,382,000.00	
Missouri & North Arkansas Ry. Co	3,500,000.00	
National Railway Service Corporation	2,032,451.56	
Salt Lake & Utah R. R. Co	872,600.00	
Seaboard Air Line Ry. Co	14,443,887.84	
Seaboard Bay Line Co	1,256,000.00	
Shearwood Ry. Co	7,500.00	
Toledo, St. Louis & Western R. R. Co., receiver of	232,000.00	
Virginia Blue Ridge Ry. Co	106,000.00	
Virginia Southern R. R. Co	38,000.00	
Waterloo, Cedar Falls & Northern Ry. Co	1,260,000.00	
Wichita, Northwestern Ry. Co	381,750.00	
Wilmington, Brunswick & Southern R. R. Co	90,000.00	
Total		33,831,494.07
Capital stock of the Panama Railroad Co		7,000,000.00
Capital stock of the Inland Waterways Corporation (acquired pursuant to the Act approved June 3, 1924)		12,000,000.00
Capital stock of the Federal land banks (on basis of purchases, less repayments to date):		
Springfield, Mass	$74,425.00	
Berkeley, Calif	101,514.25	
Total		175,939.25
Capital stock of Federal land banks, act of Jan. 23, 1932:		
Springfield, Mass	$1,425,080.00	
Baltimore, Md	1,512,430.00	
Columbia, S. C	8,958,770.00	
Louisville, Ky	3,000,980.00	
New Orleans, La	8,651,070.00	
St. Louis, Mo	4,414,185.00	
St. Paul, Minn	14,905,360.00	
Omaha, Nebr	3,499,810.00	
Wichita, Kans	1,924,055.00	
Houston, Tex	3,290,965.00	
Berkeley, Calif	1,981,490.00	
Spokane, Wash	9,679,545.00	
Total		63,243,740.00

	Principal amount held	
Capital stock of Federal intermediate credit banks acquired pursuant to the agricultural credits act of 1923, approved Mar. 4, 1923:		
Springfield, Mass	$2,000,000.00	
Baltimore, Md	2,000,000.00	
Columbia, S. C	5,000,000.00	
Louisville, Ky	2,000,000.00	
New Orleans, La	2,000,000.00	
St. Louis, Mo	2,000,000.00	
St. Paul, Minn	2,000,000.00	
Omaha, Nebr	2,000,000.00	
Wichita, Kans	2,000,000.00	
Houston, Tex	2,000,000.00	
Berkeley, Calif	5,000,000.00	
Spokane, Wash	2,000,000.00	
Total		$30,000,000.000
Notes received by the Federal Farm Board evidencing outstanding advances made from the revolving fund created by the Agricultural Marketing act		441,848,086.01
Securities received by the Secretary of War on account of sales of surplus war supplies		835,000.00
Securities received by the Secretary of the Navy on account of sales of surplus property		4,938,357.60
Securities received by the United States Shipping Board on account of sales of ships, etc		126,380,393.15
Grand total		12,672,256,713.21

MEMORANDUM

Amount due the United States from the Central Branch of the Union Pacific Railroad on account of bonds issued (Pacific Railroad aid bonds, acts approved July 1, 1862, July 2, 1864, and May 7, 1878):	
Principal	$1,600,000.00
Interest	1,756,492.43
Total	3,356,492.43

NOTE.—This statement is made up on the basis of the face value of the securities therein described as received by the United States, with due allowance for repayments. To the extent that the securities are not held in the custody of the Treasury, the statement is made up from reports received from other Government departments and establishments.

Mr. PATMAN. This shows that although our Nation owes $17,500,000,000, it also owns securities of the value of $12,672,256,713.21, and if we collect the amount that is due on those securities, our national debt is less than $5,000,000,000—rather small considering a $400,000,000,000 Nation.

Mr. HAWLEY. Are the foreign debts included in that?

Mr. PATMAN. Yes, sir; they are. The foreign debts represent about eleven billion. The other one and one-half billions are represented by stocks in different corporations and bonds and stocks of railroad companies.

Mr. HAWLEY. Taken over during the time we had the Railroad Administration?

Mr. PATMAN. Some of them were. Most of them were, Mr. Hawley.

I have here, I believe, some interesting information in the form of a letter from Mr. A. A. Ballantine, Under Secretary of the Treasury. At my request he had prepared a statement showing the amount of paper money that was issued by the Bureau of Engraving and Printing from July 1, 1931, to March 31, 1932. It shows the amount that was redeemed, and it also shows the amount of the several kinds of old-sized currency that were outstanding February 29, 1932.

The ACTING CHAIRMAN. Without objection, it may go in the record.

(The letter referred to is as follows:)

TREASURY DEPARTMENT,
Washington, April 6, 1932.

MY DEAR CONGRESSMAN: In compliance with your telephone request to the Director of the Bureau of Engraving and Printing, I am pleased to furnish the following information regarding the paper currency of the United States.

The total amount of each kind of currency issued and redeemed between July 1, 1931, and March 31, 1932, follows, except that the amounts of Federal reserve notes and Federal reserve bank notes issued and redeemed are shown to February 29, 1931, figures for March not yet being available:

	Total issued	Total redeemed
From July 1, 1931, to Mar. 31, 1932·		
United States notes	$231,448,000	$231,448,000
Silver certificates	434,240,000	435,122,250
Gold certificates	297,000,000	261,392,750
Treasury notes of 1890		11,850
National-bank notes	299,996,520	265,912,373
From July 1, 1931, to Feb. 29, 1932.		
Federal reserve notes	2,911,145,500	2,100,981,270
Federal reserve bank notes		143,822

The following amounts of the several kinds of old-size currency were outstanding on February 29, 1932:

United States notes	$42,994,772
Silver certificates	46,847,150
Gold certificates	158,216,519
National-bank notes	85,388,466
Federal reserve notes	224,989,240
Federal reserve bank notes	2,830,140
Treasury notes of 1890	1,227,900
Total	562,494,187

The reduction in size did not affect two issues: Treasury notes of 1890 and Federal reserve bank notes.

The issue of Treasury notes of 1890 has been in process of retirement since 1900. On receipt in the Treasury, they are canceled and retired, and silver certificates issued in lieu thereof. Federal reserve bank notes (which may be issued to Federal reserve banks under the same terms and conditions as national-bank notes are issued to national banks, except that the amount issuable is not limited to the paid-in capital of the issuing bank) also are in process of retirement, and the amount outstanding has been covered by the deposit of lawful money in the Treasury. The notes are being canceled and retired as received.

Very truly yours,

A. A. Ballantine,
Under Secretary of the Treasury.

Hon. Wright Patman,
House of Representatives.

Mr. Patman. I believe it has been in evidence here that there is $562,494,187 of old-sized currency that has never been turned in. Of course, a large part of that has been lost in fires and shipwrecks and in other ways.

Mr. Hawley. Mr. Patman, have you the figure there showing the difference between these two amounts resulting from the currency that was printed during the month of February? What is the net gain, if any?

Mr. Patman. As to the net gain, take, for instance, the Federal reserve notes. They issued $2,900,000,000. Two billion one hundred million of that was used to redeem old notes that were turned in. That meant an additional issue of $800,000,000.

Of United States notes they issued just the same amount that was redeemed; silver certificates, practically the same. Of gold certificates they issued $297,000,000, and there was only $261,000,000 redeemed. In national bank notes there was $299,000,000 issued, and $265,000,000 of that was redeemed.

Mr. Treadway. May I ask you, Mr. Patman, in connection with that letter from Mr. Ballantine, to repeat the amounts of old currency?

Mr. PATMAN. I should be glad to do that.

The following amounts of the several kinds of old-sized currency were outstanding on February 29, 1932:

United States notes, $42,000,000—

Do you want the exact figures?

Mr. TREADWAY. No; just roughly.

Mr. PATMAN. United States notes, $42,000,000; silver certificates, $46,000,000; gold certificates, $158,000,000; national-bank notes, $85,000,000; Federal reserve notes, $224,000,000; Federal reserve bank notes, $2,000,000; Treasury notes of 1890, $1,000,000.

Mr. TREADWAY. That is everything outstanding; but I thought you referred to quite a large quantity that they knew had been lost by fire, shipwrecks, and so forth. Is there any estimate of that amount?

Mr. PATMAN. That was a conclusion of my own.

Mr. TREADWAY. Mr. Ballantine does not refer to that?

Mr. PATMAN. No, sir; he does not refer to that. You know, I stated that this old-sized currency is outstanding, and the fact that it has not been brought in——

Mr. TREADWAY (interposing). You mean by "old-sized currency" the currency that we had before we adopted the present smaller bill?

Mr. PATMAN. Yes, sir.

Mr. TREADWAY. That was only about three years ago, was it not; three or four years?

Mr. PATMAN. Yes, sir; about three or four years.

Mr. TREADWAY. What I was leading up to was this interesting feature. It may be only a side light on your testimony, but it would be quite interesting to me to see whether the Treasury has made any allowance for the certainty of destruction of a certain percentage of this outstanding currency.

Mr. PATMAN. It has not.

Mr. TREADWAY. Some of this goes away back indefinitely, over a long period of years, probably?

Mr. PATMAN. Thirty or forty years or more.

Take these Treasury notes of 1890, with $1,227,000 outstanding. Of course, they are being retired as rapidly as they come in, and have been for many years.

Mr. TREADWAY. The department does not make any reference, then, to any percentage that they feel has been destroyed and can not ever be redeemed?

Mr. PATMAN. No, sir; it does not.

Mr. VINSON. Doctor Goldenweiser yesterday gave it as a hundred million dollars.

Mr. PATMAN. As I understand, the gentleman from Illinois, Mr. Rainey, has in mind introducing a bill, or has introduced one, to provide that they will have to turn this money in at a certain time, or something along that line.

Mr. RAINEY. No, sir; I have not.

Mr. PATMAN. Then I have been misinformed. Anyway, that would be a good proposal—to pass some kind of a law that would encourage people not to invalidate the money if it was not turned in, but to encourage people to turn it in—in order that you may determine how much of it has been lost, so that that idle gold that is being used to back that money could be used to back other money.

Mr. HAWLEY. Mr. Patman, if they turned that in, that amount of gold would go out.

Mr. PATMAN. Yes, sir; if they turned it in and demanded gold. But of course, less than one-eighth of 1 per cent of the people do that.

Mr. VINSON. They would turn it in, and the banks, if they want the currency, would be willing to take any currency that was on a parity with it. They could take Federal reserve notes at 60 per cent.

Mr. PATMAN. Yes.

Mr. RAINEY. What Mr. Patman refers to is this: We have a lot of currency that has evidently been destroyed, and it is still backed by gold, although it is nonexistent, and Mr. Patman's suggestion is that we might determine how much that is, so that the gold which is supposed to be represented by currency outstanding can be represented by currency actually issued in lieu of the currency which has, in fact, been destroyed.

Mr. VINSON. I endeavored to bring that out when Governor Meyer was on the stand last week.

Mr. RAINEY. I have not introduced a bill of that kind, but I think it ought to be done.

Mr. PATMAN. Yes; and I hope the gentleman will do it.

I desire to quote Prof. Irving Fisher's testimony, which is printed in part 1 of the hearings on H. R. 10517. The hearings were before a subcommittee of the Committee on Banking and Currency of the House of Representatives on a bill for increasing and stabilizing the price level of commodities and other purposes. Professor Fisher, on page 346 of the hearings, stated:

> The present depression is for the most part due, I would say nine-tenths due, to deflation.

On page 347, he further said:

> I heard one of the leading bankers—I wish I had permission to quote him, but I do not want to do anything I am not authorized to do—the president of one of the largest banks in one of our largest cities, and the chairman of one of the most important committees of the American Bankers Association, say that we must raise the price level to let people pay their debts, and that if we do not he fears that the whole capitalistic system is going to collapse. He was willing to raise the price level by changing the weight of the dollar.

Now, may I state here that I do not see how any Member of Congress can vote for the Goldsborough bill and then consistently vote against this plan which we now have before this committee, or some similar plan to put money in circulation to cause commodity prices to increase. It would be inconsistent otherwise. What is the Goldsborough bill? To raise commodity prices and then stabilize them. Every witness who appeared before the Goldsborough committee—and I heard every one of them, and I have read their testimony again since they appeared—every one of them stated that the first thing you have got to do is to put money into circulation and raise the price level, and then under this bill it can be stabilized, but it is not right to stabilize it on present values. It will put people into bankruptcy and cause repudiation of debts. Therefore this plan that we propose should be passed in order to make effective the Goldsborough bill, and if this plan is not passed, some plan that will have that effect should be passed.

On page 369 Professor Fisher outlined several ways that the currency could be deflated. He stated:

We need first to raise the price level enough to let debtors pay their creditors on as just a basis to both as practicable; and, secondly, thereafter to stabilize the price level.

The raising of the price level must be done either (*a*) by increasing the circulating medium, or (*b*) by increasing its activity or velocity, which means, in particular, reducing hoarding.

The circulating medium may be increased in many ways—

Now, I hope you gentlemen will pay particular attention to this quotation from Professor Fisher:

1. The United States may issue new United States notes in purchase of United States bonds, or in purchase of silver or anything else, or paying its employees.

Now, that is exactly the proposal that is before this committee to-day. Of course, Professor Fisher did not say that here. He was not asked the question. If he had been, I am sure he would have said it. But he said what I have just quoted before the Goldsborough committee—in other words, that this plan that we now present to the committee is a sound plan because it is like the plan he presented to the Goldsborough committee.

Quoting further from Professor Fisher:

2. The Federal reserve may buy United States bonds or other securities permitted, paying for them by Federal reserve notes or book credits.

3. National banks could be given the bank note privilege as to the one and a half billion dollars' worth of United States bonds issued in 1931.

Now, that case is very similar to the one that we have now. We want to convert a noncirculating Government obligation into a circulating obligation. That is all we are trying to do. Professor Fisher advocated the same thing before the Goldsborough committee. He says it is safe to do it—to convert one and one-half billion dollars' worth of noncirculating Government obligations into that amount of circulating notes.

On page 370, Professor Fisher further stated:

A penalty might be imposed upon banks not in debt to the Federal reserve banks at least once a year. This, or some other device, might be able to break up the tradition that it is a reflection upon a bank to be in debt to the Federal reserve bank.

Put an embargo on gold as during the war. This would enable us to issue the irredeemable money to a large extent without destroying gold parity, so that we would, in form, retain the gold standard. If desired, limitations or prohibitions could be put upon the melting or industrial uses of gold, as also was done during the war. This measure, however, while it might help America, would tend to hurt rather than help other countries, and indirectly react somewhat unfavorably upon America herself.

In asking for the payment of the adjusted service certificates in full now, we are merely asking for the $1 and $1.25 a day as of the time the services were rendered with a reasonable rate of interest from that time to October 1, 1931, the amount due being the face value of the certificates.

The Ways and Means Committee recently submitted to the House a tax bill. In section 1003 of this bill, titled "Refund of Taxes for Taxable year 1918," amended section 284 (H) of the revenue act of

1926, the statute of limitation was removed from cases of tax refunds for the year 1918 where applications for said refunds were not filed within the time required by law. The only case that this will likely govern thatI have been able to find out about is a case of the Phillips Mine & Mill Supply Co., Pittsburgh, Pa., involving $49,421.28. If this provision becomes a law, and it was in the bill when it passed the House, this concern will be able to collect not only the $49,421.28 but also 6 per cent interest from 1918, the time it is alleged the overpayment was made. We are asking that the same principle be invoked for the veterans. That is asking that the payment be made as of the time the services were rendered.

In this case, although the amount is small, billions have been refunded by invoking the same principle of paying interest from the time that the overpayment was made or from the time that the services were rendered.

Mr. HILL. Your statement is that the payment of the basic amount of the adjusted-service certificates plus a reasonable rate of interest to October 1 last would amount to the face value of the certificates?

Mr. PATMAN. Yes, sir.

Mr. HILL. That is, at the maturity date of the certificates?

Mr. PATMAN. Yes.

Mr. HILL. Is that an exact figure, or is it approximate?

Mr. PATMAN. It is an exact figure; and I have a table here which I will ask to be inserted in the record, with explanatory notes, which shows it conclusively, on the average certificate.

May I do that, Mr. Chairman?

The ACTING CHAIRMAN. Yes.

(The statement referred to is as follows:)

John Doe was a private soldier during the war. He holds an adjusted-service certificate for $1,000, which is the average; it is dated January 1, 1925, and the $1,000 is payable at death or January 1, 1945. Doe claims the Government owes him $1,000 for adjusted pay at this time and he should therefore not be required to die or wait until 1945 before it is collected. Congress passed a law in 1924 acknowledging that all veterans of the World War were entitled to $1 a day extra pay for home service and $1.25 a day extra pay for service overseas. Doe was entitled to the following:

210 days' home service, at $1 a day extra	$210
200 days' service overseas, at $1.25 a day	250
Total	460

The question is, When was the money due? If it is paid as of 1925, that would be equal to a payment of about 60 or 70 cents as of the time the services were rendered in 1917 and 1918. If the money is paid as of the time the services were rendered and a reasonable interest is calculated from a date representing halfway between the beginning and ending of the emergency period during the war, or June 1, 1918, Doe was entitled to the full $1,000 on October 1, 1931. How much interest should Doe be allowed? For many years the Government caused Doe to pay 6, 7, and 8 per cent interest, compounded annually, for his own money. Therefore, the Government should invoke the same principle for Doe that it has always invoked for others under similar circumstances and pay him at least 6 per cent, compounded annually. The following table represents what he is entitled to.

Table to show the amount of $460 at 6 per cent compounded annually from June 1, 1918, to June 1, 1932, and also the amount as at October 1, 1931

	Interest	Total amount
June 1—		
1918		$460.00
1919	$27.60	487.60
1920	29.25	516.85
1921	31.01	547.86
1922	32.87	580.73
1923	34.84	615.57
1924	36.93	652.50
1925	39.15	691.65
1926	41.49	733.14
1927	43.98	777.12
1928	46.62	823.74
1929	49.42	873.16
1930	52.38	925.54
1931	55.53	981.07
1932	58.86	1,039.93
Total	579.93	

NOTE.—The amount at Oct. 1, 1931, would be $1,000.69.

Instead of Doe receiving the $460 as of the time the services were rendered, he was given an adjusted-service certificate for $1,000. When Doe was discharged he was given $60 for the purpose of purchasing a civilian suit of clothes, he having given his civilian suit to the Red Cross to be sent to Belgium and France to relieve distress there at the time of his entry into the service. This left $400. Congress declared that he should have 25 per cent added to his credit for waiting until January 1, 1945, for his money. This increased his credit by $100, or to $500. Five hundred dollars was a sufficient amount to pay a single premium on $1,000 insurance policy similar to his adjusted-service certificate, and instead of the cash settlement he was given the $1,000 certificate.

WHAT CHANGES ARE TO BE MADE FOR DOE'S BENEFIT

Doe in asking for full payment is merely asking that his certificate be dated back to the time the services were rendered, the interest rated computed as above mentioned, the $60 not to be deducted, and the $100 credit for waiting be eliminated.

WHY THE $60 SHOULD NOT HAVE BEEN DEDUCTED

The $60 payment at discharge was given to the soldier who had served only one day and to the general who was drawing $8,000 a year. Neither the 1-day soldier nor the $8,000-a-year general has been required to pay the $60 back to the Government, so why make those who served longer than 60 days pay it back?

SHOULD THE $100 OR 25 PER CENT FOR WAITING BE COLLECTED?

Although the veterans have waited 14 years for their money and the Congress has declared that 25 per cent extra should be added for waiting 20 years, the extra amount is not being asked, but is eliminated in arriving at the amount due.

THE CERTIFICATE SHOULD BE DATED JUNE 1, 1918

If the certificate is dated June 1, 1918, which is a date half way between the beginning and ending of the emergency period, or November 11, 1918, the date of the armistice, Doe is entitled to the full $1,000 at this time. It is not right to commence the computation of interest seven and one-half years after the services were rendered, or January 1, 1925.

THE WAR PROFITEERS RECEIVED INTEREST FROM 1918

The corporations that profited so much by reason of this country's misery and misfortune during the war received huge settlements for their war services many years after the war was over, and in the form of adjusted pay. Hundreds of millions and billions of dollars were returned to them by the Government.

A large part of this money was refunded or given back to them on the theory that the taxpayers did not charge off a sufficient amount for depreciation of their war facilities from 1917–1919.

The United States Steel Corporation, the concern that made a profit of $1,500,000 a day during the war, received a refund of $15,736,595.72 for the year 1918. The refund was made about 11 years after the war and interest at 6 per cent was paid by the Government on this refund. The interest amounted to $10,099,765. The Government allowed the 6 per cent interest on the theory that the taxpayer would have been charged 6 per cent interest on any amount assessed and collected that should have been paid but was not paid in 1918. That is the same principle we are invoking for the veterans. They were charged 6, 7, and 8 per cent interest, compounded annually, for their own money; therefore the Government should not object to paying them the minimum rate of 6 per cent, compounded annually. The Aluminum Co. of America submitted a claim for amortization of war facilities in 1919 for $6,852,697.36. December 1, 1921, or a few months after Mr. Andrew W. Mellon, the principal owner of this company, became Secretary of the Treasury, a supplemental claim was filed for $18,124,339.28. The amount finally granted was $15,589,614.39. Interest on the amount refunded was allowed at the rate of 6 per cent from the year 1918—not from January 1, 1925. We are asking that the same principle be invoked for John Doe.

THE AMOUNT OF MONEY VETERANS IN EACH COUNTY WILL RECEIVE

February 18, 1932, I inserted in the Congressional Record a statement showing how much money the veterans in each county in the United States will receive if the bill to pay the adjusted-service certificates becomes law. It will be found on pages 4391 to 4408 of the daily Congressional Record of the above date.

