Monetary File

Southern Building
Washington, D.C.

April 12
1934

Subject: The Present Need of Expanding Credit and Currency

The Honorable Duncan U. Fletcher
Chairman, Committee on Banking and Currency
United States Senate
Washington, D. C.

My dear Senator Fletcher:

In pursuance of my conversation with you, in relation to the urgent importance of immediate expansion of credit and currency as a means of making fully successful the Administration's Recovery Program - I submit to you my comments in the hope of serving the President, whose success I deeply desire.

The President was nominated and elected on the issue of correcting the depression by restoring the purchasing power of money to the 1926 level and restoring the value of property accordingly. He was committed to the principles set forth in the Goldsborough Bill, which declared this policy - which was passed by the House of Representatives under Democratic leadership by a vote of 289 to 60.

His friends and supporters urged this view on the hustings. When he assumed the Presidency, in his inaugural address and subsequent addresses, he confirmed to the country his purpose to make effective this policy ---- and not only to restore the dollar to its normal purchasing power, but to maintain it there.

In pursuance of this most honorable and supremely important objective, the Congress of the United States - in the Thomas amendment, upon the fullest and freest consultation and cooperation with the President by an overwhelming vote - authorized him to take steps to expand credit and the currency, to cut the gold content of the dollar one-half, and to acquire the additional use of silver for the same purpose.

When the President came into power, the general commodity index was 60 and the dollar index, 166. Immediately that this action was taken by Congress and the President (who approved it and assumed the responsibility of carrying out the legislative will), the country reacted vigorously. The commodity index rose by July 15 to 71 (one-fourth of the way to recovery) and the dollar index fell from 166 to 140. The value of property began to rise. For instance, the value of property represented by the stock of the nation's greatest industries listed on the

New York Stock Exchange rose from the market value of 20 billions to 36.5 billions. These stocks in September, 1929 had reached a market value of 89.9 billions and had fallen as low as 15 billions in June, 1932 --- when the country was in complete financial collapse. The detailed figures I gave you in my letter of March 20, 1934. (Cong. Rec., page 5318, Tables "A", "B", "C".)

In the middle of July, however, it was announced in the public press that the President would not resort to expanding credit and currency until opportunity had been given to the N.R.A., the R.F.C., the A.A.A. and other features of the Recovery Program and to the re-employment efforts of the Administration. Nine months have passed since then and the general commodity index has made no substantial advance. It now stands at about 73 --- and there has been no substantial advance in the value of the property and in stocks listed on the New York Stock Exchange. (See Exhibits "A", "B", "C", above referred to, and "D" - attached hereto.)

The failure of the general commodity index to advance and of property values to rise since July 15 last should be convincing proof that these values have not been greatly advanced by the Recovery Program. The Recovery Program itself is now being systematically attacked by the opposition party, despite the very great benefits in re-employment and social justice already accomplished. Except for the general Recovery Program, conditions would have been much worse. But this Recovery Program would be enormously strengthened in public opinion if the general commodity index and the property values were restored to normal by the expansion of credit and currency.

The values of the stocks listed on the New York Stock Exchange in 1929 was abnormal and registered 89 billions. The general commodity index in July, 1929 was 98 - two points below normal. There had been no inflation of credit in the general wholesale commodity market and, therefore, the value of commodities was not inflated.

The value of the stocks listed on the New York Stock Exchange in 1921 was about 16 billions and in and between 1921 and 1929 there were sold in new stocks 50 billions additional - making a total of 66 billions. The increase of value from 66 billions to 89 billions was 23 billion dollars of inflated value, due to the fact that brokers' loans on the New York Stock Exchange increased from 1922, when it was 1 billion, to 8½ billions in September, 1929. (See Exhibit "A".)

The Fundamental Law of Monetary Science:

The value of money is regulated by supply and demand. To regulate money, the supply and demand of money must be controlled. Congress alone can control the supply and demand of money, and Congress alone is authorized by the Constitution to regulate the value of money.

The ablest authority on monetary science, Gustav Cassel, in his "Post War Monetary Stabilization" has completely demonstrated this --- altho it should be self-evident. He cites the experience of every nation in Europe to illustrate it, and he lays down the following maxims:

> "** the value of a currency is essentially determined by the scarcity in the supply of means of payment." (p.64)

> "** it took many years of hard work to get people to understand that the only thing that has real importance for the value of a currency is the total supply of the means of payment.**" (p. 3)

> "** the gold standard is nothing else than a paper standard, the value of which is entirely dependent upon the way in which the supply of the means of payment is regulated." (p.4)

> "** the value of money cannot possibly be dependent on anything but the supply of money in relation to the demand for money." (p.91)

> "The purchasing power of money is exclusively dependent on the scarcity in the supply of the means of payment." (pp. 42 and 64)

Under Gustav Cassel's advice, Sweden has stabilized her currency most successfully. The tables I give you demonstrate the truth of these maxims for, when brokers' loans increased on the New York Stock Exchange 7½ billions, the value of the listed stocks increased correspondingly, because these loans created a like amount of deposits and a huge reservoir of check money employed almost exclusively in stock-market operations.

From 1921 to 1929, brokers' loans expanded over 400% and the value of the stocks expanded over 400%; and when the brokers' loans fell to a quarter of a billion on the New York Stock Exchange and the deposits and check money fell accordingly, the value of these stocks fell to one-sixth of what they had been - 89 billions in September, 1929 to 15 billions in June, 1932.

Evidence of Truth of Monetary Maxim:

In 1929, the checks cashed by all the banks of the United States was about 1200 billions, on deposits of about 46 billions - a rough turnover of about 26 times; but this excludes many billions of savings accounts whose turnover was very inactive, while the velocity of checks drawn on deposit arising from brokers' loans had a turnover in 1929 several times greater. The checks cashed in 1933 by all the banks of the United States was less than 400 billions - a loss in check turnover of over 800 billions of dollars.

Some of the orthodox and classical economists, and even some advocates of the quantitative theory of money, think of money only as public money such as United States currency - overlooking the fact that the private money of the country, consisting of checks and drafts, is over 9 times the amount of public money. The public money (United States currency) is about 5½ billions, of which one-half billion is lost or in foreign countries and only 5 billions in the United States. Of this 5 billions, probably 2 billions are hoarded.

But the deposits subject to check in 1929 were about 46 billions, excluding the mutual savings banks, and in all these deposits they diminished about 20 billions and the check money turnover, as stated, has been reduced from 1200 billions to less than 400 billions. As an unavoidable consequence, diminishing this supply of money has greatly increased the value of money and has greatly decreased the value of property.

For example, the value of National City Bank stock fell from over $500 a share to less than $25 a share; United States Steel stock fell to one-tenth its previous value; and the whole list of stocks on the New York Stock Exchange fell from 89 billions to 15 billions in June, 1932. Professor Irving Fisher estimates that the value of all property in the United States has shrunk in value over 200 billions. The evidence, therefore, that the value of money depends upon the supply of money in relation to the demand for money is complete.

The demand for money is based on the need for money for paying debts (which exceed 200 billions in the United States), for paying interest on debts (an annual charge of over 12 billions), for paying taxes (an annual charge of 14 billions), for paying other fixed charges, for transportation and transmission of intelligence, and for meeting the cost of manufacturing and distributing goods. These demands for money, including the cost of living, are daily and urgent.

And the value of our money is not dependent on gold or silver - as many orthodox and classical students believe. The evidence of this truth is that the American people do not use gold or silver for money, that the United States Government has all the gold in storage with no demand upon such gold worth mentioning - since the gold demand for industrial arts is more than supplied by our own mines, and since the demand for paying foreign trade balances is negligible.