HOW MUCH WILL EACH STATE RECEIVE AND HOW MUCH WILL IT COST THE TAXPAYERS OF EACH STATE

The following table in connection with the footnotes is self-explanatory:

(1) Residence of veterans	(2) Number holders certificates	(3) Remainder due on certificates	(4) Amount each State will contribute income taxes	(5) 98.66 per cent class taxpayers	(6) 50 per cent class taxpayers	(7) Per capita payment to each State
Alabama	49,391	$29,876,840	$7,879,584	2,103	13	$12.00
Arizona	10,555	7,411,302	3,104,598	742	21	17.00
Arkansas	42,576	25,373,058	1,722,844	964	3	13.68
California	194,607	136,500,005	118,592,272	28,509	487	17.50
Colorado	33,265	21,514,464	8,650,571	2,428	39	20.77
Connecticut	42,765	29,902,203	44,822,030	8,755	176	8.61
Delaware	4,743	3,918,525	20,550,199	1,366	88	16.44
District of Columbia	27,460	18,198,685	14,500,808	3,329	55	37.38
Florida	38,260	24,469,835	14,965,667	2,385	51	16.59
Georgia	56,882	35,151,645	7,384,686	2,601	26	12.10
Idaho	13,138	8,248,500	396,441	302	0	18.53
Illinois	245,990	157,543,750	214,678,847	35,722	843	20.60
Indiana	92,813	59,254,650	19,595,646	5,090	86	18.29
Iowa	77,498	46,574,480	12,059,120	2,893	25	18.85
Kansas	55,456	34,934,250	5,690,509	2,376	11	18.57
Kentucky	61,848	38,064,000	10,940,425	3,322	42	14.56
Louisiana	52,321	31,168,150	8,497,764	2,452	28	14.83
Maine	20,791	13,446,550	8,269,247	1,870	27	16.89
Maryland	46,918	31,140,525	31,285,998	6,999	106	19.09
Massachusetts	133,133	92,376,144	115,893,608	22,647	457	19.38
Michigan	130,120	85,407,400	98,166,018	14,998	400	17.64
Minnesota	83,049	53,105,260	23,134,650	5,125	119	20.67
Mississippi	35,736	21,456,974	1,481,582	796	3	10.68
Missouri	108,464	67,608,904	36,687,296	9,182	112	18.62
Montana	17,580	11,424,128	2,518,167	882	8	21.25
Nebraska	39,016	24,227,271	4,092,122	1,821	14	17.58
Nevada	2,978	1,988,889	926,686	227	4	21.84
New Hampshire	12,011	8,084,753	3,864,197	1,168	15	17.38
New Jersey	113,024	77,317,513	100,666,486	19,694	351	19.13
New Mexico	9,809	6,257,550	900,995	381	2	14.78
New York	366,236	245,948,177	876,117,477	97,361	3,665	19.10
North Carolina	62,106	38,794,117	11,740,282	2,154	51	12.24
North Dakota	15,705	9,738,745	406,214	350	----------	14.30

(1) Residence of veterans	(2) Number holders certificates	(3) Remainder due on certificates	(4) Amount each State will contribute income taxes	(5) 98.66 per cent class tax-payers	(6) 50 per cent class tax-payers	(7) Per capita payment to each State
Ohio	177, 390	117, 878, 406	107, 466, 150	19, 336	410	17. 73
Oklahoma	65, 231	39, 815, 376	12, 508, 548	3, 674	40	16. 62
Oregon	34, 349	22, 978, 122	4, 613, 316	1, 886	14	24. 09
Pennsylvania	252, 388	172, 888, 542	187, 738, 583	34, 152	744	17. 95
Rhode Island	20, 186	13, 731, 012	15, 701, 416	3, 104	68	19. 97
South Carolina	34, 710	21, 349, 617	1, 380, 259	776	2	12. 28
South Dakota	22, 054	13, 074, 391	623, 742	393	1	18. 87
Tennessee	57, 231	36, 318, 844	10, 910, 778	3, 003	33	13. 80
Texas	144, 453	95, 655, 800	27, 939, 818	8, 010	83	16. 42
Utah	13, 969	8, 930, 767	2, 124, 928	852	9	17. 58
Vermont	8, 004	5, 604, 408	2, 038, 436	772	6	15. 58
Virginia	61, 300	41, 006, 200	8, 553, 428	2, 709	28	16. 93
Washington	54, 666	37, 874, 647	8, 661, 965	3, 021	36	24. 22
West Virginia	42, 004	25, 976, 846	5, 666, 395	2, 006	24	15. 02
Wisconsin	85, 481	52, 438, 873	24, 171, 077	6, 333	90	17. 50
Wyoming	10, 794	7, 144, 348	721, 929	420	2	31. 23

Column 1. Residence by States of all veterans holding Adjusted-Service Certificates.
Column 2. Number of veterans in each State holding certificates.
Column 3. After deducting all prior loans, the amount remaining due veterans of each State if full-payment bill is passed by Congress.
Column 4. Total amount income-tax payers in each State will eventually contribute toward full payment if the money is raised through individual income taxes. Year 1928 used as a basis.
Column 5. Secretary Mellon, in his plea for a sales tax, disclosed that 380,000 persons in the United States pay 97 per cent of all individual income taxes. Invstigation discloses that 382,121 persons pay 98.66 per cent of the total tax paid by individuals. This column shown the number of persons from each State in the class that pays 98.66 per cent.
Column 6. Residence of personal income tax payers who have an annual income in excess of $150,000 and are in the class paying 50 per cent of the total individual income taxes.
Column 7. Full payment will average per person, or for every man, woman, and child, in the State according to the 1930 census. The approximate amount of money that will be put into circulation in any city, county, or locality may be arrived at by multiplying the population by the per capita payment for that State.

The information for columns 1, 2, and 3 of this table was compiled from information furnished by the Veterans' Administration. The other information was obtained from the statistical division of the Bureau of Internal Revenue and other governmental sources.

Mr. Hill. Is it not rather a coincidence that it will amount to the same as the original certificate?

Mr. Patman. It will amount to more now; but it amounted to $1,000.69 on the average certificate of a thousand dollars on October 1, 1931.

Mr. Hill. What interest do you figure?

Mr. Patman. Six per cent.

Mr. Hill. And from what date?

Mr. Patman. From half way between the beginning and the ending of the average man's service, which was June 1, 1918.

Mr. Eslick. In the erroneous payment of taxes, both for and against the Government, the 6 per cent rate is uniform?

Mr. Patman. Yes, sir. If they pay too little, they must pay 6 per cent on what they should have paid. If they pay too much, they get 6 per cent on what they overpay.

Mr. Eslick. That is a uniform rate?

Mr. Patman. And let me suggest that when the war was over many of these concerns, for two or three years thereafter, would go back to the Government and say, "We did not file an application for a sufficient amount for depreciation of our war facilities during the war," and would file a new application and get a new allowance for depreciation of war facilities. That involved hundreds of millions of dollars, and the Government invoked this same policy and the same principle that we are asking you to invoke here, of paying them not from the time that the claim was finally adjudicated, which was in many cases 10 years later, but from the time they claim they should have made their application in 1918.

Mr. HAWLEY. Mr. Patman, was not that a reciprocal arrangement? The Government had the same privilege of reassessing them that they had of receiving an additional application?

Mr. PATMAN. Absolutely true; and we want the same principle invoked.

Mr. HAWLEY. And the Government gained about $2,000,000,000 in money by that action?

Mr. PATMAN. That is the first time I have ever heard that, Mr. Hawley. I would like to have that information. I did not know that they ever assessed one of them, and I thought I had read everything in that connection. I have in my office to-day a copy of the hearings before the Graham committee and a copy of the hearings before the Couzens committee. I think I have read every word that is material on this question in those books—and I suspect there are 40 or 50 of them—but I have never heard that suggested before to-day. I am of the opinion that you must be mistaken, but I shall be glad to be corrected.

Mr. VINSON. When you speak of the interest rate, that is 6 per cent simple interest?

Mr. PATMAN. Yes, sir.

Mr. VINSON. Not compound?

Mr. PATMAN. But here, you see, the veterans were charged 6, 7, and 8 per cent interest compounded annually for their money from 1927 until the interest rate was changed; and our theory of it is that if it is fair for the veterans to pay 6 per cent compounded annually, it is not unfair for the Government to allow the veteran 6 per cent compounded annually. That is the same principle that was invoked with the others.

Mr. RAGON. If they expired in October, 1931, it would have to be 6 per cent?

Mr. PATMAN. Yes, it would. If one is charged 6 per cent compound interest he should get 6 per cent compound interest; if he is charged 6 per cent simple interest he should get only 6 per cent simple interest.

Mr. VINSON. In regard to the refunds, the interest rate on refunds is simple?

Mr. PATMAN. It is simple because, if they had not paid enough, they would have just paid simple interest.

Mr. BACHARACH. Mr. Patman, in reference to your 6, 7, and 8 per cent, is it not true that that was by reason of the Federal reserve in various districts having a different rate of interest?

Mr. PATMAN. Yes, sir; that is true.

Mr. BACHARACH. I just wanted to get that into the record.

Mr. PATMAN. But Congress, by law, required the payment of 2 per cent above the rediscount rate in the district in which the veteran resided. That was to take care of the bankers. They claimed that this bill was objectionable from their standpoint; that it would lower the interest rates, and they wanted to fix it so that they could make a profit out of it. I do not know what Congress had in mind at that time. I know that they did what they thought was best for the interests of the country.

Mr. BACHARACH. At that time, apparently, the reason it was done was that the Ways and Means Committee thought it was the right and proper thing.

Mr. PATMAN. Yes, sir.

Mr. BACHARACH. And the fact that we did not think they had the money down here to go ahead and pay these boys.

Mr. PATMAN. Yes, sir. I do not question the committee or any Member of Congress on that.

Mr. VINSON. Mr. Chairman, in regard to the $2,000,000,000 amount referred to by Mr. Hawley, was he referring to refunds of amounts allowable for depreciation?

Mr. HAWLEY. The additional assessments made as offset by the claims.

Mr. VINSON. But that was not for the mere item of depreciation to which Mr. Patman was referring?

Mr. HAWLEY. No.

Mr. PATMAN. I am glad that was corrected. I misunderstood it; because I never heard of their assessing one of those fellows. If there was one of them assessed, I have been unable to find it. Of course, the Government paid back hundreds of millions to them.

Mr. HAWLEY. And they made additional assessments over the amounts reported as payable in the returns.

Mr. PATMAN. Not on depreciation, I think.

Mr. HAWLEY. I do not know about that; but I know that on the whole subject they assessed about five and a quarter billions, and two billions of that was net to the Treasury. Other adjustments were made.

Mr. BACHARACH. That was by reason of the fact that the Government requested manufacturers to build additional facilities for manufacturing.

Mr. HAWLEY. That was one item.

Mr. BACHARACH. Yes; and an important item; and in that case I think the Government should have paid them back, and it did pay them back.

Mr. PATMAN. Yes; where that was the case, Mr. Bacharach, I thoroughly agree with you.

Mr. HAWLEY. They did not always pay them back. They considered what advantage the new plant was to the concern.

Mr. PATMAN. Yes. But there are cases in the record disclosed by the Graham committee where they continued to use those plants and make more money than they made before, and still asked for a large sum in depreciation of those facilities, and actually obtained it.

Mr. HAWLEY. They obtained it in part.

Mr. PATMAN. Yes; and the Graham committee thought it was a big scandal, and wound up its report—I do not know why that report has never been given any more publicity than it has—but it wound up its report by saying that people who would so profiteer in time of war should be held guilty of treason, and they even went so far as to suggest how the Constitution should be amended so that in the event of another war, if we had such profiteers as that, they should be punished by death for treason against their country. It was very shocking to that committee. There were 15 Republicans and 10 Democrats on that committee.

Let us not forget that the wealth of our Nation is $400,000,000,000; that our Nation only owes $17,500,000,000; that our Nation owns assets in the form of securities, aggregating $12,500,000,000. After deducting the securities held and owned by the Government from our national debt, our national debt is only about $5,000,000,000. As disclosed in my testimony the first day of this hearing from information furnished by Doctor Warren and Doctor Pierson, the total debts in the United States, including national, State, county, city, corporation, private installment purchases and all other debts aggregate $200,000,000,000. We propose the issuance of $2,000,000,000 in new currency, which is only 1 per cent of the debts of the people of our Nation.

It has been contended before this committee that the 25 per cent increase which was added to the adjusted-service credit was to compensate the veterans for the loss of interest on their money from the time of rendering the services until January 1, 1925, the date of the first adjusted service certificate; the theory being that to give a veteran a dollar as of 1925 was equal to only giving him about 60 or 70 cents as of 1917 or 1918, and Congress had clearly expressed an intent to pay each veteran $1 a day extra for home service and $1.25 a day extra for service overseas. It is my opinion that the 25 per cent was not to make up for lost interest as above stated, but was intended to compensate the veterans for waiting from 1925 to 1945. As evidence of this fact, the beneficiaries of deceased veterans, who received the adjusted-service credits of these veterans after the passage of the compensation act in 1924, did not receive the 25 per cent increase; neither did the veterans who were entitled to $50 or less and who were paid in cash.

Therefore that is conclusive evidence that the 25 per cent was not intended for waiting that seven and a half years until 1925. In fact, I heard Mr. Mills testify before the Senate committee in February, 1931, and he brought out the two points that I have suggested here as evidence of the fact that it was not intended as interest.

By reason of the investment boom from 1927 to its peak in the fall of 1929, money was drained from all the small banks of the Nation to one or two financial centers. It was invested in securities of different kinds, and a large part of it sent to foreign countries in return for foreign securities. If this bill passes it will put new money back into these banks.

Prof. Irving Fisher, of Yale University, recently appeared before the Banking and Currency Committee. He made the following statement about ex-Senator Owen, of Oklahoma, and Prof. Williford I. King, of New York University:

> Now as to this bill and the present hearings. You have heard already from many men who have anticipated what I would have said, especially ex-Senator Owen and Prof. W. I. King. Ex-Senator Owen omitted to mention that he had introduced into the original Glass bill, now the Federal reserve act, a stabilization clause which was afterwards stricken out. W. I. King, I hope you realize, is one of the leading statisticians and economists of the country. I only wish that those two speeches could have been heard over the radio by every business man and banker in the United States. If they could have been, there would be no doubt about the success of your efforts to get some constructive legislation adopted by Congress immediately. All we need is education. The thing that is needed the most is to have people read what has already been written on this subject. (P. 345, Stabilization of Commodity Prices, H. R. 10517.)

I have had many requests for time. Those of us who are very much interested in this legislation have decided that the committee has been very patient with us. You have allowed us all the time that we wanted. You still offer to allow us all the time that we want. We appreciate that, but we believe that our cause will be better served by closing this testimony at the earliest date possible, in order that the committee may make a report one way or the other at the earliest date possible.

Mr. Robert M. Harriss, of New York, appeared before this committee. He made a very interesting statement, and since that time he has kept up with the witnesses, and not in a critical way, but in a constructive way he has brought out the fallacies disclosed in the testimony. I could not give Mr. Harriss an opportunity to appear before the committee in carrying out the policy of closing at the earliest time possible, but I do desire to insert his statement in the record.

The ACTING CHAIRMAN. Without objection, the statement will be incorporated in the record.

(The statement submitted by Mr. Harriss is as follows:)

FURTHER STATEMENT OF ROBERT M. HARRISS, NEW YORK CITY

Mr. Chairman and gentlemen of the committee, I have read General Dawes, Mr. Mills, and Mr. Meyer's testimony in connection with the payment of the balance of the adjusted compensation certificate obligation. I disagree with much of their testimony. It is not in conformity with financial and economic history and not one of them had a constructive program to offer. Not one of them told you how the existing devastating and ruinous depression could be halted or how the stupendous Governmental debts and otherwise can be paid with the existing deflated and unfair dollar.

We all agree that it is not currency or gold that actually pays debts. They act merely as mediums of exchange or tokens of the real wealth, labor, and what is produced and taken from mother earth. Our dollar tokens or symbols of gold to-day are buying two or three times as much of labor and commodities as when the existing stupendous mortgages, debts and other obligations were incurred. Therefore, it is self-evident that it is not equitable, nor is it possible for commodities and labor to pay off these obligations with the existing dishonest or unfair deflated dollar gold ratio. It is self-evident that commodities and other values must be brought back to the approximate value existing when these debts and obligations were incurred before they can be paid and before we can have any semblance of prosperity.

Five-cent cotton, 50-cent wheat, 30-cent corn, $25 steers, and other commodities selling in proportion, can not pay these debts and taxes and bring prosperity. It is like requiring the debtor to pay 400 bales of cotton where he owes 100 bales, 40,000 bushels of wheat for 10,000 bushels, 400 steers instead of 100 borrowed.

Economists and bankers differ as to what is the best method to reach our desired goal. Some argue our tariff barriers are an impediment and should be removed; some argue it will be necessary to cancel our foreign debts; others argue that the repeal of the prohibition law would bring the desired result. Many argue we should bring about a controlled inflation or currency expansion, which will lead to a revaluation and stabilization of the dollar on an equitable basis to commodities, compared to when these obligations were incurred. In other words, we must expand our currency so as to get down off our high gold perch and bring about a more equitable revaluation and stabilization of the gold dollar.

I believe most of us are in agreement with more or less all of these views. However, we must be practical. As far as reducing the tariff or repealing the national prohibition law, this is something it is doubtful we can accomplish before a long, long time; possibly years. As to canceling the foreign debts, I do not believe they will ever be canceled, nor do I believe the debtor nations would ask for cancellation, provided we will give them a fair chance to pay and not try to collect in the present deflated gold dollar, which is the same as trying to make them pay three or more times as much as they actually borrowed.

Therefore, it is apparent the most practical method of bringing about the desired result, is through a program of currency or credit expansion that will lead to an equitable revaluation and stabilization of the dollar. This accomplished, we can then bring about the other necessary economic adjustments.

One of the most critical emergencies in our history exists and we must not stand idly by and do nothing, and watch our entire financial and economic structure crumble away and collapse. In a great crisis like this, we must not cling to the orthodox, we must be bold, courageous and take steps that meet and are required for such an emergency.

The primary reason I advocate payment of the balance of the adjusted compensation certificates is because it will promptly lead to an embargo being placed against the further exportation of our gold with a controlled currency or credit expansion, followed by an equitable revaluation and stabilization of the gold-dollar parity.

General Dawes, when arguing against the payment of the balance of the bonus obligation, spent a large part of his time defending the Reconstruction Corporation. I personally have no complaint against the Reconstruction Corporation and think it undoubtedly has been of considerable temporary assistance and needed help to our financial institutions, railroads, and our country. Yet, there was no governmental obligation in connection with the Reconstruction Corporation, whereas there is an existing governmental obligation in connection with the payment of the balance of the adjusted compensation certificates. The Reconstruction Corporation was intended primarily to help banks, railroads, insurance companies, etc., and is trying to make repairs at the top instead of where most needed—at the bottom or foundation. General Dawes admitted that he had not read some of the proposed measures for paying of the balance of the adjusted compensation certificates.

General Dawes also argued that increasing the currency to pay this obligation would lead to the same disastrous end as in Germany. This is no comparison and is not well made as Germany was a defeated bankrupt nation without resources and without gold reserve, and, therefore, had no gold base or credit foundation on which to expand, while we have the largest supply and the best credit in the entire world on which to increase currency or expand credit.

Mr. Ogden Mills implies that the payment of the balance of the adjusted compensation certificates now would not be right as the payment would be in dishonest dollars. This characterization is not fair. Whoever heard of it being dishonest to meet an obligation before it was due? What could be more unfair than the present deflated dollar? What could be more unjust to the debtors than to maintain the outrageous and unfair buying power of the present dollar, when it is actually buying two, three, or more times as much in value as when their obligations were incurred. It is neither equitable nor possible for those who own billions of dollars of mortgages, securities, tax exempt and otherwise, to receive payment in such a deflated dollar. The dollar in which the remaining bonus obligations will be paid will be exactly the same kind of dollars that some fortunate few still have in their pockets or on deposit in the banks. Naturally, with this increased currency or credit expansion there will not be the same ratio of actual gold behind the dollar. However, there would still be ample gold reserve behind the dollar, and I believe we will all agree that any dollar issued by the United States Government has always proved good and sound. As a matter of fact, England has often maintained her currency on as low as a 25 to 30 per cent ratio of gold to the pound sterling, versus our present ratio of 67 per cent.

Mr. Mills also refers to what he says is the great harm inflation has done to Germany, France, Italy, and other countries. There is no comparison between the bankrupt condition then existing in Germany and the condition existing in the United States and other countries. Actually it was controlled inflation or currency expansion that saved France, Belgium, Italy, Japan, and Great Britain from complete financial collapse. Only seven months ago Great Britain was unable to balance her budget, unemployment and the dole were increasing, her trade was fast disappearing, and she was on the verge of a financial catastrophe. To-day, only seven months later, Great Britain has balanced her budget, has regained her foreign trade at our expense, unemployment is less than it has been in 12 years and is steadily decreasing, and to-day, according to one of the world's foremost economists, John Maynard Keynes, Great Britain is the most prosperous country, comparatively speaking, in the entire world. This seems almost unbelievable and proves that it was controlled inflation or currency expansion that saved Great Britain.

Mr. Eugene Meyer states that he indorses Mr. Mills's testimony. Therefore, the same answer holds good for him as for Mr. Mills. However, this in addition might be stated. The Federal reserve system are of the opinion that their present bond-buying program, started only about three weeks ago, should bring about the desired credit expansion. If this is correct, then why should not this policy have been adopted before. Also, the Federal reserve did not adopt their present program until the bill for the payment of the balance of the bonus obligation was brought forth. Here is rather an interesting comparison: The Federal reserve present liquidity existing in this ruinous deflation compared to the liquidity existing in 1920-21 during only a panic; in November, 1920, the Federal reserve member banks owed approximately $2,800,000,000, and to-day their member banks owe only approximately $530,000,000, or in 1920 it was five times greater.

Mr. Meyer mentions that if the balance of the bonus is now paid he fears further loss of our gold. Gentlemen, we should place an embargo to-day against the further exportation of our gold, as during the past eight months they have taken about $800,000,000 of our gold, while at the same time these foreign countries are not meeting their obligations to us. This increased currency expansion would be of great benefit, because it would promptly lead to such a gold embargo being placed.

Some try to frighten us by saying this would mean that the United States would abandon the gold standard. This is ridiculous and unthinkable when we have about one-half the gold supply of the entire world. An embargo against the exportation of gold would simply mean the temporary suspension of payments in gold, which would later be followed by an equitable revaluation of the dollar and stabilization of the dollar at a different gold parity.

General Dawes, Mr. Mills, and Mr. Meyer condemn using the printing presses to pay off the remaining bonus obligation. I agree with them and would be opposed to simply using the printing presses to pay the bonus balance unless the Government obligation will be maintained and deferred. The balance of this bonus obligation could be paid off through the issuance of long-time interest bearing Government consols or bonds as suggested by Senator Thomas and Senator Owen, and along which similar lines the Panama Canal was financed and constructed. As a matter of fact, is not the present bond-buying program of the Federal reserve somewhat along similar lines? The bonds they are buying are paid for through thei ssuance of currency.

You may consider it unfortunate for the purpose of currency expansion that the ready-made means to that end happens to be the soldiers' bonus. However, as an existing statutory debt it is fortunate that its beneficiaries are scattered in every corner of the country and total about 3,500,000. And with the release of this currency to such beneficiaries there would be an immediate stimulation of spending power.

It is a fact that by the recent operations of the Federal reserve policy that something over $600,000,000 of new credit has been made available at the reserve banks but because of the respect which the member banks have for the continued display of caution manifested by their depositors, this great abundance of credit available to these member banks is not bringing about an expansion of the circulating medium in the hands of the public.

Mr. LaGuardia and some others believe that a huge Governmental building program would bring about the desired currency and credit expansion. I believe that such a program, if undertaken on a huge scale, would bring about the desired results. However, gentlemen, do you not see the objections to such a program as compared to the paying of the balance of the adjusted-compensation certificates? Would it not be difficult to sell a huge Government bond issue for this purpose? Would this not be creating a new Government obligation and debt, whereas the balance of the adjusted-compensation certificates is an existing obligation. Also would not there be a great delay in putting this program into effect and receiving the benefit? Does not this emergency require immediate relief?

Some feel that if payment in full is made now of the balance of the bonus obligation, it should be discounted. If you gentlemen feel that the paying in full now of the remaining adjusted-compensation certificates is too generous, I do not believe the ex-soldiers would object to accepting a reasonable discount if paid now.

I advocate the payment now of the balance of the bonus fundamentally because of the great benefit it will bring to our entire people and the whole country.

I reiterate that our stupendous Government debts and budgets, and private debts and obligations, can not be met or paid with the existing deflated and unfair dollar. As we know, all debts are paid through the wealth that is created or brought forth from the ground, in the way of commodities and other natural resources. Until the value of these are brought back to somewhere near the level when these stupendous obligations were incurred, we will continue to find that we are in a ruinous and hopeless financial and economic situation.

The payment now of the balance of these adjusted-compensation certificates would quickly bring about these desired results.

1. A currency and credit expansion that would lead to a rise in values of all commodities and natural resources, such as wheat, cotton, corn, oats, cattle, poultry, oil, silver, real estate, and so forth.

2. It would not only immediately stop hoarding but bring money out of hoarding. Hoarders seeing more money in circulation and prices advancing, naturally would buy and invest. It would kill all the "bears" or drive them into hibernation.

3. It will promptly lead to an embargo against the exportation of gold, while foreign nations are not meeting their obligations to us.

4. It would lead to an equitable revaluation and stabilization of the dollar as compared to commodity values.

5. It will make possible for the debtors to pay their interest and meet their obligations.

6. It is the only way in which our National, State, county, city government budgets and obligations can ever be balanced and met. This can not be done with the present deflated gold dollar.

7. The revaluation would actually mean a reduction in our budgets, and lowering of our excessive taxation.

8. It would bring our dollar to a more equitable ratio as compared to the currency of our European debtors when they incurred their stupendous obligations. Therefore, it would enable Europe to start paying and meeting their obligations on an equitable basis instead of on the present most unfair and impossible basis which they can not meet. This would likewise increase the foreign demand and consumption for our commodities and goods.

Gentlemen, often a person on the outside has a far better perspective and recognizes more correctly what the trouble or difficulty is. Therefore, last week I cabled my friend, Grierson Clayton, who is one of the best posted men in England on finance and economics, and asked him two questions. I asked Mr. Clayton to please cable me his opinion, as well as the consensus opinion of the best economists in England on the following: First, their opinion regarding the likely result of our present Federal reserve program of purchasing Government bonds, and second, their opinion regarding what the policy of the Bank of England would be in connection with the 150,000,000 pounds sterling of new currency, or approximately $600,000,000 that was made available to them last week. The following is cable reply:

"Federal policy should gradually improve liquidity member banks and make cheap credit available but only restoration profit motive can influence material translation into purchasing power through new investment. Commodity prices selling at world levels can be little affected by this internal measure as worlds inability to buy American goods will not be improved. Only devaluation gold parity dollar or change in tariff and debt policy can permanently raise world commodity prices. Bank England unlikely buy dollars on free scale unless flight of capital from America tends raise exchange unduly. Understand empire monetary policy to be fully discussed at Ottawa including feasibility of rehabilitation silver."

Thus it will be seen the opinion of these economists is that our Federal reserve bond buying policy should gradually improve liquidity of member banks but that it will not improve commodity prices. The latter, as we all know, is essentially necessary. Many of our banks are already too liquid. Mr. Clayton further states that only the devaluation or revaluation of our gold dollar parity, change in our tariff laws, or our debt policy, can permanently raise commodity prices.

It will probably take many months, possibly many years to change our tariff or debt policy. In an emergency like this, we must act quickly. We should bring about a currency expansion immediately followed by a revaluation of the gold dollar.

Regarding the Bank of England policy in connection with the 150,000,000 pounds sterling new currency made available to them last week. You will note these English economists are of the opinion that this new currency is made available to the Bank of England primarily to keep their exchange from going higher or towards their old gold parity. It is self-evident that England is not contemplating returning to her old gold parity.

Do you not think it is time for our Government, and leading bankers to give thought and consideration to this and the policy that has saved the various European nations from financial collapse? Do you not think their financial leaders have had far more experience in such economic crises and in recent years have demonstrated pretty well to our satisfaction that they know more about world finance than we? At present they have about $30,000,000,000 of our money.

Never in the history of the United States nor of the world, was any country blessed with more material wealth and resources as our country has to-day. We have approximately one-half the gold supply of the world, our railroads manufacturing plants, buildings, homes, are the best. Our agricultural and mineral resources are the greatest on this globe and hardly scratched. We have been blessed with an abundance of all the necessities of life; wheat, corn, cotton, wool, cattle, poultry, lumber, coal, oil, and so forth. Our bins, granaries, warehouses, are literally bursting with all these necessities of life. Our Nation also has no external obligations and our foreign customers owe us billions of dollars. Yet despite all this, millions of our people are idle, penniless, and hungry. Our great industries are either not running or running on part time, and conditions are growing worse and we are face to face with a financial and economic calamity. Do you think there is any sound reason for this condition to exist? Must there not be some man-made cause? Is it not primarily due to the existing deflated and unfair dollar which is buying two or three times as much as when the existing stupendous obligations were incurred? Is it not this deflated and unjust dollar that has paralyzed and stopped business and commerce? Do you see any possible chance of improvement from this devastating financial and economic situation as long as we hold to this unjust deflated dollar, at the present gold parity? Will not our condition grow worse until it becomes unbearable and end in a catastrophe, unless we remove this cause? Should we not immediately remove the cause and bring about an equitable revaluation of the parity of the gold dollar? Is it not inevitable?

If it is dishonest to bring about a currency expansion that will lead to a fair revaluation or reflation of the dollar as compared to its value when the existing stupendous debts and obligations were incurred, then do you not think we must admit that this is contrary to the moral code we have been taught?

Gentlemen, in conclusion, I advocate payment of the balance of the adjusted compensation certificates along the lines recommended by Senator Thomas and Senator Owen, because it will quickly lead to an embargo being placed against the further exportation of our gold and will result in a currency or credit expansion, with a resultant rise in prices of all commodities, real estate, and other values. It will bring about an equitable revaluation of the existing deflated gold dollar. This will be a two fold blessing. It will immediately bring a halt to this devastating deflation and stop these unnatural failures, bankruptcies, foreclosures, repudiations, loss of homes and farms, etc. It will also quickly bring about the great benefits mentioned, with a revival and expansion of business and trade. During the interim, it will give our Government the opportunity to adjust the other problems and return to the humanitarian principles on which our country was founded, personal liberty, State rights, and an equal opportunity for all.

Mr. PATMAN. Mr. Lafferty, of New York, is in the same position; and although he still insists on being heard, I do not see how we can give him time, and I would like to ask permission that his statement be inserted in the record, if he wants it inserted in the record.

The ACTING CHAIRMAN. Without objection, that may be done.

(The statement referred to is as follows:)

FURTHER STATEMENT OF HON. WALTER LAFFERTY

PATMAN BILL—REPLY TO DAWES, MILLS, AND MEYER

Gentlemen of the Ways and Means Committee, the people are no longer calling this the Patman bonus bill. They are calling it the Patman prosperity bill.

Mr. Mills says the passage of this bill would destroy confidence. Whose confidence is he talking about? We admit the passage of the Patman bill would destroy the confidence of J. P. Morgan & Co. in the gullibility of the American people.

PATMAN DOLLARS

American communities would rather be able to collect taxes in Patman dollars than not to be able to collect taxes at all.

American investors, holding billions of dollars of the bonds of the great Republics of South America and Europe, some of which are down to 5, would rather be collecting the interest due them in Patman dollars than not to be collecting at all.

American farmers, whose lands have depreciated from $125 an acre to less than $25 an acre, and manufacturers, whose plants are threatened with receiverships, would rather be selling their products to the world for Patman dollars than not to be selling their products at all.

American labor, out of employment, would rather be working for Patman dollars than to be walking the streets looking for charity.

American income-tax payers would rather have the Allies reimburse the United States Treasury in Patman dollars for the eleven billions they owe us than to suffer cancellation, which is the program favored by Wall Street.

WANT MORATORIUMS LIFTED

What the American people want is an honest dollar, which will lift the moratorium on world debts, public and private, and the moratorium on world commerce, and such a dollar is provided for in the Patman bill.

The granting of $2,000,000,000 to the soldiers is but the smallest part of the Patman bill. Mills says the money is not due, according to a past pronouncement of Congress. But it can mighty quickly be made to become due by a pronouncement of this Congress. It was rather unusual in the first place to postpone till 1945—a period of 27 years—the payment of adjusted compensation admittedly earned in 1917 and 1918.

A better occasion could not be seized upon by an aroused nation for ending the cruel tragedy of this unnecessary world depression than the adoption of the Patman bill.

SOPHISTRY OF DAWES, MILLS, AND MEYER

Parlimentary propriety demands the delivery of a red-hot rebuttal to Dawes, Mills, and Meyer.

These three musketeers of the Morgan dynasty came here to coerce you into killing this bill regardless of its merits, because Wall Street wants it killed. They expect this committee to act as pall bearers. But this is going to be a year of surprises.

General Dawes made the first gallant onslaught. With fiery words, and snorting columns of sulphur from the habitat of "Hell and Maria," and with his pipe apparently upside down, he told you this bill would wreck the country by sending it down the primrose path of inflation which was followed by Germany in 1923.

"HOLY WATER" AND FIRE WATER

Governor Meyer, speaking as one in authority, and assuming the air of one possessed of great knowledge, preached against the horrors of inflation, as threatened by the Patman bill, and climaxed his argument by saying that those countries which have tried inflation "hate it like the devil hates holy water."

Governor Meyer should be reminded that England and Canada have recently, through choice, inflated their currencies, and instead of hating it like the devil hates holy water seem to like it even as the American Indians like fire water.

"DISHONEST DOLLARS"

Mr. Mills opposes the Patman bill on high moral grounds, saying it is a "dishonest device" and would flood the country with "dishonest dollars." Having but recently been a member of the New York law firm which has been for over 50 years the attorneys for J. P. Morgan & Co., Mr. Mills should readily qualify as an expert on dishonest fiscal devices.

In this great crisis Mr. Mills comes here from the house of Morgan to serve for a brief period as Secretary of the Treasury, and after the November elections he will return to the house of Morgan.

If it is meet and proper that Hon. Ogden L. Mills should be at the head of our Treasury Department at this dark hour, it would be more appropriate that Mr. J. P. Morgan himself should hold that office. Why beat the devil about the bush?

DECEPTION EXPOSED

The cry that the Patman bill would create dangerous inflation, and that it is comparable to what Germany did in 1923, is made only to deceive. Those who utter that false cry well know it is false.

Here are the facts: The Patman bill increases our stock of money only 20 per cent, that is one-fifth of 1. The German increase in 1923 was more than one billion times 1. The Germans printed 496-quintillian marks.

To inflate just one American dollar bill 1,000,000,000 times would require 1,000 tons of paper, and it would require one hundred 10-ton trucks to haul it to the Treasury.

GERMANY PLAYED POSSUM

The comparison shows how absurd it is for General Dawes, or anyone else, to place the Patman bill in the same category with the German strategic maneuver of 1923. The French had taken over the Ruhr in January, 1923, and threatened to take more territory. The Germans appeared to commit financial suicide, just as the 'possum plays dead when in danger, and as the mother grouse feigns a broken wing to lure the hunter away from her young.

The German mark fiasco of 1923 was deliberately staged, for a specific ulterior purpose. No student of history has a right to refer to it as a bona fide effort of a nation to broaden its currency in a workable manner, which is the purpose of the Patman bill.

"EXISTING AGENCIES" ARE MORGAN BANKS

Mr. Mills tells you that prosperity can only return by the expansion of credit through "existing agencies." What does he mean by "existing agencies?" He means the Morgan banks, of course, but he was not frank enough to say so.

Mills says the "existing agencies, that is, the Morgan banks, will expand credit when they get their confidence back, and that the passage of this bill would delay the day when the Morgan banks will regain confidence in themselves.

You have already given the banks all they have asked for, the Glass-Steagall bill, and the Reconstruction Finance Corporation, and still they refuse to expand credit because they say they have not yet got their confidence back.

"BOOTSTRAP" CLAPTRAP

The Morgan banks tell you that if you endeavor to improve matters by an act of Congress you will merely be trying to lift yourselves by your "bootstraps." They tell you that Congress can only give the bankers the legislation they ask for, and then patiently wait for the banks to regain confidence in themselves.

Morgan regards you as children. He classes you with the Indians on western reservations. He regards you as his wards and his property. The time has come for you to put behind you the prejudices of party dicta and to strike the cobwebs from the windows of your vision. The time has come for you to lead the world out of this depression.

MORGAN FEARS "PANIC"

They tell you the Patman bill would cause a "panic," when we are already in the worst panic the world has ever seen.

When Morgan tells you any bill would cause a panic, he is simply threatening you that if you dare pass the bill he will put the screws on the country and make matters worse.

But matters have now reached such a pass that even Morgan could not make them worse. Let him threaten all he desires. We fear him no longer.

GOLD STANDARD HAVOC

Morgan threatens you that if you pass the Patman bill the United States may be forced off the gold standard. Hooray!

We deny that this bill could possibly force the United States off the gold standard, but it would have the opposite effect. But granting, for the sake of argument, that it might force the United States off the gold standard, what of it?

What has the gold standard done for us, and to us?

The gold standard has forced upon us a 75 per cent moratorium of all our world trade, a 100 per cent moratorium upon the eleven billions our Alies owe the United States Treasury, a complete moratorium upon billions of dollars due our private investors, and has swept away private fortunes as by flood and fire.

PATMAN BILL OFFERS REMEDY

The gold standard has shrunk the physical assets of the United States from over $400,000,000,000 in the normal year of 1926 to less than $200,000,000,000 to-day. The Patman bill would restore the normal values of 1926 through a new era of prosperity, and would thereby give to the country at large over one hundred times the amount it would give to the soldiers.

The Patman bill, if it succeeds as we believe it would, will not only restore $200,000,000,000 in value to the physical assets of the United States, to-wit, the farms, the mines, the factories, and the railroads, but it will at the same time restore these properties as going concerns, will restore their daily and monthly and yearly earning capacity, and along with it the earning capacity of every individual, thereby restoring general prosperity.

The Patman bill is the only remedy offered the present Congress. Reject it if you will.

The present disparity between the price of gold exchange, and commodity and property values, is so outrageous and grotesque as to amount to the most cruel fraud ever perpetrated upon the people of America.

THROWING OFF THE YOKE

Only 6 nations out of 65 remain on the gold standard to-day, United States France, Belgium, Switzerland, Holland, and South Africa. France and the United States, with eight billions of the eleven billions of the world, are worse off to-day than in 1914 when they had together only two billions of the world's eleven billions. Gold can never be redistributed until it is made to come down from its artificial skyrocketing into the heavens, which it has recently indulged in by reason of its scarcity and maldistribution.

Passage of the Patman bill would be notice to the world that we refuse longer to bear the galling yoke of gold's present artificial value. It would be notice to the world that America refuses to sacrifice her own people or the people of the world for a putrid pot of yellow clay.

UP TO CONGRESS

It is inconceivable that you will adjourn Congress and go home to face your suffering constituents without passing this great prosperity measure.

It is inconceivable that you will adjourn Congress with a confession of failure upon your lips.

It is inconceivable that you will adjourn Congress without voting to strike the manacles of slavery from the limbs of 2,000,000,000 people of the world—manacles which have been forged by the money changers of Wall Street and Paris, through the maladministration of the single gold standard since the world war.

If capitalism ever was on trial in a responsible world forum it is on trial before you in the Patman bill.

The greed of capitalism recently sent 10,000,000 boys to their graves, robbing them of life which we hold so sweet for ourselves. By that tragedy 10,000,000 girls were robbed of their life companions.

And now the greed of the extremists of capitalism, the greed of Morgan and Paris for gold, holds the world enslaved in the darkest depression of its history.

GOD'S WAY

"God moves in mysterious ways His wonders to perform." His will be done. No one can open in advance the book of to-morrow. But if the American Congress now adjourns and goes home, admitting that it is helpless, and leaving our fate to the tender mercies of J. P. Morgan & Co., be not surprised next year to find your seats in our great and beautiful and beloved Capitol filled by young men and women under 30, dressed in their working garb, and discharging at least honestly and to the best of their ability, the functions which are now yours.

The fate of the Patman bill is in your hands.

Mr. PATMAN. Now, we have here a proposal which has recently been drafted. It is not a new proposal. We are not changing our plans. We are merely adding to our plans, in order that the attacks made by the opposition may be completely and fully answered. In preparing this addition we have had the benefit of the counsel and advice of Senator Owen, of Oklahoma, and Mr. Ackerson, of the legistive counsel's office. We have been working on it for several days, and after summing it all up I can read it to you. It is just a few lines.

For the section 2 that I have in H. R. 7726 we propose to insert this in lieu thereof.

SEC. 2. Payment of the face value of the adjusted-service certificates under section 509 or 510 of the World War adjusted compensation act, as amended, shall be paid in Treasury notes.

The Secretary of the Treasury is hereby authorized and directed to issue United States notes to the extent required to make the payments herein authorized. Such notes shall be legal tender for public and private debts and printed in the same size, of the same denominations and of the same form as Treasury notes, omitting the reference to any Federal reserve bank.

He shall place such notes in the Federal reserve banks, subject to the order of the Administrator of Veterans' Affairs, to be used for the purposes of this act.

He shall issue a like amount of United States bonds bearing 3½ per cent interest, payable semiannually, with coupons attached, and such bonds shall be due and payable in twenty years from the date of issue, subject to the right of redemption after ten years.

These bonds shall be deposited in the Federal reserve banks, as the agents of the United States, in approximate proportion to their current assets at the date of the passage of this act.

In the event that the purchasing power of the dollar in the wholesale commodity markets, as ascertained by the United States Department of Labor, shall at any time fall as much as 2 per cent below the average value of the year 1926, the Federal Reserve Board, by resolution in writing, may direct the sale to the public of such portions of said bonds as may from time to time be necessary to restore the purchasing power of the dollar to the normal standard of 1926.

Such currency received for such bonds shall be exchanged for the notes hereby authorized to be issued and they shall be returned to the Secretary of the Treasury for cancellation.

That, of course, is the plan we have, except that it answers completely the most effective argument that has been made, that is was uncontrolled inflation. Here is a clause that controls it and answers every argument that they have made against this proposal. I want Senator Owen to discuss that, and I shall not discuss this proposal or anything about the money question in relation to this matter. I feel that he is more competent to do it, and I want him to do it.

Mr. CHINDBLOM. Mr. Chairman, as I heard it read, that is substantially Senator Owen's proposal.

Mr. PATMAN. Substantially; yes, sir.

Now, the proponents of this measure have been compelled to submit to lots of abuse and lots of criticism. Of course, we have been accused of being just politicians and asking people to vote this money in order that we may get more votes for ourselves to try to help ourselves out politically. It is a very easy matter to impugn one's motives. I do not impugn the motives of the poeple who are against us. I would have just as much right to say that all the money is on that side, and that because they are fighting us they are getting money for it. I do not say it; neither do I believe it. But we have as much right to say that they are getting money for their opposition as they have to say that we are asking for votes for our support. But arguments like that should not carry any weight, and should not be effective on the mind of any person.