On March 14, 1900, when the Gold Standard Act was passed, we put 150 million dollars of gold coin in the Treasury to enable the Treasury Department to redeem our currency on demand. This gold coin remains in the Treasury untouched after 34 years --- proving that the people of the United States have been content with paper currency and check money and that paper currency and check money (that is, private money) have served every purpose required in paying for the necessaries of life; in paying for freight, express, telegraph, telephone, mail; for taxes; for paying interest on debts; and for paying debts.

I enclose you, as Exhibit "D", a letter from the Assistant Director of the Bureau of Research of the Federal Reserve Board enclosing a record of the deposits of the United States with an estimate of the extent of savings deposits and of demand deposits. This record shows that the demand deposits, outside of savings accounts, has fallen to 14 billions.

And a recent examination of deposits made in the Treasury Department, in relation to the guaranty of bank deposits, has developed the fact that 60% of the deposits are in excess of 10 thousand dollars and that 60% of the deposits are held by 8/10 of 1% of the depositors --- proving that the demand deposits of the people with less than 10 thousand dollars on deposit - the small financial people, the people who are the real consumers of the country and who fix the value of commodities - have less than 6 billion dollars on deposit. The same people who hoard currency would hoard such deposits.

It should, therefore, occasion no surprise that the general commodity index has not gone up since last July.

Since the passage of the Thomas amendment, a great campaign of propaganda has appeared against expansion of credit and currency - on the false theory that any expansion is "inflation" and that the evils of inflation have been demonstrated by Germany, which destroyed its own currency in 1923 as a political policy to defeat excessive war reparations. This fallacious argument and the theory that nations cannot control inflation have been fully answered by Gustav Cassel in his "Post War Monetary Stabilisation".

Every nation in Europe inflated its paper money after the War as a means of distributing the cost of the War. For example, France expanded her paper money five fold and cut the gold content to one-fifth, and has been regarded as a model in Europe of sound finance. Italy did the same thing - expanding its paper money four fold and cutting the gold content to one-fourth. Belgium and other nations followed the same policy.

The United States has authorized cutting the gold content of the dollar --- but has not expanded its money. On the contrary, it has caused a shrinkage in its check money of approximately three-fourths; and the recent Federal Reserve Bulletin of March 15 shows a contraction of United States currency of 1670 million dollars since Mr. Roosevelt came in.

In May, 1913, the dollar index under contraction was 145 and the commodity index, 62; but when we expanded credit, check money and currency for war purposes, the commodity index rose to 166 in May, 1920 and the dollar index fell to 60.

On May 18, 1920, the Federal Reserve Board - in a secret meeting with 12 members of the Federal Reserve Advisory Council and 36 Class A Directors - determined to contract credit and currency. (See Senate Document 310, February, 1923 for the censored record.) On June 10, 1920, under Harding's leadership, the Republican National Convention pledged the Republican party to "a persistent attack on the high cost of living by a courageous and intelligent deflation of credit and currency". In other words, they pledged the Republican party, by contracting credit and currency, to lower the value of commodities (the products of human labor) and to increase the purchasing power of money.

When Harding was elected, this policy was put into effect by contracting credit 6 billion dollars and contracting currency 1500 million dollars. Contracting the supply of check money in this manner - by contracting the loans, therefore deposits, and therefore check money, and contracting currency on which banks found their whole system of loans and deposits - the purchasing power of money (the dollar index) rose from 60 in May, 1920 to 107 in June, 1921, and the general commodity index fell from 166 to 93. Farm products fell over one-half in value. The agricultural census showed that the value of farm and ranch properties in the United States fell from 79 billions to 58½ billions - a clean loss to those engaged in agriculture and stock-raising of 20½ billion dollars - while their debts, interest, taxes and other fixed and inflexible charges remained the same.

The proof that the value of money depends upon its supply in relation to its demand is thus illustrated --- although it should be a self-evident truth.

The recognition of this truth is shown by an attempt to lower the supply of cotton for the purpose of increasing its value in money; the attempt to lower the value of wheat and pigs to increase their value in money. It is a maxim that the value of anything, including money, depends upon the law of supply and demand.