There was recently a witness before your committee who represented the opposition, I believe, more fully and completely than any other witness who appeared before you. He is a man who holds a high executive position as Secretary of the Treasury. Most of the others who appeared before this committee in opposition to this bill were under him in a measure. Take Mr. Goldenweiser. He is, in a sense, an employee of Mr. Mills. He works for the Federal reserve system, and Mr. Mills is the head of that Federal reserve system. Take General Dawes and these other gentlemen. They are more or less under obligations, directly or indirectly, to Mr. Mills. I do not say that as implying that that would influence their testimony. It would not.

Mr. BACHARACH. Do you think anybody at all could influence General Dawes to state anything except the facts as he viewed them?

Mr. PATMAN. Well, somebody influenced him to strike out the "cuss words" that he used in his testimony.

Mr. BACHARACH. Oh, they might do that. He probably did that of his own accord.

Mr. PATMAN. Possibly so; but they were stricken out, I notice.

Mr. HAWLEY. Mr. Patman, under the rules of the House they are not permissible.

Mr. PATMAN. Well, I am glad that he did obey the rules of the House, if not the rules of the committee.

Mr. CHINDBLOM. Mr. Chairman, of course, General Dawes being one of my constituents, I do not think Mr. Patman, my colleague, wants to leave the impression that General Dawes appeared here under any orders or compulsion.

Mr. PATMAN. I do not; no, sir.

Mr. CHINDBLOM. Or that he came here to support Mr. Mills. Personally, I think that General Dawes has just as independent a position in the business world and throughout entire Christendom as any other citizen of the United States.

Mr. BACHARACH. May I remind my colleague that General Dawes said that he came here under protest; that he had plenty to do and did not want to come here.

Mr. CHINDBLOM. He came upon the invitation of the committee.

Mr. BACHARACH. Certainly.

Mr. CHINDBLOM. But I do not want to let pass unchallenged any suggestion that he is in any way influenced by the opinions of the Secretary of the Treasury or anybody else.

Mr. PATMAN. I do not want to convey that impression. I am just trying to get to the head of the opposition. That is what I am trying to do, and I think Mr. Mills represents the opposition to this measure in America.

The same experts who have had charge of our financial and economic system for the past few years have appeared against this bill. If they are so good, and should be relied upon, why have they not done something to prevent the present deplorable conditions? Why do they not have something to offer now? The fact that our country is in the condition it is in is the best evidence that they are not capable of giving sound advice or that they have not acted upon sound advice.

Mr. Mills, as Secretary of the Treasury, represents the opposition to the bill to pay the adjusted service certificates. I will therefore not discuss the testimony of all the witnesses, but will discuss the testimony of their chief.

Mr. Mills said about my proposal:

> This is a dishonest device that is attempted to be used to take dishonest dollars from the Treasury.

He also said:

I object to printing dishonest money.

Mr. Mills has charged the proponents of this measure and all who are supporting it with attempting to make a raid upon the Treasury; that we have a dishonest device, which, of course, can only be conceived by dishonest people. Such a charge comes with poor grace from Mr. Mills, the Secretary of the Treasury. If we are attempting to raid the Treasury, which we deny, we are doing it in the broad day light, by laying all our cards on the table face up, and by getting legislative approval backed by public support after all the facts are known.

Let us see if the Secretary of the Treasury has been as frank and honest as we have been.

This committee will be astounded to know what I am going to tell you about the recent tax bill. I exonerate each and every one of you of any motive except the very best of motives. But what was done was because you did not get the correct information, and you did not get the correct imformation because he did not lay all the cards on the table face up.

Not one of you knew what I am going to say, or the tax bill would not have passed the House in the form that it did. Mr. Mills, the Secretary of the Treasury, was constantly advising with the committee during the consideration of the recent tax measure, which became known as H. R. 10236. Not only was he personally and in his official capacity exerting influence with the committee, but he also had his personal attorney permitted to appear in the secret executive sessions of the committee, and was therefore in a position to have considerable influence in the shaping and formulating of the policies in the new tax bill.

Strange to say, it was called a bill to balance the Budget; to raise taxes. They also had in it section 811, which was known as revaluation of depreciated estates—retroactive. This provision had one section which provided as follows:

SEC. 326. In the case of the estate of a decedent who died on or after September 1, 1928, and prior to January 1, 1932, and at the election of the executor, the value of the gross estate and of the net estate shall be computed based upon values as of a date 18 months after the decedent's death.

Now, that is obvious. In the case of anyone dying many months before the depression, the heirs could come in after the depression and get the Secretary of the Treasury to revalue the estate and pay a very small part of the inheritance tax that they would be required to pay under the law, which says that you must value these estates as of the time of death. When prices go up, and a decedent has died when prices were low, they do not pay a tax on the high prices of the estate, but as of the time of death. That has always been the law, and it is a reasonable law.

I am not inserting the whole section, as it is unnecessary.

The ACTING CHAIRMAN. Mr. Patman, may I make a statement about that as the acting Chairman of the committee?

The section to which you refer was the only retroactive feature of the bill so far as taxes were concerned. [After a pause.] Well, Mr. Hawley says there was another small matter than was retroactive. During the hearings on the bill a Mr. Winston, a Chicago attorney, and several other witnesses appeared before the committee and urged some relief for some of those estate on account of the collapse. It was brought out that there were some estates, where the decedent had died before the depreciation of the stock, that were worth several millions of dollars, and after the 18 months, if you applied the tax rate, it would take all of the estate. One of them was Montgomery Ward, I think. They stated that in the case of a man who had owned the stock for 35 or 40 years—a man who was an officer and who had not bought it for speculation—if he died, and that rate was applied, it would take all of the estate except $2,000.

The committee, whether wisely or unwisely, thought Congress did not intend to do that. I wanted to state, this, too: That when the Secretary of the Treasury was testifying before the committee, some member of the committee asked him what he thought of that provision and the Secretary replied that he did not care to say anything about it because if it were made retroactive, he would be a beneficiary on account of the death of his father.

Mr. CHINDBLOM. I made that inquiry of Mr. Mills, and I am looking for it now in the record.

Mr. PATMAN. I thank the gentleman for the information.

Mr. TREADWAY. Mr. Chairman, I would like to say this. When I interrupted and the chairman began his remarks, I had in mind exactly what the chairman has said. But I do think in justice to the committee, and in spite of the fact that the witness says he exonerates all members of the committee of any but the highest motives, he is directly taking a slap at this committee, and very unfairly, when he says that we have been unduly and unfairly influenced by the Secretary of the Treasury in private conferences in executive session; and that he has been represented not only by his official attorney but by his personal attorney. That I think is incorrect. I do not know to whom the gentleman from Texas is referring. He may be referring to Mr. Alvord; is that the gentleman?

Mr. PATMAN. I am informed he represents the Mills estate; yes, sir. He is a private tax attorney here in Washington.

Mr. TREADWAY. Mr. Alvord was for a great many years one of the experts of the Treasury Department. I happen to know that it was the hope of the department to retain his services and he was retained, as I understand it, not on the question of financial return, but because of his expert knowledge of these complicated questions and when there was anything in this committee that directly affected any private client of his, he was missing. When we wanted to ask him questions on those matters, he was not present.

I think that the statement of the witness ought to be corrected, both in fairness to Mr. Mills and in fairness to Mr. Alvord; particularly in fairness to the committee itself. I, as one member of the committee feel that the witness ought not to make the statement that he has made about the committee. I feel a great personal pride in the membership of this committee, its personality and the individuals on it. I do not think it is quite a fair statement for the gentleman to make that we have been unfairly and unduly influenced by the presence in our executive sessions of Government officials.

Mr. PATMAN. Mr. Chairman, may I conclude and then, of course, any statement that the gentleman desires to make will meet no objection from me. I would like to finish.

This is the first time I have heard of Mr. Mills's statement about that.

The ACTING CHAIRMAN. You will find it in the record.

Mr. PATMAN. Or the fact that inquiry was made of him.

When this bill was up for consideration on the floor of the House, Mr. Whittington sent up a motion to strike out that provision. I was there, I remember, and I took an interest in it and I asked questions about it.

One case was mentioned in explaining why this provision was made retroactive on these estates and that was the case where the man owned some Montgomery Ward stock, and the stock depreciated in value to such an extent that the beneficiaries of the estate would not get anything if the total tax were imposed. The Mills estate was not mentioned on the floor of the House. It was not mentioned in the committee's report and I assumed from that that the committee did not know anything about it, because I believe that estate would have been the largest beneficiary under this provision and being the largest beneficiary under that provision, some mention should have been made of it on the floor, if the committee had considered it.

Mr. CHINDBLOM. What proof has the gentleman about the size of the estate?

The ACTING CHAIRMAN. Mr. Patman, I know that you want to be fair.

Mr. PATMAN. Yes, sir; I do.

The ACTING CHAIRMAN. I know that I want to be fair and I have tried to demonstrate it.

Mr. PATMAN. I want it understood that I know that not a member of this committee has intended to do anything but what is fair. But I felt that he had not laid all the cards on the table face up because that was not mentioned in the committee's report and it was not mentioned on the floor of the House when that section was under consideration.

The ACTING CHAIRMAN. Let me say what transpired on the floor of the House. When the committee incorporated that provision in the bill, the committee was under the impression that it would affect very few estates. Before the bill came up in the House I, as the acting chairman of the committee, asked that they give us full information about it. The Solicitor of the Treasury Department gave me a statement to the effect that it affected about 30,000 cases, which would involve a refund of thirty or forty million dollars. When this section came up in the House I made that statement, and it will appear in the Congressional Record just where I made that statement during the debates, and with that knowledge I voted for Mr. Whittington's motion to strike it from the bill.

Mr. PATMAN. To show the chairman that I am acting in the very best of faith in this matter, last Friday morning I wired Mr. Mills as follows:

HON. OGDEN MILLS,
Secretary of the Treasury, Washington, D. C.

Please furnish list estates that will be benefited by enactment section 811 new revenue bill. Please include amount of tax heretofore paid and amount heretofore assessed against these estates.

If he had answered that telegram—which he did not do—or had called me over the telephone, or answered it by letter, I expected to take up with him the details of each estate. I think I had the right to make certain presumptions in view of the absence of a reply to that telegram, in which I asked the direct question.

Mr. CHINDBLOM. May I ask the gentleman where the gentleman was when he sent the telegram?

Mr. PATMAN. Here in Washington.

Mr. CHINDBLOM. You sent a telegram from the House Office Building to the Treasury?

Mr. PATMAN. Yes; I did, rather than send a messenger down to the other end of Pennsylvania Avenue. I followed it by a letter incorporating a copy of the telegram as confirmation.

The ACTING CHAIRMAN. Does not my friend recollect the statement that I made on the floor of the House, and which I have just recited?

Mr. PATMAN. I remember that statement; not about the Mills estate, though.

The ACTING CHAIRMAN. I did not mention it, because I did not know the amount of the Mills estate. But Mr. Mills before this committee in the hearings and when he was asked about it, said he did not care to express any opinion on it because he would be a personal beneficiary on account of the death of his father.

Mr. PATMAN. I had never heard of that.

Mr. CHINDBLOM. I made that inquiry of Mr. Mills. It never occurred to me that the father of the Secretary of the Treasury, Ogden Mills had passed away during this time. I asked him for his views upon this question, because I knew that the question was to be raised, and he then said he did not want to go into that; that his father's estate would be involved, and he did not want to express his views upon that question at all.

That is in the hearings, I am sure, and I am trying to locate it at this moment. We were all present.

Mr. PATMAN. Let me finish with just this statement——

Mr. BACHARACH. Just a moment, before you finish. I do not see that this has anything to do with the particular bill pending before the committee, but I do want to say that the retroactive features which we adopted in 1926, retroactive to 1924, were exactly on the same basis as these we are discussing.

Mr. PATMAN. Yes, sir. My point is this, that he should not say that he is interested in the bill and therefore he did not care to make any statement about it. I think he should have said that he was against such proposals as this. He should have taken issue, and explained to the committee why it should not be adopted.

There is an estate, as in the Mills estate, where the decedent had passed away in January, 1929, many, many months before the collapse in 1929. Doubtless, in most cases, the inheritance taxes had already been paid to the Government of the United States. As evidence of that fact, this bill provides not only for revaluation but for refunding taxes where they had been paid. He should not only have said that he was interested, but he should have had something to say about the adoption of such a provision. He should have put all cards on the table face up, which he did not do.

Mr. TREADWAY. Mr. Chairman, I do not agree with the gentleman's conclusion at all. Mr. Mills took exactly the right attitude before this committee and Mr. Patman ought not to make that kind of a statement about it.

Mr. DOUGHTON. Mr. Chairman, I desire to corroborate what the chairman and Mr. Chindblom have said with reference to Mr. Mills's testimony.

Mr. PATMAN. Was that before the subcommittee?

Mr. CHINDBLOM. No; it was right here.

Mr. DOUGHTON. It was before the full committee when he was interrogated about it.

Mr. PATMAN. What attracted my attention to it was a statement made by some Member on the floor of the House, without mentioning the Mills estate but merely saying that there was another estate involved that would not be mentioned, or words to that effect.

Mr. DOUGHTON. The Secretary very modestly stated that owing to the fact that his father had passed away, and the estate would therefore be involved, he preferred not to have anything to say about it at all. I think he did exactly the right thing, because if he had testified in favor of it, some one would have said that he had testified in his own interest. If he testified against it, perhaps he would be doing an injustice to some one else. I do not think his action, his attitude, nor his testimony were at all subject to criticism.

Mr. PATMAN. In view of the statement made by the chairman of the committee, with which information I was not familiar and which I had been unable to ascertain—I used every effort to try to get the information—I withdraw that part of the criticism but not the other part, which is the most material part. I do insist that he should have given the committee the benefit of the information of what it would have cost the Government if these refunds were made and the names of the estates that would be benefited, as well as the amounts that have already been paid or had been paid before the collapse, and the amounts that would be refunded by the Government. We did not have the benefit of that information, and I think he is subject to criticism on that account. I think also he is subject to criticism because of refusing to give me the information that I as a Member of Congress tried to get from him.

Mr. BACHRACH. Mr. Chairman, I dislike to interrupt, but I want to call the attention of the gentleman to the fact that sometimes we do not get full information. For instance, I started to say a few minutes ago, in 1926 we introduced a retroactive feature in the bill and reduced the rate from 40 to 25 per cent, which was supposed to affect one estate—the present Speaker of the House advocated that measure. That was supposed to affect the Duke estate. By reason of the way the will was drawn, the money did not go directly, but indirectly to charity. We reduced the rate from 40 to 25 per cent. We afterwards learned that that provision affected many estates and I think exactly the same situation exists to-day. I think one of the worst votes I ever cast was cast for that retroactive feature and in the same category is the vote I cast for that provision this last time to make it retroactive.

Mr. MCCORMACK. May I suggest to Mr. Patman, it is my recollection that Mr. Alvord was only called in to advise the committee in connection with the manufacturers' excise features of the bill as reported by the committee. That is my distinct recollection. He did not advise the committee on any of the administrative features, except as members might have asked him questions. My recollection is that he helped in the drafting of the manufacturers' excise provision.

As to the provision with reference to estates, I led the fight on the floor to retain those provisions—not the retroactive provision. I specifically said that I did not oppose any motion to eliminate the retroactive features, although personally I felt there were many inequities imposed, and I still maintain that imposing a value at the time of death with payment 18 months later is inequitable, particularly when the Treasury Department can make a determination of its own as to value on unlisted stocks, and where they have got to accept the listed value of listed stocks as of the date of death. In other words, if stocks are not listed on the stock exchange, they could look behind to find out what a fair value was, whereas as to listed stocks, they had to accept the value as the stocks were listed, on the day of the death. So far as the future was concerned, I think the provisions are absolutely fair. I took the position that the amendment offered by Mr. Whittington went too far.

Mr. Ramseyer also was fighting to eliminate the entire provision. So far as the retroactive feature was concerned, I had no objection, although I had my personal views about it. But I maintained then and I still maintain that it is unfair to impose a tax at the time of death. It is all right to determine what is the proportion of the Government's tax and then to provide that 18 months later, when payment is made, that the Government shall receive its portion of the then value of the estate, the proportion being determined at the time of death.

Mr. CHINDBLOM. Mr. Chairman, in order that the record may be straight in this connection, and that the correction may be made in this presence, may I read exactly what transpired at that time? I am reading from page 35 of the hearings upon the revenue bill, starting with the question which I submitted to Mr. Mills, as follows:

> Mr. CHINDBLOM. There will be a considerable discussion here of portions of the administrative features and other features of some of these taxes. For instance, it has been brought very forcibly to the attention of some of us that by reason of the slump in value of securities and property generally, estates are in a very desperate situation for the payment of the estate taxes, due to peculiar conditions which resulted after the deflation in 1929 and since then. Is it your purpose, Mr. Mills, to discuss those questions later on?
>
> Mr. MILLS. It is not my purpose to discuss that particular question, because my father died at the height of the boom, and his estate would be affected by any such legislation, and therefore as to that particular point which you have in mind, the Treasury does not propose to make any recommendation of any kind. But as to the other administrative features, we are entirely at the disposal of this committee at any time, whether in open or executive session. I understand that Mr. Gregg, representing the department, is working with Mr. Parker, and Mr. Bartholow of our department is working with representatives of the committee on the administrative sections. But, of course, any time that the committee would want either Mr. Ballantine or myself on any of the administrative sections, preferably Mr. Ballantine, because he is a much better tax expert than I am, we are at the disposal of the committee.
>
> The CHAIRMAN. We will be glad to avail ourselves, Mr. Mills, and probably will.

That is the complete record.

Mr. PATMAN. On that statement I shall be very glad to exonerate the Secretary of the Treasury of criticism that he never mentioned it before the committee but he should have done more. Public duty required that he do more. It is unfortunate that this information about the Mill's estate was not brought out in some way. We were fighting that provision of the bill on the floor, and I believe I had a right to assume from the fact that it was not mentioned on the floor in any way, shape, or form and the fact that he refused to answer my telegram asking for the information, that my conclusions about it were correct and substantially they are correct.

Mr. CHINDBLOM. May I ask, when was that telegram sent?

Mr. PATMAN. Last Friday.

Mr. CHINDBLOM. This is Tuesday morning.

Mr. PATMAN. Yes, sir.

Mr. CHINDBLOM. I do not know whether they would have been able to get the information out by this time or not, but I leave that question. But may I ask the gentleman this: Does the gentleman mean to say that if it had been shown on the floor that the father of Ogden Mills, the Secretary of the Treasury, had died during the peak of high prices and his estate would be affected, either he or any other gentleman of the House would then be so prejudiced against the proposition, whether it was fair or not, that it would make any difference in his judgment?

Mr. PATMAN. It is not a question of prejudice.

Mr. CHINDBLOM. Would it make a difference in his judgment?

Mr. PATMAN. But if his father had died in January and the estate had paid the tax before the collapse, there is no reason on earth why that refund should be made to the estate. Mr. Mills told the committee his father's death occurred at the peak of the boom. It occurred nine months before the peak of the boom.

Mr. CHINDBLOM. But you knew exactly when the provision was to go into effect; the date was there?

Mr. PATMAN. Within 18 months; any date within 18 months.

Mr. CHINDBLOM. You knew that.

Mr. PATMAN. If the tax had been paid before the collapse, they could have taken a date 18 months after the death and arrived at the lowest possible figure and paid the tax on that basis, and if it had already been paid, they could have gotten a refund. That is the part of the provision that is unfair.

Mr. CHINDBLOM. The provision in the bill proposed by this committee showed exactly the period during which it was to apply and what difference should it make to the gentleman from Texas or to the gentleman from Illinois or to anyone else whether the name of the decedent affected by the provision was Mills or Jones or Patman or Chindblom or anybody else?

Mr. PATMAN. The name makes no difference at all, and would have made no difference with me. If it had been a case that appealed to me such as the case that the chairman of the committee mentioned, where the person owned Montgomery Ward stock, whether it was Mills or Mellon or Morgan or Meyer or anybody else, it would have made no difference with me.

But I do say that we were entitled to the information as to whether or not the tax had been paid before the collapse of the stock market in 1929, and if it had, he had no right to take a date many months after that collapse, when property values had decreased to their lowest and say, "We will value the estate as of that date and give a refund for the amount of taxes that have been paid." That is not right. In fact, I do not believe it was right to permit any revaluation at all and make it retroactive.

Mr. CHINDBLOM. I will just say in conclusion, that goes to the merits of the proposition and has nothing to do with the question of the position of the Secretary of the Treasury.

Mr. PATMAN. It would have had something to do with it on that bill.

Mr. CHINDBLOM. Only as to the individual that happened to be involved.

Mr. RAGON. I will say that in the subcommittee that considered the last revenue bill, Mr. Mills was present only once and that was at my request. I do not think he was asked to pass on anything, except he was requested to consult with the heads of the different departments about the retrenchment part of the proposal.

Mr. VINSON. May I suggest in that connection that the subcommittee that prepared the substitute tax proposals did not have anything to do with this particular feature of the bill? That had been agreed to and was contained in the bill as reported out of the committee in the first instance.

Mr. RAGON. I personally never heard of the Mills estate until this morning.

Mr. PATMAN. You mean you never heard that Mr. Mills had made that statement?

Mr. RAGON. No.

The ACTING CHAIRMAN. Well, the gentleman was away for about a week at that time.

Mr. RAGON. I was going to suggest that I was absent for a part of the time during the hearings. I did not know about it even at the time the bill was passed. I heard some rumors about that time or subsequent thereto, but Mr. Mills never appeared with counsel in my presence at any time on this particular feature, either in subcommittee or anywhere else. I do not think he was even present with our subcommittee on the administrative features of the bill, of which Mr. Doughton was chairman.

Mr. PATMAN. Mr. Chairman, I must finish, because Judge Rankin wants to be heard and Senator Owen is present and I would like the committee to hear him.

Mr. VINSON. Mr. Patman, have you put in your statement the number of cases that were affected by this particular provision?

Mr. PATMAN. I can not find out.

The ACTING CHAIRMAN. I stated that.

Mr. PATMAN. It was stated that it would apply to a large number, but the names of the estates and the amounts involved were not given.

The ACTING CHAIRMAN. I made the request for specific information as to the names of the estates and the amounts, and they replied that it would be a Herculean task to get the information and would be expensive to prepare it. To their astonishment they found that it would involve 30,000 persons.

Mr. PATMAN. Did they give the large estates?

The ACTING CHAIRMAN. They did not give the names of any of them and on the floor of the House I gave the House the full benefit of that information before the House voted on the proposition. I myself voted to strike it out.

Mr. VINSON. Mr. Chairman, the information that I got on the subject was that there were 3,000 cases.

The ACTING CHAIRMAN. They told me that there were 30,000, and I think if you will refer to the Congressional Record you will see that I said there were 30,000.

Mr. PATMAN. There were only one or two or three large estates, as I understand. It occurred to me that certainly as to those large estates, the information should have been furnished to me in response to this request, or to the committee.

Gentlemen, our motives have been impugned by the Secretary of the Treasury and by others when they said that these were dishonest dollars that we were trying to get. I want to say that we are honestly and conscientiously trying to save our country. We are trying to do something that will bring our country back. We are trying to use this as a vehicle with which to convey our Nation back to prosperity. If there is another way and a better way by which to put circulating medium into the country that will cause commodity prices to rise—which must be done in order to bring our country back—we would not be unfavorable to it. We would be favorable to it. But after you explore all other methods, I believe, gentlemen, that you will come to this one solution, that this is the only plan that has been offered that will put a definite amount of money in every community in this Nation, according to the number of veterans in that community, which bears a direct and definite ratio to the total population in every community.

I want to thank the committee for their faithful consideration of this bill and the liberal time they have given to its consideration. You have been very patient, very tolerant. I repeat I have the utmost confidence in this committee. There is no thought in my mind of impugning the motives of any one of the members of the committee.

I want to say in conclusion that Senator Owen will make the concluding argument, and I hope the members of the committee will ask him every question relating to this money proposition about which there is any doubt in your minds. I believe he can successfully answer them.

We are not asking for printing-press money. We are asking for the same kind if circulating medium that is in existence in our Nation to-day.

That is all, gentlemen. Thank you.

The ACTING CHAIRMAN. Mr. Patman, the committee wishes to thank you for your diligent attendance on these hearings and the valuable information you have given the committee.

Mr. KVALE. Mr. Chairman, I have been asked by the Hennepin County Council of the Veterans of Foreign Wars of the United States, Minneapolis, Minn., to ask the permission of the committee to insert a statement in the record in their behalf.

The ACTING CHAIRMAN. Without objection, the statement will be made a part of the record.

(The statement above referred to is as follows:)

STATEMENT OF HENNEPIN COUNTY COUNCIL, VETERANS OF FOREIGN WARS

Pursuant to a resolution duly adopted by the Hennepin County Council, Veterans of Foreign Wars, the following statement as to the position of the Veterans of Foreign Wars on immediate cash payment of the adjusted-service certificates and matters connected thereto, is herewith submitted.

The Veterans of Foreign Wars, Hennepin County Council, is composed of 19 posts, 18 of them in Hennepin County, and 1 in Columbia Heights, a suburb of Minneapolis, in Anoka County. Our total paid-up membership is 3,023 members, and we are the largest service men's organization in Hennepin County (Minneapolis) on the basis of paid-up membership, as shown by the records. The Disabled American Veterans and the American Legion, with whom we have the most friendly relationship and cooperation, have substantially the same membership.

The Veterans of Foreign Wars are 100 per cent in favor of immediate cash payment of the adjusted-service certificates. The resolution favoring it was passed without a dissenting vote at Kansas City, Mo. Our national commander, D. D. De Coe, truly represents the rank and file of the overseas veterans, when he speaks for the passage of H. R. No. 1, the so-called Patman bill, and he represents the rank and file of all service men. Every one of our 19 posts in the Hennepin County Council are for the immediate passage of the bill, and our members as individuals, 3,023 of them, are for it. The 17 auxiliaries to the Hennepin County posts are also solidly for it.

The Veterans of Foreign Wars are composed exclusively of men who have served the Nation on foreign soil and in hostile waters in time of war and who have received an overseas decoration—an overseas campaign badge—for that service. We are for immediate cash payment, because we know it will help the Nation.

Immediate cash payment will bring to the State of Minnesota $53,000,000. Ten million dollars will come to Hennepin County, to the approximately 20,000 service men who hold the adjusted-service certificates. The business men of Minneapolis are in favor of immediate cash payment. In 1921, 1922, and 1923, our business men believed the slanderous, libelous, and unreliable statements peddled all over the United States by Andrew Mellon, and others of this type, but there was a distinct revulsion of feeling from 1924 on; after Frank T. Hines reported that his survey and investigation showed that 93 per cent of the money of the 50 per cent increased loans was spent wisely, to pay up butcher and grocer bills, and for living expenses of the veterans and families, etc., and only 7 per cent for things that were not essential; few business men in Minneapolis and Minnesota remained who were bitterly opposed to cash payment of the adjusted-service certificates. The butchers, the grocers, and other business men of Minneapolis are to-day in favor of the immediate cash payment of the balance due to the service men on their certificates, for they know that it will go into the channels of trade and help business.

THE PEOPLE OF MINNEAPOLIS ARE FOR IT

The Minneapolis City Council, on March 11, 1932, adopted a resolution in favor of immediate cash payment. The Hennepin County commissioners adopted a similiar resolution on April 4, 1932. The Central Labor Union, which includes all the labor unions of Minneapolis, as well as the Building Trades Assembly, have several times gone on record in favor of immediate cash payment. The Minnesota State Federation of Labor is also with us, and the bill for immediate cash payment has been indorsed and has the support of Gov. Floyd B. Olson. The Eagles and 70 other fraternal groups in Minneapolis have adopted resolutions recognizing the justice of the claims of service men to this legislation.

OTHER SERVICE ORGANIZATIONS

The United Spanish War Veterans have asked for the passage of this legislation, for the reason that while it does not benefit them by direct payments to them it will help business and so indirectly benefit them. Four thousand, five hundred former members of the First Division, living in the States of Minnesota, Wisconsin, Iowa, North and South Dakota, and Montana, through their chairman, Andrew Rennes, have written Members of Congress in support of the Patman bill.

The fifth district of the American Legion, composed of 22 legion posts in Minneapolis, two months ago, reversed the stand of their national and State commander, and requested immediate cash payment. Practically the only legion opposition comes from the Lufbery Post, a post of wealthy aristocratic service men, whose post dues are $25 a year. The Minneapolis chapter of the Disabled American Veterans, one of the largest units of service men in the world, with a paid-up membership of 1,800, is solidly behind the Patman bill.

The Democratic State Convention went unanimously on record for immediate cash payment, as well as the State farm labor convention.

The Veterans of Foreign Wars in Minneapolis have always been very friendly with organized labor. No danger of violence or revolution exists from the men intelligent enough to be affiliated with organized labor or from disillusioned veterans, who are members of organized service groups. There is considerable danger, due to the bitterness, suffering, and hardships, in the unorganized workers and in the unorganized service men. It is also appalling the cynical attitude that the intelligentsia take toward the very uneven distribution of wealth that exists in the Unied States. The fact that so-called Government leaders and so-called statesmen, applaud and approve grants only when those grants go to big financial interests, and denounce and disapprove similar grants, going only to common ordinary people, is leaving a bad taste in the mouth of everyone in Minnesota.

December 29, 1931, a public rally was held in Minneapolis under the auspices of the Hennepin County Council, Veterans of Foreign Wars, in favor of immediate cash payment of adjusted-service certificates. This rally and the overflow meeting was addressed by James E. Van Zandt, junior vice commander in chief, and by Congressman Wright Patman, and was attended by over 6,000 people; with approximately 2,000 people being truned away. Ballots distributed among the service men showed 3,242 votes of service men in favor of immediate payment and 4 votes opposed.

UNEMPLOYMENT

An investigation of employment in Minneapolis made in December 1931, disclosed over 10,000 service men out of work. A so-called drive upon unemployment has not contrary to publicity reports, "conquered unemployment." Giving a man an hour's work washing a window, permits making a statistical report of work given one man, but after the hour's work is over the man is still unemployed. At the present time the most accurate and conservative reports place the number of service men as unemployed in Minneapolis at 12,000.

No records are available at the division of public relief as to the number of service men receiving relief from the city of Minneapolis. M. U. S. Kjorlaug, superintendent of poor relief in Minneapolis, states that in order to prevent humiliating the former defenders of the Nation, questions as to former military service are not asked. The most accurate estimate places the number of service men at from 1,000 to 1,100, who receive city relief. The following statistics as to city relief taken from the public records and files reuired to be kept, give some idea of the situation in Minneapolis. The total expenditure for city relief in 1930 was $251,000. The total expenditure for city relief in 1931 was $750,000. The total expenditure for city relief in 1932 is estimated at $3,000,000.

The number of families on city relief in 1931 is three times the number of families given city relief in 1930.

In the city for some time past and at the present time, meals and lodgings are furnished to homeless men of the city of Minneapolis at the Union City Mission and the Salvation Army, the city paying 10 cents for each meal and 10 cents for each night's lodging. Transients and people not residents of Minneapolis are furnished only two meals and one night's lodging by the city relief division. A very strict system of checking is carried on by a small corps of efficient investigators, and few, if any, are receiving relief who are not entitled to it. The following statistics from the division of city relief for the past three months show the situation:

For the month of January, 1932:	
Total amount expended for relief	$142, 000
Number of families receiving city relief	5, 058
Number of single men	3, 000
Number of meals furnished	218, 477
Number of lodgings given	70, 203
For the month of February, 1932:	
Total amount expended for relief	$190, 000
Number of families receiving city relief	7, 483
Number of single men	3, 000
Numbe of meals furnished	225, 000
Number of lodgings given	70, 663
For the month of March, 1932:	
Total amount expended for relief	$230, 000
Number of families receiving city relief	7, 876
Number of single men	3, 000
Number of meals furnished	214, 626
Number of lodgings given	74, 801

The funds of the community fund having become exhausted, over 2,000 families have been turned over to the city of Minneapolis for city relief.

The posit'on that the Hennepin County Council, Veterans of Foreign Wars, take is that the city or private relief agencies will have to take care of unemployed and needy families, and that it would be much better to give to the men who have money coming from the Government their money at the present time so that they can spend that money now when it will help business—spend it to pay the living expenses of themselves and families—and so help the economic situation in this city.

STATEMENT FURNISHED BY COUNTY RELIEF OFFICER R. W. SWAN OF THE VETERANS OF FOREIGN WARS

R. W. Swan, county relief officer of the Veterans of Foreign Wars, reports that demands for relief for service men upon the Veterans of Foreign Wars has increased five times this winter over any other previous winter. The largest amount disbursed by the Hennepin County Council, Veterans of Foreign Wars, for relief comes from the proceeds of buddy poppy sales put on prior to Memorial Day each year. In 1931, 127,000 poppies were sold in Minneapolis for the gross sum of $8,122.08. In addition to that, funds have been raised by benefit dances, card parties, shows, rummage sales, outright contributions by members, collection of waste paper and tin foil, etc. The individual posts and auxiliaries all have contributed from their post relief funds and auxiliary funds to the relief of needy members and their families and to needy nonmembers. While the records kept by the individual posts and auxiliaries of such relief have not been kept as well or as accurate as those of the county council, the total amount of such relief from the county, council, posts, and auxiliaries from 1931 and the first three months of 1932 has been well over $30,000.

The Veterans of Foreign Wars in Minneapolis do not receive any funds from the community fund or from any public agency. The Veterans of Foreign Wars in Minneapolis take care of those cases of relief of service men that the city and charitable organizations can not handle, and emergency cases until such time as other agencies can act. No salaries are paid and there is no overhead. Investigations are made by volunteer workers, one from each post, and by the county relief officer. Reports made by County Relief Officer Swan show that there are many service men in Minneapolis who are not only out of work, but who are without funds or credit, and whose families and dependents are in dire need, who have not applied to public or private relief agencies. Men who have served in four and five major battles on the Western Front have been found living with their families in miserable hovels, suffering from lack of fuel, clothing, and food. These men were too proud to go on the city relief or to apply to private relief agencies. The number of these cases in Minneapolis have been so numerous and the circumstances in which they are living so distressing that one can readily understand the inquiry contained in a report of County Relief Officer R. W. Swan:

"There are over 10,000 service men out of work in Minneapolis. Some people and some organizations may think that it is patriotic and wise to ask these men to wait, and either starve or apply to charity, until such time as business conditions improve. There was no talk like that when these comrades of ours went into the service. How can it be good business to force the service man to apply to charity for the means to live and support his family when he has money coming to him from his Government?"

Through the generosity of Allied Grocers (Inc.), of Minneapolis and other Minneapolis business concerns, 192 Christmas baskets were given to the families of needy unemployed veterans by the county council in 1931, a larger number than had ever applied for such Christmas baskets. A hard-time dance given January 25, 1932, at which admission was by bringing canned goods and food, permitted the distribution of 142 baskets to the families of needy unemployed and disabled veterans. Inquiry by County Relief Officer Swan at the office of the Disabled American Veterans and other fraternal and civic groups, discloses that a considerably greater number of families of needy veterans have been taken care of by them, this year.

RELIEF TO FOREIGN NATIONS

The attitude of the overseas men in Minneapolis toward the tendency exhibited by the administration of taking care of foreign nations first, before the needs of American veterans, farmers, and laboring men, is best shown by including copies of telegrams forwarded to Minnesota Members of Congress on December 16, 1931, protesting the passage by Congress at the request of President Hoover of a waiver of payments of $239,000,000 (most of which was in the hands of bankers in New York ready to be paid over).

[Telegram]

GODFREY GOODWIN,
Congress, Washington, D. C.:

Sixteen posts Veterans Foreign Wars in Hennepin County request vote moratorium be postponed until American veteran and people are taken care of. We are against administration policy taking care foreign nations and letting veterans and American people starve or apply charity. Request delay reasonable.

HENNEPIN COUNTY COUNCIL, VETERANS FOREIGN WARS,
AMBROSE FULLER, *Commander.*
Z. L. BEGIN, *Adjutant.*

TOM SCHALL,
United States Senate, Washington, D. C.:

Thousands of veterans unemployed in Minneapolis. Great demands upon Veterans of Foreign Wars for actual relief coal, groceries, lodgings. Request Americans be taken care of first. Postpone moratorium and debt revision until that is done. Why starvation for citizens and help for foreign nations?

RALPH W. SWAN,
Relief Officer Hennepin County Council, Veterans of Foreign Wars.

HENRIK SHIPSTEAD,
United States Senate, Washington, D. C.:

We urge delay on moratorium until widows and orphans pension and balance adjusted compensation passes. Farmers and veterans should come ahead of foreign nations. Many people in Robbinsdale are unemployed and much suffering.

H. P. BILLMYER,
Commander Hartig Post, Veterans of Foreign Wars, Robbinsdale.

W. I. NOLAN,
Congress, Washington, D. C.:

Kaniewski Loss Post requests that widows, orphans, and adjusted compensation pass before moratorium. Post located in northeast Minneapolis where thousands working people unemployed and in need. Why not take care of American labor, farmers, veterans before foreign nations. Letter follows. Delay vote.

JOHN J. SOLOSKY,
Commander Veterans of Foreign Wars.

The general position of the rank and file of the veterans in Hennepin County is, that prosperity will not be restored until the great mass of the people get the wherewithal with which to buy the necessities and means of life. If immediate cash payment goes through, it will bring over $10,000,000 to the service men of Hennepin County. It will give us a chance to support ourselves and those dependent upon us—give us purchasing power—give the retail stores a chance to sell their goods and the manufacturers a chance to keep their factories running. To those who say that passage of the Patman bill will unreasonably inflate the currency, we cite the statement of President Hoover made sometime ago that over $1,000,000,000 was being hoarded, and also the argument made by him in favor of the Reconstruction Finance Corporation that it would stop the disastrous policy of deflation. The Veterans of Foreign Wars of Hennepin County are at a loss to understand why it is good business to give $2,000,000,000 to big financial interests and a ruinous policy to give $2,000,000,000 where it is a just and legal obligation, to the 3,500,000 men whose only crime was that of serving loyally under the stars and stripes in the World War.

The United States and the world is celebrating the bicentennial of the birth of George Washington. The Veterans of Foreign Wars are in thorough accord with the principles and ideals of the man who was the first Commander-in-Chief of an American Army; the man who was the first President of the United States: the first National Commander of the Order of the Cincinnati, the predecessor of the Veterans of Foreign Wars; the man who believed in adequate national defense; the man who not only believed that it was a citizen's duty to wear a uniform and to carry weapons of defense in time of war, but who had no scruples whatever against doing the same thing himself; the man who not only did not veto legislation designed to help the men who served under him, but who pleaded with Congress, with the governors of the 13 States, and with the American people for just and beneficial legislation for the veterans of his time; the man who was interested in the United States first and the people of the United States in their protection and help, and who warned us against entangling alliances with foreign nations. We commend to Congress the following statements written by George Washington on October 2, 1782, to the Secretary of War:

"If the whole Army have not merited whatever a grateful people can bestow, then have I been beguiled by prejudice and built opinion on the basis of error * * * If retiring from the field they are to grow old in poverty, wretchedness, and contempt; if they are to wade through the vile mire of dependency, and owe the miserable remnant of that life to charity which has hitherto been spent in honor; then shall I have learned what ingratitude is, then shall I have realized a tale, which will embitter every moment of my future life. But I am under no such apprehensions. A country rescued by their arms from impending ruin will never leave unpaid the debt of gratitude."

Statement written March 19, 1783, in a letter to Governor Harrison:

"Justice, honor, gratitude, policy, everything is opposed to the conduct of driving men to despair of obtaining their just rights after serving seven years a painful life in the field * * * I can not cease to exert all the abilities I am possessed of, to show the evil tendency of procrastinated justice (for I will not suppose it is intended ultimately to withhold it)."

Statements from his circular letter addressed to governors of all States on disbanding the Army: which letter is dated June 8, 1783:

"In this state of absolute freedom and perfect security, who will grudge to yield a very little of his property to support the common interest of society, and insure the protection of Government? Who does not remember the frequent declarations, at the commencement of the war, that we should be completely satisfied, if, at the expense of one half, we could defend the remainder of our possessions. Where is the man to be found, who wishes to remain indebted for the defence of his own person and property to the exertions, the bravery, and the blood of others, without making one generous effort to repay the debt of honor and gratitude? In what part of the continent shall we find any man, or body of men, who would not blush to stand up and propose measures, purposely calculated to rob the soldier of his stipend, and the public of his due? And were it possible that such a flagrant instance of injustice could ever happen, would it not excite the general indignation and tend to bring down upon the authors of such measures the aggravated vengeance of Heaven?"

The Veterans of Foreign Wars, Hennepin County Council desires to conclude this letter with this statement of George Washington, likewise contained in the circular letter to the governors of the States:

"It was a part of their hire. I may be allowed to say it was the price of their blood, and of your independency. It is therefore more than a common debt, it is a debt of honor; it can never be considered as a pension or gratuity, nor be cancelled until it is fairly discharged."

AMBROSE FULLER,
County Commander.
JOHN E. KATZMAREK,
Senior Vice County Commander.
A. W. NIMENS,
Junior Vice County Commander.
Z. L. BEGIN,
County Adjutant.
W. A. BRUCE,
County Quartermaster.

The ACTING CHAIRMAN. The chair will submit for insertion in the record a statement from Congressman Marvin Jones relative to the pending legislation.

(The statement referred to is as follows:)

STATEMENT FROM HON. MARVIN JONES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. Chairman, I am submitting herewith communications, urging cash payment in full of World War Veterans Adjusted Service Certificates, from the following veterans, organizations, and others:

Petition signed by J. D. Miller and 180 other members American Legion Post, of Brownfield, Tex.

Petition signed by Bland Taylor, adjutant, and 175 other members Allen-Houston Post No. 330, of Lamesa, Tex.

Petition signed by J. M. Burton and 204 other members of American Legion and citizens of Tulia, Tex., and vicinity.

Petition signed by George P. Smith and 125 other members American Legion Post, No. 417, of Levelland, Tex.

Petition signed by G. O. Spear, post adjutant, and 45 other members American Legion Post No. 65, Childress, Tex.

Petition signed by William H. Brooks and 50 other ex-service men, of Sudan, Tex.

Petition signed by T. Wade Potter, judge advocate, Richard New Post No. 301, American Legion, and 134 fellow members, of Littlefield, Tex.

Petition signed by W. M. Gourley and 90 fellow members Luther McGee Post No. 320, American Legion, Chillicothe, Tex.

Petition signed by G. O. Spear, post adjutant, Cos-Furr Post No. 65 (Inc.), American Legion, and 1,697 fellow citizens of Childress County.

Petition signed by Roy A. Dunham and 77 other members of American Legion Post, Quanah, Tex.

Petition signed by M. Underwood and 30 additional ex-service men, of Dodsonville, Tex.

Petition signed by J. W. Payne and 41 additional citizens of Wellington, Tex.

Petition signed by Marvin B. Norwood and 24 others of Rotan, Tex.

Petition signed by Maj. H. Rodgers and 91 additional business men of Levelland, Tex.

Petition signed by G. D. Self and 67 fellow citizens of Crowell, Tex.

Petition signed by William H. Brooks and 415 additional citizens of Sudan, Tex.