Conclusion:

It therefore follows, my dear Senator, that our honored President and Congress are bound in their duty to regulate the value of money with the necessity of expanding currency and credit.

Our banking system, which requires a bank to pay the depositor in cash on demand, requires the bank to have available a sufficient amount of currency to meet this demand at all times. At present, the actual cash millions

reported on April 2 by the reporting member banks shows 242 million dollars of cash in vault against 16 billion 213 ~~thousand~~ dollars - or one dollar in cash against 64 dollars of deposits. These banks rely on the Reserve banks to furnish them with cash.

But, obviously, if the cash in vault of the banks of the country were expanded, they would feel a greater sense of security than they do now, and the people who are hoarding money would spend more freely if the money hoarded were replaced by new currency. It is estimated that the banks can afford to make ten dollars of loans against one dollar of cash.

For that reason, at a time when the expansion of credit is so vital and necessary to restore property values, there should be no hesitation in expanding this currency and using it to pay current expenses --- rather than impose additional taxes or issue interest-bearing bonds, which, in due time, must be repaid with interest by additional taxes.

The expansion of credit is a matter of supreme importance to overcome the contraction of 20 billion dollars of deposits and the check money based thereon. In dealing with such colossal shrinkage of check money and deposits, it is either stupid or dishonest to talk about a 3 billion dollar expansion being "inflation". "Inflation" is unjustified expansion --- it is an expansion unjust to the creditor; and until these property values come back to normal, you cannot be unjust to the creditor.

Since Mr. Roosevelt came in, the Federal Reserve banks, for example, have contracted credit (according to their March 15 bulletin) 944 million dollars and currency by 1670 million dollars. They sold or disposed of their bills bought and bills discounted to a net contraction of 1 billion 544 millions - using a part of this money, however, with which to buy Treasury certificates. This was no expansion, but exchange and contraction.

The reporting member banks have 171 million dollars less loans than they had one year ago (by the bulletin of April 2), and the Government of the United States is now considering having the Reserve banks make investment loans direct to the industry because the banks of the country are not making the loans needed by industry.

The reason the banks are not making loans is because, until they see the rising of property values under adequate governmental policies, they do not feel safe in making loans. When the President shall declare his purpose to expand credit and currency - as contemplated by the Thomas amendment and as he indicated in his message of July 3 and in his speech of October 22 - the conditions will entirely change. Then the manufacturer will know that commodity values are going to rise and will be prepared to expand his output for the profit he visualizes. The merchant will make haste to fill his empty shelves because he sees a rise in his inventory. And the bank, knowing that the manufacturer and merchant will have better profits, will not hesitate to lend them money, nor will the manufacturer and merchant hesitate to borrow.

The tremendous expenditure of public money obtained by bonds is no expansion of credit or of bank deposits, for the simple reason that the money obtained for the bonds are already on deposit or invested in Government bonds; and obtaining such deposits and transferring such deposits by expenditures to others does not increase the volume of deposits or check money based thereon.

The people of the United States have been waiting with great patience, hoping that the President would carry out his promises to restore the 1926 commodity index and to restore the value of the dollar to its normal purchasing power.

The country is entitled to an honest dollar. The present dollar is dishonest, is unfair and destructive to the debtor class of the United States; and this is as true of the Government of the United States as it is of the citizen - for the dollars the Government is now taking from the people is this high-purchasing-power dollar.

The best way to balance the budget is to restore the dollar to normal, to restore property values and, therefore, to increase the incomes of the people from such increase in property values --- and this can be done only by carrying out the policy to which the Administration is committed - and which represents the legislative will as expressed in the Thomas amendment.

The figures which I have given you are taken from the records of the Federal Reserve Board.

I think, my dear Senator Fletcher, that you should call the attention of the President of the United States to the substantial facts and principles which should govern this matter and solicit his cooperation without further delay in expanding credit and currency.