Petition signed by W. B. Reynolds and 75 fellow citizens of Panhandle, Tex.

Petition signed by C. E. Martin, post commander, Ed Hankins Post No. 187, Petersburg, Tex., and 90 additional citizens of that locality.

Petition signed by 140 members of Charles Leroy Teague Post No. 229, American Legion, Knox City, Tex.

Petition signed by 40 citizens of Clarendon, Tex., none of whom are veterans.

Petition from Mrs. Jewell Smith, president, Ladies Auxiliary, Veterans of Foreign Wars, Post No. 1475, Amarillo, Tex.

Telegrams signed by 565 members of John B. Golding Post No. 1475, Veterans of Foreign Wars, and citizens of Amarillo, Tex.; signed by A. F. Curry and 183 fellow citizens of Swisher County; signed by John Burt and 90 additional citizens of Plainview, Tex; and additional telegrams signed by several hundred other citizens of the eighteenth congressional district of Texas.

Approximately 50 resolutions adopted by Disabled American Veterans, Chambers of Commerce, American Legion Posts, Veterans of Foreign Wars, and other organizations; and hundreds of letters from individuals throughout the eighteenth congressional district of Texas.

As you will note, these include not only members of the American Legion and resolutions by posts of the American Legion and Veterans of Foreign Wars, but also many citizens who are not members of the Legion and who are not veterans of the World War, all joining in urging passage of the pending legislation. Believing as I do that an expansion of the currency and credit within proper limits will tend to increase commodity prices and relieve distress, I wish to join with them in their request for favorable action by the committee. I hope the program may be worked out.

I have not undertaken to have the entire list of names printed in the hearings but am filing with the committee for its consideration the originals of the telegrams and letters.

Sincerely yours,

MARVIN JONES.

Mr. HAWLEY. Mr. Chairman, may I also insert a proposal on this subject by former Senator Stanfield?

The ACTING CHAIRMAN. Without objection, it may be inserted in the record.

(The statement referred to is as follows:)

PROPOSAL OF FORMER SENATOR STANFIELD, OF OREGON

PORTLAND, OREG., *April 25, 1932.*

Congressman W. C. HAWLEY,
Washington, D. C.

DEAR MR. HAWLEY: I have been requested by the Veterans' Pension and Adjusted Compensation League to send you a copy of the plan of former United States Senator Robert N. Stanfield for settling the veterans' adjusted-compensation certificates.

Yours truly,

SENECA FOUTS,
Secretary Veterans' Pension and Adjusted Compensation League.

Former Senator Robert N. Stanfield favors paying the veterans' compensation certificates immediately by issuing interest bearing "pony" bonds of $5 denomination redeemable in 1945, and believes this a sound solution of this vexatious problem. The President and Secretary of the Treasury have been fearful of paying the veterans' certificates claiming that it would affect the balancing of the Budget, whereas this plan would have no influence whatsoever upon the Budget. During the prosperous years just prior to the present depression, the world's business amounted to $100,000,000,000 annually, and as there is only approximately $10,000,000,000 of gold in the world, the balance of the circulating medium consisted of silver and paper credit issued in some form or other. In the fall of 1929 when the crash occurred on the New York Stock Exchange, confidence was largely destroyed in all of this $90,000,000,000 of credit to such an extent that about $80,000,000,000 was removed as a circulating medium with which to do business and caused the present critical condition. Issuing these interest bearing "pony" bonds in denominations of $5 will place in circulation a sound investment that can easily be used as currency and will have the effect of expanding the circulating medium, thereby relieving the condition of the ex-service men by paying their compensation in full and also having a stimulating influence toward returning prosperity to our country sooner. Some people may say that this is issuing fiat money, but that is not the case as these bonds are interest bearing and are just as stable and responsible as bonds of larger denomination as they will be backed by the same sinking fund already established by law to pay the certificates at maturiity. The President recommended and secured the passage through Congress of an act issuing "baby" bonds in denominations of $50 to encourage hoarded money to return from hiding and be placed in the channels of trade. If a "baby" bond of $50 denomination is good, these bonds of $5 denomination will be doubly beneficial at this time of business stagnation.

The ACTING CHAIRMAN. We will hear Mr. Rankin.

FURTHER STATEMENT OF HON. JOHN E. RANKIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSISSIPPI

Mr. RANKIN. Mr. Chairman and gentlemen of the committee: First, I wish to thank the members of the committee for their kindness and their courtesy throughout these hearings and to state that I impugn the motives of no Member of Congress, and have never impugned the patriotism of any Member of Congress. I take it for granted, whether you agree with me or not, you are trying to do the best you can, and I trust you will give me credit for that same sentiment.

I am pretty much used to personal abuse. I have been abused a great deal, as has Congressman Patman, by those who oppose us in this measure. It reminds me of what I heard a very distinguished statesman in this country say in introducing another. He said he had never agreed with him, but he always found it much easier to criticise his views than it was to answer his argument.

So I am not going to take up the time of the committee to even answer the Secretary of the Treasury who imputed dishonesty to those of us who are in favor of this measure, or to answer his vehement denouncement of the measure as proposing the issuance of "dishonest money," and the intimation, as I took it, that behind it was a dishonest motive.

I might say that the money that we are proposing to have issued is the same kind of money that Abraham Lincoln had issued in a crisis not so serious as this, and while I am what you might call a radical Southerner, I should be very glad this morning if we could swap Ogden Mills for Abraham Lincoln, for any length of time. It would be a glorious exchange.

About a day or two before he came here to speak, the Secretary of the Treasury (Ogden L. Mills) made a speech in New York and told how they had stopped bank failures, and at the time he was speaking one of the large banks in Boston was failing, a bank that had a capital stock of $1,500,000 and according to its last statement had $10,775,000 on deposit and undivided profits of $1,498,000.

Since that time, only this morning, there appears under an Associated Press headline the notice of the failure of a Minnesota joint-stock land bank. This land bank has outstanding $21,038,700 in bonds, issued with foreign mortgages as security, in Minnesota and South Dakota.

The march of the depression has gone on. There has been no let-up. Conditions are growing steadily worse.

In addition to that, I submit that if this is not the right bill, if he calls this dishonest money, he certainly would not call the money proposed to be issued under the Owen bill dishonest. I have no pride in either one of these bills. What I am trying to do is to check this depression, this panic, for which Mr. Ogden Mills is as much responsible as any man on the face of this earth.

Mr. McCormack. May I ask a question?

Mr. Rankin. Yes, but please make it brief.

Mr. McCormack. If the argument is made that it is dishonest money, the origin of it is the act of 1924, which provided for the issuance of the adjusted service certificates. Therefore, following that argument, it must be that the issuance of the certificates themselves was dishonest.

Mr. Rankin. Well, I have got so used to the vehement arguments of Mr. Ogden Mills in favor of the favored financial interests of the world, that I am about as little affected with them as I am with the rather whimsical performances of our friend, General Dawes. So I am not willing to go back into those records, but I agree with the gentleman from Massachusetts.

I am trying to hurry on, gentlemen, because Senator Owen, one of the ablest men in the United States, has come here voluntarily to speak to you this morning.

I wanted to call your attention to the fact that these conditions are growing steadily worse. With all the bills we have passed, the currency of this country is being rapidly deflated. From February 29, to March 31, there was a deflation of $144,000,000; the previous month there was a deflation of $38,000,000; and the previous month the amount was $5,000,000.

We are going in a vicious circle. We are going down and down and down and deeper into the quagmire of despond. If the Secretary of the Treasury has anything to offer that will bring the American people out of this condition, I shall be glad to go with him. I have the courage to go against what I think is public sentiment if I know and feel that I am doing something for the best interests of all the American people. I may get a chance to discuss this on the floor of the House, but I want to show you here, quoting from the Washington Post of April 29, how this deflation is continuing.

Speaking about a report of the Federal Reserve Board, the Post says:

> At the same time the report of the board reported a $27,000,000 shrinkage in money circulation after a slight upward movement of $2,000,000 the week before.

That brings it down to date. It shows that we had a shrinkage of $27,000,000 the week before April 29. It shows we are moving in a vicious circle and instead of expanding currency, we are gradually contracting it, while conditions grow worse and wheat and corn and cotton have moved to new low levels for all time, so far as I can remember.

Never, in any period since I have been reading the cotton market reports, has every single month been as low as it was at the close last night.

Something must be done. Now, there has not been an intelligent man who has testified here who has not said that, with the possible exception—I may make one exception. We had Doctor Kemmerer who seemed to be the self-appointed guardian of the gold standard throughout the world, and I never did understand just what kind of a cure, if any, the doctor had to offer. My recollection is that his remedy was just to let the patient die.

But all the other economists and all the other well-informed men who came here admit that we must have expansion either of the currency or of credit. We have passed practically every law that they have recommended on down to the Glass-Steagall bill and the Goldsborough bill, which passed the House on yesterday, and they have all proved ineffective, because we have not expanded. And until we adopt one of these measures we are not going to expand, gentlemen, unless we take the extreme step of going off the gold standard. I have never advocated that, because I do not think it is necessary.

They say that this drastic expansion would be too great. I want to call attention to the fact that in 1914 we only had $34.93 per capita in circulation. They drastically expanded the currency to $55 per capita, or an expansion of more than $20 per capita, between that time and 1919. Did we have a break? Did anybody try to rush in and seize all the gold of the country? No. But we had prosperity. And on that basis we contracted these debts and floated these bonds that we are now asked to pay with 5-cent cotton and 30-cent wheat.

Oh, they say, all these railroads have a provision for payment in gold in their bonds. They say the same of these local bonds. They had then. If, expanding the currency by $2,000,000,000 would affect those bonds, why did it not affect them from 1914 to 1919? Ah, but those elements in American life who are opposing this expansion raked in those bonds when we were at that high level of prosperity and now they want to wring the life-blood from the

American people and make them pay in a deflated currency, which would mean paying three or four dollars for one.

I want to show you another thing. They tell you that there is more money in circulation to-day than there was a year ago. Circulation to-day is falling off every day. It is now about $43 per capita. It is $12 below what it was in 1919 and yet we have about 20,000,000 more people in the United States than we had at that time. The per capita circulation, no matter what the total circulation was—the per capita circulation is a great deal lower than it was then. But we let the patient die. In 1919 we had $55 per capita in circulation. When this panic started in 1927—not in 1929—they had contracted this currency down to where we had only about $35 per capita in circulation. That is when the great agricultural and rural sections were dying. That is when the capillaries of our economic body dried up. So they waited until long after the stock market collapsed, which every man who looked into the question ought to have foreseen at that time and when the crash came, of course, it was more difficult to start the wheels moving again. It is going to take more money in circulation than it would have taken if we had held the circulation up during that period.

As I said in the beginning, gentlemen, in my opening remarks here, this condition is growing worse. It is our duty as Members of Congress to do something to relieve this situation. We can not afford to adjourn this Congress and go home when conditions are worse than they have ever been. If we do, we confess the failure of representative government in this country. If we adjourn and go home and say we can not do anything to relieve conditions, that is what it means. Every man who takes that attitude ought to resign from the House and decline to run for reelection.

We are the representatives of the American people. They talk about the right to hold the country down to this present money standard of circulation on account of these gold bonds.

The old doctrine that the safety of the people is the supreme law should apply. We have a supreme issue before us of saving the American people, redeeming them from the most disastrous panic the world has ever seen. I submit we should not adjourn this Congress until some measure is passed to bring back prosperity to the American people.

As to paying these adjusted-service certificates, I have always taken the position that these veterans were entitled to this payment. But if we had to raise this money by wringing $2,000,000,000 from the already overburdened taxpayers of America, I would not be before you this morning making this plea. But when you pass this bill or Senator Owen's bill or Senator Thomas's bill and put this $2,400,000,000 in circulation, you not only relieve the soldiers, pay them what we owe them, take them and their people out of the bread line, but you relieve all the other people throughout the country. You raise commodity prices. You relieve the farmer. You relieve the merchant, the lawyer, the doctor. You bring back a measure of prosperity that can not be brought back by any other method. And if any of you have a method to suggest that will work, I am willing to stay here until the 1st day of December, if necessary, and help you put it into effect.

Something must be done to relieve this terrible panic which I submit is threatening the very foundation of our civilization.

I shall not take up any more of your time, because I want the committee to hear Senator Owen.

The ACTING CHAIRMAN. Mr. Rankin, on behalf of the committee, we thank you for your attendance and your contribution to the hearings.

We will hear Senator Owen.

FURTHER STATEMENT OF HON. ROBERT L. OWEN

Mr. OWEN. Mr. Chairman and gentlemen of the Committee on Ways and Means, when I had the honor to appear before you previously, I had no sufficient opportunity to answer a question propounded by my good friend, Mr. Rainey, who was evidently under the impression that the money proposed to be issued for the payment of the soldier's compensation would not have behind it an adequate gold redemption fund.

I want to call the attention of the committee to the act of Congress passed on the 14th of March, 1900, known as the gold standard act. I have it here before me and I would like to ask Mr. Patman, if you will, to read the first section of that, as my sight is not very clear in this light.

(Mr. Patman read the section of the act above referred to as follows:)

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the dollar consisting of twenty-five and eight-tenths grains of gold nine-tenths fine, as established by section thirty-five hundred and eleven of the Revised Statutes of the United States, shall be the standard unit of value and all forms of money issued or coined by the United States shall be maintained at a partity of value with this standard, and it shall be the duty of the Secretary of the Treasury to maintain such parity.

Mr. HAWLEY. What is the date of that?

Mr. OWEN. March 14, 1900. I ask permission to put in the record the first and second sections of that act, because it shows that the Secretary of the Treasury is authorized by that act to use the credit powers of the United States to maintain at parity all forms of money issued by the United States.

The ACTING CHAIRMAN. Without objection, that may be made a part of the record.

(The matter referred to is as follows:)

SEC. 2. That United States notes, and Treasury notes issued under the act of July fourteenth, eighteen hundred and ninety, when presented to the Treasury for redemption, shall be redeemed in gold coin of the standard fixed in the first section of this act, and in order to secure the prompt and certain redemption of such notes as herein provided it shall be the duty of the Secretary of the Treasury to set apart in the Treasury a reserve fund of one hundred and fifty million dollars in gold coin and bullion, which fund shall be used for such redemption purposes only, and whenever and as often as any of said notes shall be redeemed from said fund it shall be the duty of the Secretary of the Treasury to use said notes so redeemed to restore and maintain such reserve fund in the manner following, to wit: First, by exchanging the notes so redeemed for any gold coin in the general fund of the Treasury; second, by accepting deposits of gold coin at the Treasury or at any subtreasury in exchange for the United States notes so redeemed; third, by procuring gold coin by the use of said notes, in accordance with the provisions of section thirty-seven hundred of the Revised Statutes of the United States. If the Secretary of the Treasury is unable to restore and maintain the gold coin in the reserve fund by the foregoing methods, and the amount of such gold coin and bullion in said fund shall at any time fall below one hundred million dollars, then it shall be his duty to restore the same to the maximum sum of one hundred and fifty million dollars by borrowing money on the credit of the United States, and for the debt thus incurred to issue and sell coupon or registered bonds of the United States, in such form as he may prescribe, in denominations of fifty dollars or any multiple thereof, bearing interest at the rate of not exceeding three per centum per annum, payable quarterly, such bonds to be payable at the pleasure of the United States after one year from the date of their issue, and to be payable, principal and interest, in gold coin of the present standard value, and to be exempt from the payment of all taxes or duties of the United States, as well as from taxation in any form by or under State, municipal, or local authority; and the gold coin received from the sale of said bonds shall first be covered into the general fund of the Treasury and then exchanged, in the manner hereinbefore provided, for an equal amount of the notes redeemed and held for exchange, and the Secretary of the Treasury may, in his discretion, use said notes in exchange for gold, or to purchase or redeem any bonds of the United States, or for any other lawful purpose the public interests may require, except that they shall not be used to meet deficiencies in the current revenues. That United States notes when redeemed in accordance with the provisions of this section shall be reissued, but shall be held in the reserve fund until exchanged for gold, as herein provided; and the gold coin and bullion in the reserve fund, together with the redeemed notes held for use as provided in this section, shall at no time exceed the maximum sum of one hundred and fifty million dollars.

Mr. Owen. Every citizen, no matter how humble he be, ought to know that the parity of the money issued by the United States has been faithfully preserved from that time to this, and even copper money can be converted into gold at the option of the citizen.

These notes, therefore, have behind them not only whatever is available in this country in the form of gold, but they have behind them the powers of the people of the United States through their Government to use its full credit to keep at parity any money which this Congress shall authorize.

I do not need to waste time on that question. The reserve dollar controls the purchasing power of gold.

We are advised by gentlemen who are supposed to have great learning in the matter of international finance that we are in grave danger of losing our gold if we dare to pursue a domestic policy which does not meet the approval of Europe. They allege that we will lose the confidence of Europe and Europe will withdraw all the gold we have got and leave us trembling in penury.

Nothing could be more absurd. Why, gentlemen of the committee, permit me to call your attention to a vital fact that ought to be understood by everybody who is capable of sustained thought and reasoned discrimination with regard to this subject which, while ordinarily not studied, is not so abstruse as not to be capable of comprehension by an ordinary intelligence. Professor Kemmerer before this committee a few days ago called your attention to the fact that during 1929 we had a demand and used over a thousand billions of dollars. Is that colossal demand for dollars of no significance? Was that demand for gold coin? It was not. It was for dollars with which to transact the gigantic business of this Republic.

Now, Professor Kemmerer says that we have approximately seven hundred and fifty billions of dollars demand, even in these times of depression, to transact the business of this country, to pay the dollars required in taxes, to pay the dollars required in commodities, to pay the dollars required for the transaction of the many different kinds of business and dealings in property in this country.

What is it, therefore, that determines the purchasing power of the dollar in this country except the demand for dollars? And even if you had no gold support whatever, I say that the demand for one thousand billions of dollars to pay the taxes and to transact the business of this country gives a purchasing power to the dollar that is conclusive and independent of the industrial demand for gold or the commodity value of gold.

It does more, because when it fixes the purchasing power of the American dollar in terms of commodities and debts and credits of property it fixes the purchasing power of 25.8 grains of old—the statutory gold dollar. It fixes the purchasing power of gold in the United States. It fixes the purchasing power of gold throughout the civilized world.

I call your attention to the statement made by one of the highest authorities in the world, Sir Reginald McKenna, former Chancellor of the Exchequer, the chairman of the board of the London City Midland Bank, a bank with 3,000 branches, with over two billions of deposits. And what did he say? Did he say that gold was the standard measure of value in the world? No; he did not. He denied it. He said it was the American dollar which had become the standard measure of value in the world, and he was confirmed in that by Sir Edward Holden, his predecessor, who also had been Chancellor of the Exchequer of the British Empire. Those men are authorities. Dr. E. A. Goldenweiser, Director, and C. E. Parry, Assistant Director, Division of Research of the Federal Reserve Board; George Shibley, research expert, and a host of others are of the same opinion.

But we do not need any authorities to understand a fundamental fact that is so plain that no man need to err in its correct interpretation. We are in no danger whatever of having our gold leave the United States, although the bankers for political pressure can threaten it and to a small degree affect the market. If we were in danger, the Federal reserve act provides a means to make it impossible.

Do you recall that the Federal reserve act is so framed that the Federal reserve note is only redeemable in gold in the city of Washington, and that a simple resolution of the Congress that gold should not leave the District of Columbia would serve the same purpose that the Bank of France accomplishes whenever it wants to prevent the gold leaving France. They have little devices to keep gold from going out, when they want to retain it.

We do not need to retain it. We ought to let it move freely, if other nations can use it advantageously to get them back on the gold standard.

What is the reason that Finland, Norway, Sweden, Denmark, Great Britain, Chile, and all but six countries have gone off the gold standard? It is because we have raised the purchasing power of gold in the world, through the collapse of the stock market and the destruction of values in this country until in terms of commodities gold is buying 50 per cent more than it did before and the foreign nations have got to pay us in greatly cheapened commodities their international debts.

Have we any right to demand of them the payment of twenty-odd billion dollars in terms of commodities, 50 per cent more than was contracted?

That was the reason why we were justified in reducing the amount of the debts due us by the European nations, because those debts were made, Mr. Chairman and gentlemen of the committee—those debts were made in terms of the dollars which did not at that time have anything like the purchasing power of normal times, because the commodities we sold them had been expanded until they were at a value of 250, approximately, on an average.

Our foreign associates ought not to have been required to pay in terms of the dollars doubled in value at a later date and our committee, representing the people of the United States were entirely justified in diminishing the volume of the debts paid, although they did it on the basis of capacity to pay, there was a sounder and a better reason which I do not recall whether they employed or not, the reason I now point out to you.

And the same thing which justified a moratorium recently to Europe, that the suddenly increased purchasing power of the dollar and suddenly increased purchasing power of gold, due to our own lack of financial and economic leadership in this country had paralyzed Europe and apparently made it impossible for them to meet their current obligations—the moratorium was justified therefore on that ground and I approved it. I am not one of those who criticizes the administration for that moratorium, but only for the panic that made it necessary or advisable.

But I say to you that the condition of Europe then does not compare with the condition of America to-day. You have a condition in this country which is absolutely breaking down the whole credit structure and the commercial enterprises of this country. The responsibility is upon you, and the responsibility is upon me when I am asked to appear before you, to speak the truth as I understand it; and I have some reason to understand it.

I have specialized upon this question for over 40 years. I established the first national bank which Oklahoma had in August, 1890. I was president of it 10 years. I appeared before the Democratic National Committee in 1896 as a member of the subcommittee on platform and urged, when they demanded free silver, that they should add to that plank a proviso that the Democratic Party pledged itself to maintain the parity between silver and gold. I did not succeed, because my associates believed it would automatically follow.

I demanded also that they should provide a means to prevent a panic in this country. I went to Europe in 1898 and studied the European systems there; the French, the Belgian, the German, as well as the English, to ascertain what means they used to give stability to credit. That was my object.

I wrote many articles about it in the American press.

I prepared an amendment in 1900 that was offered by Senator James K. Jones, of Arkansas, the leader of the Democrats in the United States Senate at that time, proposing the issue of United States Treasury notes against United States bonds whenever an exigency required it, under a penalty sufficient to prevent the inflation of the currency and to secure automatic contraction of the emergency currency. It was a sound measure. It was intended "to regulate the value" of money.

I presented the same measure in 1908 on the 25th day of February and it was defeated. The same principle was presented in this House on the 4th of January, in a bill by Mr. Keller, and by Mr. Walsh, a Senator from Massachusetts, in the Senate.

The principle of that act (bond-secured currency) was vigorously disapproved by W. Ogden Mills when I appealed to him to support it in January this year. He then denied that bond-secured currency met his approval, but nevertheless, the exigency of the country was so great that he was willing and then advocated the Glass-Steagall bill which provided for billions of bond-secured currency as sound and efficient.

I do not mention that in criticism. God knows we ought at this time to avoid personalities. I do not regard Mr. Mills's declaration that these dollars are dishonest as a serious matter. That is a parliamentary effusion that should be no more held to account then the amiable profanity of my dear friend, Charles G. Dawes, for whom I have the highest respect, for whom I have the highest regard.

But you will remember that Mr. Dawes, when he appeared before you, was quite cautious not to criticize the plan that I proposed. I think he could have taken two minutes to read it and I think if he had read it, it would have appealed to him, because it was a complete answer to his inapt and unjustified reference to German inflation in 1923.

Mr. Dawes appealed to you in the name of financial salvation not to trifle with the fundamentals of our currency.

Let me remind you, gentlemen of the committee, that the Constitution of the United States imposes upon you a most serious responsibility, which you assumed when you took the oath of office to maintain and support that Constitution. And that Constitution requires you, as Members of Congress, to provide for the coinage of money and the regulation of the value thereof.

If ever there was a time when that duty became peremptory and controlling upon you, it is now, now that the dollar is confessedly by your own authorized agents purchasing from 50 to 60 per cent more than normal in commodity values, in the wholesale markets; when the dollar, as you well know, is buying six, seven, eight times as much United States Steel common stock as it bought two and a half years ago; that stock with a book value—a very prudent and a very conservative book value of 190-odd, is now selling under $30 a share.

What kind of an honest dollar is that, when a man who buys 1,000 shares of United States steel at 250, and gets credit in the banks in New York of $200,000 against a thousand shares of United States Steel, and then hanging on puts up margin after margin of other stocks, finally comes to the point where his $200,000 of margin is wiped out and his 1,000 shares of steel sold for twenty-seven and one-half thousand dollars; and he is left in debt for a larger amount which absorbs all the balance of his estate, put up as additional security, and leaves him bankrupt.

What kind of an honest dollar is that? If ever there was a damnable thief that stole the money of others under color of law, that is the dishonest dollar which is bankrupting this country, against which I protest and against which I demand relief. You have tried to give relief, and I most heartily commend the efforts being made to give relief. Our honored President induced the banks of the country to establish a bankers' pool, a credit pool, a national credit corporation, supposed to raise five hundred millions. Of what avail? Nothing, except a limited moratorium of certain current debts, still to be paid in these dishonest dollars, which I denounce—thieving dollars, stealing dollars.

Larceny is a statutory crime; stealing is a moral crime. It is taking another's property by craft, and without his knowledge or consent.

You have made the effort; you have passed the reconstruction finance act, and it has been useful; it has saved many banks from destruction; it has saved many railroads from going into receivership; but what good has it done in raising the price of commodities? I ask you, what good has it done in raising the value of stocks on the stock market? Any? No; and you all know it.

Here you have appearing before you, in the greatest crisis this country ever had, far beyond any crisis of the World War, Ogden Mills, the Secretary of the Treasury. What remedy did he give you for the condition? Any? No. He termed these honest dollars which are intended to bring back to normal the excessive purchasing power of the present dollar—in his excitement and oratorical enthusiasm, he termed them "dishonest." As a practical fact he advocates a dishonest dollar and uses the power the people gave him against the interest of the people whose servant he is.

And here we had General Dawes. What remedy did he offer to you for this condition? Any? No; he contented himself with denouncing a plan that he did not fully understand.

His voice was against the public interest in this controversy.

Here we had the governor of the Federal Reserve Board, Mr. Eugene Meyer. What remedy did he offer to you for the present condition of this country? Any? No, he did not. He only protested against the remedy that was offered, and urged before you, and the other committees as well, that he and the Federal Reserve Board be given the opportunity to buy additional United States bonds and in that way bring relief.

It will help; it is helping; it is better than nothing. Ultimately that money put out in the form of credit will gradually filter down into the member banks to the extent that perhaps they may get over their fear and again make mobile and give a normal velocity to credit, and to currency, and to bank checks by which we transact from 95 to 97 per cent of the business of this country. But I question, and I have challenged, the wisdom of leaving that authority without a congressional mandate in the hands of the Federal Reserve Board, because they have not exhibited any appreciation of their powers to give relief to this country until it became evident that Congress was going to take some action with regard to it. I was rejoiced when I saw that Congress on yesterday by a vote of 289 to 60 passed the Goldsborough bill directing the Federal Reserve Board, the Federal reserve banks, and the Secretary of the Treasury, to carry out the mandate of Congress to restore the purchasing power of the dollar to normal. It was a great act. It will be most useful, if these officials obey the mandate as the country has a right to assume they will do.

Democratic and Republican cooperation in the public interest is much to be desired in this great crisis, but why did the Republican National Committee, in its bulletin of April 14, 1932, called "The Republican," charge the Democrats with having brought about the panic and depression and deflation, so called, of 1920—a strange assault to be made under all the circumstances, most extraordinary—and it charged the Democratic Party with the responsibility for deflating credit and currency in 1920, when that party denounced it in its platform of 1924 and the Republican platform demanded it in 1920? The Reserve Board had a meeting on the 18th of May, 1920, with the class A directors, 36 of them, the 12 members of the advisory board, and the Federal Reserve Board sitting in council secretly—secretly, and determining secretly to contract credit and currency, with the terrifying consequences which ensued, when agricultural products fell more than half, when corn fell from $1.57 to 35 cents a bushel, when wheat fell accordingly, and when meat products were affected the same way; and when that so-called deflation of credit and currency was ended many millions were ruined and other millions unemployed. It was not deflation; it was contraction; there is a vast difference between deflation and contraction. You can not deflate what has not been previously inflated, and to inflate means to puff up with wind, to make a security that is unsound and insecure, and those credits and that currency which were expanded during the war for the safety of the life of this Nation had no right to be called inflation, and had no right or just cause to be contracted in such a manner as to bankrupt this country, to bankrupt agriculture, to bankrupt the stock-raising industry of this country, and to bankrupt innumerable thousands who are in trade and industry. It was brought about in that secret way, and if interested I commend to you the Senate Document No. 210, which was published in 1923, and which gives the entire detail of it.

When the condition arose in 1929 of an inflated stock market, I felt concerned about it; I anticipated a dangerous collapse in 1929, and in my anxiety as a citizen, I appealed to the administration to give it close attention, and pointed out 10 different ways in which the Federal Reserve Board and the Federal reserve banks were contracting credit and currency and were laying the foundation for a major bear movement in the spring of 1929. I ask permission to insert in the record the 10 different ways which I enumerated at that time, and they will be found at page 134 of the hearings before the subcommittee of the Committee on Banking and Currency, House of Representatives, Seventy-second Congress, first session, on H. R. 10517.

The ACTING CHAIRMAN. You have that permission.

(The insert referred to is as follows:)

(1) By refusing or failing to replace the $500,000,000 of gold released to Europe in 1927 by substituting therefor Federal reserve notes as Gov. Roy A. Young very honestly stated on March 16 last, at Cincinnati, Ohio.

(2) By selling Government securities and thus withholding money from the open market where it would be normally used for commerce, as Governor Young also stated.

(3) By ceasing to buy open market paper and thus absorbing money from the market by allowing these bills to be paid to the bank without reinvesting, as Governor Young also stated.

(4) By passing out gold certificates as a circulating medium in lieu of Federal reserve notes and thus diminishing their own powers of emission of reserve notes (money).

(5) It retired $214,000,000 of reserve bank notes issued against bonds.

(6) It is now interfering with the rights of commerce and business to sell corporate stocks as a means of getting money and doing this by obstructing the credits required by members of the stock exchange for the orderly selling of stocks and bonds.

(7) They raised the rate of interest on rediscounts in 1928 three separate times, knowing that raising such rates of interest would exercise, did exercise, and does exercise a dominating influence on acceptance rates, on prime commercial paper, on time collateral loans and on call rates to the serious injury of business throughout the country, compelling business men to pay artificial rates without cause, and submit to very excessive reorganization charges and commissions.

(8) By a 5 per cent rate for rediscounts, they well know that banks borrowing at 5 per cent have an overhead charge of $1.35 per $100 for handling loans, and that banks lending money at the legal rate of 6 per cent must suffer loss and are thus denied the accommodation the law intended.

(9) They are freezing national credit by a vast publicity of the unsound claim of a great stringency of credit, when there is no stringency.

We are actually extending foreign credits to the extent of $2,000,000,000 per annum, while the Reserve Board makes this unreasonable claim.

The reserve banks having nearly three billions of gold could expand their gold holdings six hundred millions in a few months by the simple process of exchanging reserve notes for gold certificates passed over their counters and against three and one-half billions of gold they could emit reserve notes to the extent of two and one-half times, without going below the 40 per cent gold reserve, thus creating an available primary credit of over eight billions, and a secondary credit based on such currency very much larger. The fiction of the sellers of credit that there is a credit stringency in this enormously rich country, and with a banking system capable of extending all the credit commerce could possibly require, should deceive nobody.

(10) The reserve banks are brow-beating the member banks and interfering with their right to make call loans or time loans on New York stock collateral which is a usurpation of power not authorized by the reserve act.

Mr. Owen. I am convinced the Federal Reserve Board and the Federal Reserve Banks are controlled by the point of view of the banks and that they have blundered and given the Nation unsound financial leadership—they fought the reserve act—they have used its powers against the public interest—they are not safe public leaders—their advice now against the Patman bill is unintelligent. Now, gentlemen, first I want to make the point that there is no danger of our losing gold in this country, except a negligible amount which may be used to threaten us, notwithstanding this contraction of credit and currency which has taken place and notwithstanding the outrageous way in which values have been destroyed temporarily—it is only temporary. We still have the same fertile fields and productive mines; we have the same forests; we have the same great, magnificent cities, the splendid factories brought to the highest degree of perfection and mass production that the world has ever seen; we have the most highly trained people—we are all here. That makes me think of a piece of doggerel, if you will pardon me that liberty—

And can it be that here we are,
And that we all are well;
And is it not amazing grace,
We are not all in ——

[Laughter.]

We have $5,000,000,000 of gold; no industrial demand worth mentioning; we have gained $200,000,000 per annum for 17 years; we gained net $227,000,000 during 1930 and 1931 after sending back to France $600,000,000 plus; the balance of trade is always in our favor; the world owes us over $22,000,000,000 net balance.

We are in no danger of losing our gold; no danger of inflation under amended bill.

There is no danger of an inflation under this bill. Mr. Patman offered to you a moment ago the draft of an amendment to his bill, which I was invited to participate in and which provides a simple remedy against the possibility of inflation. It is to put into the hands of the reserve banks $2,400,000,000 of United States 3½ per cent bonds, subject to sale by order of the Federal Reserve Board in the event that the purchasing power of the dollar falls as little as 2 per cent below the normal of 1926. Under that act all the redundant currency, if there should be proved to be redundant currency, would be automatically retired and canceled and no permanent addition to the currency would be made through this measure.

It is so simple in its statement that it does not seem to need any further explanation, because it is self-evident, axiomatic, and speaks for itself. It fully answers Mr. Meyer, Mr. Dawes, and Mr. Mills with regard to inflation.

Gentlemen of the committee, let me call your attention to a thing which has not been sufficiently emphasized, I think, and that is this, that normally the American people have about four and one-half billion of currency in nominal circulation on the books as "in circulation." It is conceded that half a billion of that is abroad and/or has been destroyed; probably more. About a billion is in the hands of banks to support a credit structure of fifty billions of desposits. There remain normally in the hands of the people about three billion of currency.

There is a large number of people who do not keep any accounts in the banks, who keep their deposits at home under their own personal control, or in lock boxes. The overwhelming majority keep accounts in banks, but there is a substantial number of people, some millions of them, who keep their deposits in currency in their own control and in their own hiding places, and when this contraction came on, naturally those people who ordinarily did not trust the banks in the first instance would be hoarding their money more carefully than those who have deposits in the banks. But even those who had deposits in the banks called on the banks for twelve hundred million dollars of new money, and they got it, because we had an elastic system. We could furnish all the money they required within reason, and the reserve banks emitted additional reserve notes to the extent of twelve hundred million dollars, but that twelve hundred million did not stay in the hands of the banks to which it was transmitted by the reserve banks; it went out of the banks and went into hoarding by bank depositors to the extent of twelve hundred million dollars. That money is now beginning to flow back at the rate of $100,000,000 a month, and when it does, it goes into the bank, and from the bank it goes to the reserve bank, and from the reserve bank it goes to the reserve agent, and is retired as circulating medium not used.

What I am calling your attention to is that we see an evidence of even the bank depositors pulling out twelve hundred millions of currency and locking it up in lock boxes, where it is dead and congealed and is not functioning in fixing the value of commodities.

How do the people buy commodities, I pray you? Ordinarily they buy commodities with currency. They go into market places, into the stores, and they buy commodities and they pay for them in money. Now, the reason you have not got the result on the commodity market is that the credits which you have emitted, and wisely emitted, I confess, through the bankers' pool and through the reconstruction finance act and through the Glass-Steagall bill, as far as it has functioned, has only been bank credit; it has not functioned as money, and the money of the country is hoarded, is congealed, is not circulating, although nominally on the books of the Treasury in circulation.

There is a vast difference between being "in circulation," and circulating. Money "in circulation" may be in a lock box, where it is absolutely, tightly held and not used at all and virtually does not exist as far as the public is concerned, or as far as commodity prices are concerned.

Therefore, this new money for which an appeal is being made to you on behalf of the people of the United States is greatly needed.

I therefore appeal to you to consider the interests and the welfare of the people of the United States. I appeal to you in behalf of those who owe two hundred billions and can not pay their debts in dollars that will buy four, five and six times as much stock listed on the exchanges or of property. You can not sell real estate at any fair value these days. Unimproved real estate has ceased to be salable at any price. All forms of property have gone through a shrinkage of value that makes it impossible for the debtor class as a class to liquidate these debts. More than that, gentlemen of the committee; let me say to you that the creditor class is facing destruction; if this thing goes on, they won't get relief, either. Nearly all creditors are also debtors, and when they can not collect the debts due to the creditors, the creditors, in turn, can not pay the debts due by them. If you knew confidentially the inside truth from some of the highest authorities dealing in finance, I think you would be forced to realize what I have been so feebly trying to present to you, the absolute necessity of putting out this money and doing it now. You have not a day to lose, if you want to serve this country adequately.

I realize, Mr. Chairman and gentlemen of the committee, that it is not what a man says but what is received by those who hear that proves of value before this committee as well as before any other committee. Unless what I have said to you commends itself to your conscience and to your judgment, I have spoken in vain, and must be reconciled with the poor consolation of having at least tried to be of service to my country and to your honorable committee.

I have a few minutes left, five minutes, and I would be very pleased to have any gentleman on the committee ask me any question that he would like to have answered, and I should like to try to answer it.

Mr. RAGON. Mr. Chairman——

The ACTING CHAIRMAN. Mr. Ragon.

Mr. RAGON. What is the distinction between your bill and the Thomas bill?

Mr. OWEN. The distinction is that the Thomas bill proposes to issue bank notes against United States 2 per cent bonds. The distinction is that under that bill you would require the reserve banks to assume the responsibility of their promises to pay, and it is a controversial question whether under the fifth amendment to the Constitution you can do that, and it would afford no relief because it would be assailed in the courts, and the same thing is true with regard to Federal reserve notes. You will observe that this proposal which has been added to the Patman bill does not propose to issue reserve notes, because reserve notes, under the Federal reserve act, comprise a first lien on all the assets of the reserve banks and you have no right to put that lien through the banks. But Treasury notes you have a right to issue. Under the gold standard act, it is supported by the full powers of the United States Government and by all the gold available in this country.

You need have no fear. Who has a right to say that he is afraid of the insolvency of the United States, or its money, when that very money is supported by five billions of gold and when that very money is supported by the credit powers of the United States and when that very money is supposed to be automatically retired the moment the commodity index goes above par? Let those who argue against that do so with a tender care and consideration for their own consciences and their own intelligences.

Mr. RAGON. You would control the issuance of this currency by the sale of these bonds at a time, as I understood you a moment ago, when the price level of the dollar was 2 per cent under the price level of 1926?

Mr. OWEN. Yes.

Mr. RAGON. Just what do you take into consideration there in the purchasing power?

Mr. OWEN. They would sell these bonds to the general public and would take up the redundant currency which was unduly affecting the price of commodities and they would cancel it and therefore the charge that you are inflating the currency is impossible. You can not inflate a currency now when you know that the currency is hoarded and is not functioning. You are merely supplying this country with money in default of the money which you have heretofore supplied and which is locked up, unattainable, and unavailable for market purposes.

Mr. RAGON. And by that means, you control this expansion?

Mr. OWEN. Absolutely control the expansion. How else will you regulate the value of money except by controlling the supply of money as against the demand for money? There is no other way to do it. Let some intellectual man who has some element of responsibility stand up here and defend any other policy. He can not do it, and I can answer any question that any man on this committee can ask me about this matter and do it to the satisfaction of the record.

Mr. HILL. Would you please give us the mechanical operation of this proposed amendment?

Mr. OWEN. The mechanical operation is the issuance of this money in the same form as the Federal reserve notes except leaving off the reference to the reserve banks so as to differentiate them from reserve notes, and deliver that money to the Federal reserve banks subject to the Administrator of Veterans' Affairs. He would then indicate the bank to which this currency would be issued in order to deliver to the soldier the money at a point closest to his home, and that would distribute this currency in every little hamlet in this country, and the first use of that money would be to pay the personal debts of the soldier to his probable friends who have been financing him during this distress period.

Mr. HILL. What is this currency? United States Treasury notes?

Mr. OWEN. United States Treasury notes.

Mr. MCCORMACK. Mr. Chairman——

The ACTING CHAIRMAN. Mr. McCormack.

Mr. MCCORMACK. In event of expansion taking place too rapidly, will you explain for the record——

Mr. OWEN (interposing). It can not take place any more rapidly than the bonds can be sold and this surplus currency taken up. I think it will lead to a rapid expansion. I think within three months we will be over this depression and the values will return to their normal basis, and the banks of this country will have a sense of profound relief and the people will go back into industrial production as before. I have not any doubt about it at all, but I may be a little short in my estimate, but three or four months, I am satisfied, will suffice to obtain a vigorous reaction.

I think you did a magnificent thing yesterday when you declared a policy which will have a profound effect upon the people of this country when they understand it. It will take a little time to understand it, because the people are not familiar with these matters.

Mr. WATSON. Mr. Chairman——

The ACTING CHAIRMAN. Mr. Watson.

Mr. WATSON. You have spoken a number of times with respect to the normal value of a dollar. At what period from 1912 down to the present time do you consider there was the normal value of the dollar in its purchasing power?

Mr. OWEN. I think that in order to arrive at some basis it is advisable to take a period like that of from 1921 to 1929 as an average of the purchasing power of the dollar, because during those years it was practically normal.

They had at the head of the Federal Reserve Bank of New York a man of rare intelligence, Ben Strong, who used the powers of that bank to help to stabilize values. He was a wise and prudent financier, and he used those powers successfully. But there is not any man, Ben Strong or anybody else, who could by any possibility prevent the violent fluctuation in the purchasing power of the dollar when you permit a wholesale orgy of gambling to go on in the United States, putting out these stocks and bonds by high-powered salesmanship, by intensive advertising, by paid mercenaries misleading the people, and then have an inevitable collapse; and, of course, when you have that condition, those engaged in operating on the stock exchange will take advantage of it, and it is perfectly useless to blame them for it, or for you to stigmatize them, when it is human nature for them to take advantage of it under a law which permits it.

The ACTING CHAIRMAN. I know that you have as much knowledge, if not more, than anyone of us with respect to the operation of the Federal reserve system, and I would like to ask you this question: Under the Federal reserve act, can the Federal Reserve Board inflate the currency sufficiently to meet the present economic condition and stabilize the dollar?

Mr. OWEN. I think it could; yes, sir. I would not use the word "inflate." I very much object to the use of the word "inflate," because when you have no money circulating, when it is all tied up and paralyzed, you can not under those circumstances inflate.

The ACTING CHAIRMAN. I am not wedded to that word. "Increase the circulation" is sufficient for me.

Mr. OWEN. I understand that.

Mr. DICKINSON. Is it your contention that if your measure or a similar measure were enacted, commodity values and confidence would be restored and the money now hoarded would come out?

Mr. OWEN. Yes, sir; absolutely. There would be no need for hoarding, because they would then see that their hoarding was useless and they would not be getting any return on the money hoarded, and the money which was hoarded would have a diminishing purchasing power and therefore they would lose.

I want to thank the committee for the great courtesy you have shown me.

Mr. DOUGHTON. Mr. Chairman—

The ACTING CHAIRMAN. Mr. Doughton.

Mr. DOUGHTON. Senator Owen, you referred to the fact that the reconstruction finance act had saved many banks.

Mr. OWEN. Yes, sir.