The Federal Reserve banks were intended to function as Government banks and were given enormous powers. They have shown themselves to be unwilling to serve in this capacity. I think, therefore, that the Government of the United States would be justified in buying the stock of these banks and making them purely Government banks. If this were done, it would require only the transfer to the member banks of 146 million dollars to cover the capital paid in by them, and then the Government could deposit its bonds with such new banks and take credit on open account for such deposit of bonds. Thenceforth, the interest on such bonds would go to the Government --- but,what is far more important, the credit deposits with the Reserve banks - being transferred to other banks - when expended,would increase the deposits and the check money of the banks of the country and thereby expand money thru normal banking channels of increased deposits.

I submit this matter to you with great respect and with an humble prayer to the throne of grace that my efforts to serve you and your Committee and the Administration may not be fruitless.

Very sincerely, your friend

ROBERT L. OWEN

Enclosures

EXHIBIT "A"

ROUGH DRAFT OF BROKERS' LOANS ON THE NEW YORK STOCK EXCHANGE

1921 - January	-	$ 1,790,000,000
1922 - January	-	1,192,000,000
1926 - February	-	3,513,000,000
1927 - January	-	3,293,000,000
1928 - January	-	4,433,000,000
1929 - January	-	6,440,000,000
-(September)	-	8,549,000,000
1930 - January	-	3,990,000,000
1931 - January	-	1,894,000,000
1932 - January	-	587,000,000
-(July 30)	-	242,000,000
1933 - January	-	347,000,000
1934 - January	-	845,000,000

EXHIBIT "B"

THE FLUCTUATION OF COMMON STOCK PRICES ACCORDING TO THE INDEX NUMBERS OF THE STANDARD STATISTICS CO. 1926 = 100

1921 -	55.2
1922 -	67.7
1923 -	69.0
1924 -	72.8
1925 -	89.7
1926 -	100.0
1927 -	118.3
1928 -	149.9

	1929	1930	1931	1932	1933	1934
January	185.2	156.3	112.3	58.0	49.1	75.6
February	186.5	165.5	119.8	56.5	44.9	
March	189.1	172.4	121.6	56.8	43.2	
April	186.6	181.0	109.2	43.9	47.5	
May	187.8	170.5	96.0	39.8	62.9	
June	190.7	152.8	95.1	34.0	74.9	
July	207.3	149.3	98.2	35.9	80.4	
August	218.1	147.6	95.5	55.3	75.1	
Sept.	225.2	148.8	81.7	58.2	74.8	
Oct.	201.7	127.6	69.7	49.9	69.5	
Nov.	151.1	116.7	71.7	47.5	69.1	
Dec.	155.8	109.4	57.7	47.4	70.4	

EXHIBIT "C"

THE TOTAL MARKET VALUES OF ALL STOCKS (in Billions) LISTED ON THE NEW YORK STOCK EXCHANGE, SHOWING THE CHANGES WHICH TOOK PLACE FROM JANUARY,1925 TO FEBRUARY,1934

1925-Jan.	27.1
1926-Jan.	34.5
1927-Jan.	38.4
1928-Jan.	49.7

	1929	1930	1931	1932	1933	1934
January	67.5	64.7	49.0	26.7	22.8	33.1
February	71.1	69.0	52.1	26.4	23.1	37.4
March	71.9	70.8	57.1	27.6	19.7	
April	69.8	76.1	53.3	24.5	19.9	
May	73.7	75.3	48.6	20.3	26.8	
June	70.9	75.0	42.5	16.1	32.5	
July	77.3	63.9	47.4	15.6	36.3	
August	81.6	67.2	44.4	20.5	32.8	
Sept.	89.7	67.7	44.6	27.8	36.7	
Oct.	87.1	60.1	32.3	26.7	32.7	
Nov.	71.8	55.0	34.2	23.4	30.1	
Dec.	63.6	53.3	31.1	22.3	32.5	