Mr. DOUGHTON. I would like to ask you whether or not in your opinion, unless commodity prices are restored and frozen assets of the banks become liberated and collectable, this is only a temporary salvation to these banks?

Mr. OWEN. The reconstruction act has postponed the day of execution.

Mr. DOUGHTON. That is what I have in mind.

Mr. OWEN. If you do not restore the commodity values and the value of other forms of property, you will have those banks on your hands and they are going to fail, and their failure won't be the only ones, gentlemen of the committee.

Mr. DOUGHTON. That was my view about it.

Mr. OWEN. This country is in a dangerous condition, and it needs your support in some form, in some way. I have appeared here for the soldiers' bonus because I was strongly in sympathy with them, to start with, but it was not only on their account. Those men are gallant and patriotic men, who would be willing to sacrifice their personal interests for the benefit of this country, but when their interests and the interests of the country run hand in hand, I think it would be wrong to refuse the relief which is being urged upon this committee and upon the Congress of the United States, and I am satisfied the people of the United States will greet your action with great acclaim if you only have the nerve to stand against the advice of my good friend Meyer, whom I do not think a safe guide under the circumstances. The best evidence of the Reserve Board not being a safe guide is the fact that they were preparing for a bear market and laying the foundation for it before it occurred, as I have above stated, against which I protested and against which I tried to get a correction and could not get it. They did not even give me the courtesy of an answer when I asked to be heard before the Federal Reserve Board against raising these rates to 6 per cent in July, 1929, which caused at once the raising of the rate in Italy in order to safeguard the currency of Italy, and which caused the raising of the rate in London in order to safeguard the currency in England.

You talk about injury from inflating the currency. Why, gentlemen of the committee, Germany cleared itself of domestic debt by expanding the currency beyond all reason and destroying the currency. France did not go quite that far; France only repudiated four-fifths of its domestic debt, by reducing the gold and the franc from 19.3 to 3.93. Italy did the same thing, and these other nations going off the gold standard did the same thing. We not only did not decrease the purchasing power of the dollar for the relief of debt but we doubled its purchasing power for the benefit of the creditor and now we have doubled it again. Beware of an explosion.

We owe it to the world to restore the purchasing power of the dollar to a normal basis.

Mr. CHINDBLOM. What is Great Britain doing now?

Mr. OWEN. Great Britain has balanced her budget. Great Britain is now in a successful condition. John Maynard Keynes says that

Great Britain is over the crisis. She has gone off the gold standard by simply refusing to buy gold at the old price, to make a free market for gold in London. They were quite justified in it because of what we did in this country, what we did to them. We are responsible for the world depression; not the slightest doubt about it. It never happened until we had that stock market crash, a stock market crash which destroyed the values of stocks by at least $100,000,000,000, because it was not the stocks listed on the New York Stock Exchange alone, on which there was seventy billions of loss, but altogether it destroyed values certainly in excess of one hundred and fifty billions, and those values will return when you restore the former conditions, but it requires a remedy to do it, and it requires action, not just words. It requires actual real money.

Mr. CHINDBLOM. I particularly had in mind what Great Britain may be doing now in the matter of paying its debts.

Mr. OWEN. What they are doing now is to provide for a national issue of 150,000,000 pounds of additional money in order to keep away from the gold standard.

Mr. CHINDBLOM. Are they settling any of their obligations upon a lower basis?

Mr. OWEN. I am not informed with regard to the internal affairs of the British exchequer. I suppose they are using the pound sterling where they are not bound by a gold contract. I assume that.

Mr. VINSON. There are one or two questions that I should like to ask, Mr. Chairman.

The ACTING CHAIRMAN. Mr. Vinson.

Mr. VINSON. As I understand your plan, the bonds which will be issued and which will be basis of the currency are not interest bearing until they go to the public?

Mr. OWEN. It is a cross entry. It would not cost the United States anything, because those bonds are held by the agents of the United States, and until they are sold to the public would not bear interest.

Mr. VINSON. That was my understanding.

Mr. OWEN. Yes; that is correct.

Mr. VINSON. In other words, there is no interest charge paid by the Government to the Federal reserve system?

Mr. OWEN. No; it is just a cross entry, that is all.

Mr. VINSON. Would the fact that there is no interest charge being received by anyone on the bonds backing the Treasury notes under your plan——

Mr. OWEN (interposing). They do not back the Treasury notes.

Mr. VINSON. What use do they have?

Mr. OWEN. Taking up the excess currency, in case it proved to be excessive.

Mr. VINSON. I am not speaking of the sale, but of the original stages. Do you not have United States bonds issued originally?

Mr. OWEN. Only to be put in the hands of the reserve banks for the purpose of sale to the public in event the dollar drops below par in its purchasing power.

Mr. VINSON. You would have the bonds in the hands of the Federal reserve agent?

Mr. OWEN. Yes; as agents of the United States.

Mr. VINSON. And you would have currency, Treasury notes, issued against those bonds?

Mr. OWEN. No, sir.

Mr. VINSON. Are not those bonds the basis of the backing, of the guaranty?

Mr. OWEN. No, sir.

Mr. VINSON. What is the purpose of issuing the bonds?

Mr. OWEN. To take up the slack or excess currency if by any chance it proves to be excessive.

Mr. VINSON. You do not do anything with those bonds until there is need of taking up the slack?

Mr. OWEN. No, sir; you do not. You just leave the bonds there available for immediate action and ready for public delivery in event the dollar falls below the normal purchasing power, and it does not cost you a cent to do that, except the printing.

Mr. VINSON. And the only thing back of the notes is the credit of the United States?

Mr. OWEN. That is the only thing back of the bonds.

Mr. VINSON. But under the present plan of issuing Federal reserve notes, you have bonds placed in the Federal reserve system, and, of course, they bear interest and that is collected and paid into the Federal reserve system.

Mr. OWEN. Yes.

Mr. VINSON. The point I wanted to get clear is whether or not the issue of Treasury notes under your plan would have any effect upon Federal reserve notes or any other currency that has as its basis Government bonds which pay interest into the Federal reserve system, which holds the bonds.

Mr. OWEN. I just put into the record here a copy of the act of March 14, 1900, showing that the policy of the United States has been declared to be to keep at parity all forms of money issued by it.

Mr. VINSON. Would there be anything necessary to be done to keep the Treasury notes on a parity with Federal reserve notes?

Mr. OWEN. No, sir; nothing new—merely execute the gold standard act.

Mr. VINSON. It has been stated that the Treasury notes, or notes issued under the Patman plan, going into circulation would have a tendency to establish a monetary benefit to the member banks, which would take those Treasury notes and pay them into the Federal reserve banks, regain possession of the Government bonds, and thereby acquire the benefit of the interest paid upon those bonds, and that there would be a tendency to drive Federal reserve notes from circulation.

Mr. OWEN. They could not turn these notes into the Federal reserve agent, and the only way they could get the bonds back from the Federal reserve agent would be by turning the notes they had received against the bonds.

Mr. VINSON. Then Treasury notes issued under this plan could not be used for that purpose?

Mr. OWEN. No, sir.

Mr. VINSON. Would it take a law to deprive them of that use?

Mr. OWEN. No. It has no such quality, by the nature of its issue.

Mr. DICKINSON. Has your amendment been put in the shape of a bill before the committee?

Mr. OWEN. It was submitted by Mr. Patman this morning in his address.

Mr. HAWLEY. Mr. Chairman——

The ACTING CHAIRMAN. Mr. Hawley.

Mr. HAWLEY. You stated a moment ago that England had balanced its budget.

Mr. OWEN. Yes, sir.

Mr. HAWLEY. I think that was incorrect to the extent that she made no provision for paying her debts.

Mr. OWEN. Oh, well, I assume——

Mr. HAWLEY. She balanced the budget by a selective line.

Mr. OWEN. I assume she will do that in the fall; there is time enough before the debt falls due. I have no idea that Great Britain is going to forfeit its obligation to the United States or repudiate its obligation. It could not afford to do it.

Mr. HAWLEY. But in the budget she has made no provision for it.

Mr. OWEN. I know that, and a good deal has been made of it in the public press, but I do not sympathize with that, because I think the British are perfectly upright and perfectly able to meet their obligations. In fact, Mr. Hawley, Great Britain, by refusing any longer to maintain a free market for gold in London, has just simply wiped off approximately one-fourth of a $35,000,000,000 debt, just as France wiped off $60,000,000,000 of gold debt when she reduced the franc from 19.3 to 3.93.

Mr. CHINDBLOM. That was the question I had in mind a moment ago; I guess I did not make it clear. But, following your colloquy with the gentleman from Kentucky, Mr. Vinson, a moment ago, in which I understood you to say that these Treasury notes would not be available for exchange for Federal reserve notes——

Mr. OWEN. Oh, no; I did not say that; but they could not be used to be submitted to the Federal reserve agent to take down bonds which had been previously put up as security for Federal reserve notes.

Mr. CHINDBLOM. That would give them a rather limited legal effect.

Mr. OWEN. Oh, no; those reserve notes are issued under special conditions.

Mr. CHINDBLOM. Other forms of money can be used for that purpose?

Mr. OWEN. This form of money can be used to get gold certificates in exchange, or Federal reserve notes, either, or gold, for that matter.

Mr. CHINDBLOM. You intended merely to say that they could not be used in that particular transaction?

Mr. OWEN. Yes, that is all; because that exchange is provided for expressly by the Federal reserve statutes.

Mr. RAINEY. How much currency is there in existence at the present time?

Mr. OWEN. Approximately five and one-half billions said to be in circulation.

Mr. RAINEY. Where is it?

Mr. OWEN. There is between eight and nine hundred million dollars now in the hands of banks, and there is half a billion or a little upwards in foreign countries and destroyed. The remainder is in the hands of the people.

Mr. RAINEY. Do the banks keep it in their tills, or does it find its way back——

Mr. OWEN. The banks keep approximately under a billion in their tills.

Mr. Rainey. The rest of it is in the Federal reserve?

Mr. Owen. The Federal reserve banks keep a certain reserve on hand, but the banks can not make new loans if their legal reserves are not in the reserve banks.

Mr. Rainey. At what period in our history have we had more money in circulation than we have now?

Mr. Owen. In October, 1920, we had, I think, $53 per capita, and since that time the Federal reserve banks and the Federal Reserve Board have been steadily cutting it down until they were compelled, in the summer of 1931, to expand twelve hundred millions because of the runs on the banks for currency.

I put in the record of the Goldsborough committee a number of tables which gives the essential facts underlying this discussion, and I call the attention of the committee to them. Beginning on page 150, there are 27 of those tables and charts, which will answer every question that I think could arise in connection with this matter.

Mr. Rainey. If we issue now two billions or more of new money, in the first instance it will pay the debts of the veterans?

Mr. Owen. Yes; it will do that.

Mr. Rainey. And then it will find its way into the banks?

Mr. Owen. It will ultimately find its way into the banks to a considerable extent, I think.

Mr. Rainey. How will they keep that from being hoarded just as the money now is said to be hoarded?

Mr. Owen. People hoard when they think they won't be able to get it. If you make it abundant, people do not hoard, and when you get abundant money out, you will have a rising commodity value, and when you get a rising commodity value, then people will buy. They won't buy on a falling market, for some reason; they buy on a rising market, and then they produce on a rising market, and in order to get this country back to normal you have to raise the price of commodities to stimulate production and stimulate consumption and stimulate employment, and give a circle upward instead of a circle downward.

Mr. Rainey. Doctor Goldenweiser, the economist for the Federal Reserve Board, yesterday produced a chart here showing the increase in currency was most rapid in the last two or three years.

Mr. Owen. Yes; because of hoarding and not because of use, as Doctor Goldenweiser very well knows.

Mr. Rainey. And at the same time showing a decrease in commodity prices. Will you explain that?

Mr. Owen. Explain it? It is just as easy to explain as 1, 2, 3, and Doctor Goldenweiser perfectly well knows what the explanation is, and if you asked him about it, he would tell you that it is this, that that money is hoarded, that that money is tied up, and that it is not functioning. That is why commodity prices go down, and the administration has stated to the public that there is possibly twelve hundred million dollars hoarded. Of what? Twelve hundred million dollars of this additional currency put into issue. They did not mention the currency that was outstanding that was hoarded.

Mr. Eslick. What is the number of the Senate document you referred to, as giving the facts with respect to 1920?

Mr. Owen. I think it is No. 310.

Mr. Eslick. Of 1923?

Mr. OWEN. 1923; introduced by Mr. Carter Glass.

Gentlemen of the committee, as a last word, let me say that the issuance of this money is the true path to balancing the National Budget and cutting down taxes because it will restore the people to normal employment and production. Our national income will again reach $90,000,000,000 and pass it, and the national and State and city revenues will be restored and your annual deficit will end. Property values will be restored to normal and our national prosperity will again be restored and maintained at normal. I am deeply appreciative of your patient courtesy and thank you most sincerely.

The ACTING CHAIRMAN. Senator, the committee thanks you very much for your two able presentations to us, that have given us a great deal of information.

Now, gentlemen, the Chair would like to put into the record a statement from Congressman Clancy, supporting this legislation.

(The statement referred to is reproduced below.)

STATEMENT OF HON. R. H. CLANCY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. Chairman and members of the House Ways and Means Committee, I have not wished to take up the time of your committee, as some of the Members have expressed to me their belief that Detroit has had more than its share of time before the committee. I have made the arrangements for the appearance before you of David V. Addy, commander of the Wayne County American Legion, consisting of 52 posts, most of them located in Detroit, who was accompanied by the adjutant of the Wayne County Legion, Jack R. C. Cann.

I also made the appointment before your board of Wallace J. Howells, president of the Veterans Political Association, and of Norman A. Olsen, vice president of that organization; and also of Judge Edward J. Jeffries.

Another witness from Detroit also testified before your committee, Capt. Fred Beard, State welfare officer for Michigan of the Veterans of Foreign Wars, but the appointment for his appearance was not made through me.

For several years I have had bills before the House Ways and Means Committee providing for the relief of veterans. I was the first Member of Congress to campaign against the unjust, exorbitant, high rates of interest charged by the Government on loans on adjusted-compensation certificates.

I also was the first to challenge the ruling of the Veterans' Administration that veterans could not borrow on their adjusted-compensation certificates unless they held them for two years, and I appealed the matter to the Department of Justice. The Attorney General handed down an opinion that the Veterans' Administration was legally justified in its attitude.

I have a bill pending before your honorable committee to allow veterans to borrow immediately when they take out a certificate and also a bill to cut the interest rates on loans on their adjusted-compensation certificates.

I have also had pending for some years bills providing for the immediate payment in cash of adjusted-compensation certificates to whatever extent the Government could afford to pay 100 per cent of the certificates, 50 or 25 per cent of the certificates.

I now respectfully request your committee to pay all or as much of the certificates in cash as the financial condition of the Government can afford.

I also urge as emphatically as possible that the interest rates be cut upon the loans. Some years ago I began a campaign against the 6 per cent interest compounded which was formerly charged on these loans. In the Boston convention of the American Legion in 1930 I was successful in getting a resolution put through this convention stating that this interest should be cut from 6 to 4 per cent, and as a result of that action the Congress cut the loans from 6 to 4½ per cent. This is far too high.

Formerly, if a veteran borrowed about one-fourth of his certificate and paid 6 per cent interest compounded, by 1945 he not only would find that all the rest of the certificate was eaten up by the interest compounded but that he might actually owe the Government.

Veterans who have borrowed 50 per cent of their certificate will find that with 4½ per cent interest compounded practically all the rest of the certificate will be eaten up by 1945.

The national commander of the American Legion has designated this system as racketeering and profiteering in a statement issued recently. For some years I have been denouncing this interest steal in severe terms.

The least the committee can do is to cut out the interest entirely or reduce it considerably.

The committee should not hesitate to kill the law forbidding loans on the certificates when not held for the two years' period.

There are 240,000 veterans in the country who are in great need and who have these certificates which are presumed to be as good as gold, and yet the veteran can not borrow on them as assets although he can borrow or mortgage practically every other asset he has in his possession.

I do not intend to burden the record with details of the great suffering in Detroit. Between 100,000 and 150,000 men have been out of work for a year or a year and a half or two years and six or seven hundred thousand men, women and children, including these unemployed and their dependents are in the most terrible distress. Both public and private welfare agencies have exhausted their funds. There are tens of thousands of veterans in Detroit who are in distress and who look to your committee for aid.

The numerous witnesses from Detroit have elaborated our dreadful emergency.

I respectfully pray this able and patriotic committee to report out legislation which will grant our tortured people some relief.

The ACTING CHAIRMAN. The chair also files for the record a statement from Hon. J. R. Mitchell, favoring this legislation.

(The statement referred to is reproduced below:)

STATEMENT OF HON. J. R. MITCHELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TENNESSEE

The United States Government is admittedly indebted to those who kept the faith of our Nation during the years of 1917 and 1918. These brave men, living and dead, met our most glorious expectations and upheld America's ideals upon foreign soil and returned our flag unsullied and in triumph. To these valiant and intrepid soldiers, sailors, and marines, who fought, bled, and died upon foreign shores, Congress has through appropriate legislation admitted the country's indebtedness.

Upon the convening of Congress at this present session, I introduced a bill providing for the immediate cash payment of the ex-service men's adjusted service certificates without interest deductions. This bill, as well as those of other Members of Congress seeking relief for the ex-service men, is receiving serious opposition on the part of those who would extend the credit of the United States to the extent of $2,000,000,000 for the purpose of raising money to loan the banks and railroads and so-called big business interests to pay dividends on watered stocks and bonds and to grant moratoriums to foreign nations who are indebted to us to the extent of millions of dollars. It was not expected that bills introduced to pay the debts justly due our Nation's heroes would meet with the approval of the banking houses of Morgan, the Mellons, and other international bankers, nor was it expected to meet with the approval of President Hoover or any of his friends when we take his past record into consideration. It might not be amiss to pause and here pay tribute to President Hoover for his loyalty to the international-banking interests, the railroads, and so-called high finance of our country who made his election possible. Regardless of the opposition of the larger interests of the country, the fact remains that we are indebted to our ex-service men approximately $2,000,000,000 (the sum recently appropriated to loan the railroads and banks).

If this money is admittedly due them, now is the time to settle in full. Now is the time to help the masses, the unemployed, the wage earners, the farmer and the small business men of the Nation. The railroads and banks have been aided by huge appropriations. Foreign nations have been granted extensions of their debts but our long-suffering common people have either been entirely ignored or forgotten.

If the bill which I have introduced, same being H. R. 8016, is enacted, or one of similar import is enacted, it will bring about the following results:

1. It will adjust in part the obligations which we owe to those who offered their lives that our country might survive and retain its place and standing among the nations of the earth.
2. It will increase the actual cash in circulation to an amount almost double that in circulation to-day. This must be done if we are to prosper.
3. It will help directly our common people, a class who have been sadly neglected and whose interests have been overlooked.
4. It will help directly the farmers, the small stores, wholesalers, factories, and the smaller banks.
5. It will again restore confidence by serving notice to the people that money is plentiful and as a result money will become cheaper.
6. By putting money in circulation among the masses instead of the classes, it will discourage hoarding.
7. Will make it possible for people to pay their debts and taxes and will bring a definite and speedy end to the worst depression in history.

The Government owes this debt: it must be paid some time and now is the logical time during this serious depression when everybody will be helped and the general welfare of the Nation promoted.

If this just debt is not now paid, practically all of the remainder due the ex-service men on their adjusted service certificates will be consumed by compound interest paid to the Government and to the banks. The country needs this additional money in circulation.

When the flower of America's manhood responded to their country's call a few short years ago, nothing was too good for them. We pledged every resource of the Nation to the winning of the war and made every promise to our fighting men. Have we forgot our debt? Are we failing to keep faith?

If the adjusted-service certificates are paid in full without interest deductions, it will mean that $36,108,472.80 will be put in the hands of small merchants, farmers, small bankers, in the State of Tennessee and prosperity again be restored in my State. The obligations of foreign governments to the United States on December 31, 1930 amounted to $11,678,093,000. If our Nation can afford to grant moratoriums on these huge debts due us from foreign nations, surely we can advance to our war veterans slightly in excess of $2,000,000,000 to pay a debt justly due them. The adjusted-service certificates do not represent a bonus, as many mistakenly believe; they represent an honest debt that has been confessed by Congress. This debt is due the soldiers who carried rifles in France and Belgium and slept in the mud of Flanders fields while billions were being made by our citizens manufacturing war material at home to destroy human lives.

"Take up our quarrel with the foe:
To you from failing hands we throw
The torch; be it yours to hold it high.
If ye break faith with us who die
We shall not sleep, though poppies grow
In Flanders fields."

Are the Members of the present Congress going to break faith with our former soldiers and sailors and their dependents?

As far as I am concerned, I am pleased to adopt the immortal lines of Mr. Lillard:

"Rest ye in peace, ye Flanders dead.
The fight that ye so bravely led
We've taken up."

The Acting Chairman. I understand that the hearings are now closed. What are the wishes of the committee? Is it the wish of the committee to have an executive session to-morrow morning, or to relax and wait one day?

Mr. Chindblom. I think all of us have received communications and documents which, during our extremely busy season here, may be lying on our desks and which we would like to put into the record. Personally, I would like very much if we could have a morning before we begin our executive sessions, to gather our own things together.

Mr. RAINEY. I want to suggest that we should act on this as promptly as we can, but the hearings ought to be available.

The ACTING CHAIRMAN. These hearings will not be available to-morrow; you will not have the benefit of the statements of Mr. Patman, Mr. Rankin, and Senator Owen if you meet to-morrow, because it takes a day or more before the hearings are printed.

Mr. RAGON. I move that we adjourn, to meet at 10 o'clock Thursday morning.

(The motion was duly seconded, the question put, and the motion agreed to; following which the committee, at 12.55 o'clock, p. m., adjourned.)

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