Before the Banking & Currency Committee of the House of Representatives.

STATEMENT BY THE HONORABLE ROBERT L. OWEN,
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AND CURRENCY OF THE UNITED STATES SENATE,
ON THE ADMINISTRATION BANKING BILL OF 1935;
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The Chairman. Senator Owen, will you come around, please?

The Chairman. Senator Owen, I am sure I do not need to direct your attention to this bill nor the subject covered by it. You are familiar with the legislation, and the committee would be glad to have you express your views on this bill.

Mr. Owen: Mr. Chairman and gentlemen, in commenting upon the present bill and the principles which underlie it, I wish it to be understood that I am speaking simply as a citizen, and not as representing any groups with which I am connected. I am expressing only my personal opinions with regard to the matter.

The great question, Mr. Chairman and gentlemen, which needs to be settled in this country, the settlement of which has now been deferred five years, is the re-employment in industry of some ten or twelve or thirteen million men and women who have been walking the streets unable to sell their labor at any price. That is your real problem, and it is a monetary problem. There is no difficulty in understanding it. It has been explained to the committee on various occasions, and this committee took a very good step in 1931 and 1932 in its attempt to bring about a fundamental settlement of that question in the Goldsborough bill, upon which you had 500 pages of testimony, and which the House passed by a perfectly tremendous majority, 289 to 60, 172 Democrats and 117 Republicans voting for that bill, to restore and maintain the purchasing power of money at an equitable price level, and giving a mandate to the Secretary of the Treasury, through the Federal Reserve Board, and the Federal Reserve banks, to make effective that policy.

There is no doubt whatever in my mind that they had the power to do it, but so far from obeying what was the will of the House of Representatives on that matter, beginning on March 15, 1933, immediately after Mr. Roosevelt came in the White House, the Federal Reserve banks contracted credit to the extent of $944,000,000 within the twelve months up to March 15, 1934, and they contracted currency to the extent of one thousand five hundred and sixty millions, at the same time, making a total contraction of about twenty-five hundred millions the first twelve months of the Roosevelt administration.

Of course, you did not get any recovery from a depression, under those conditions.

Now, Mr. Chairman and gentlemen, let me call your attention to the fundamental facts from which attention should not depart. They are these. That to carry on the business of this country, you must have the medium of exchange and you must have the working capital. What took place was a contraction of working capital of approximately twenty thousand million dollars, from the contraction of that amount of loans, the loans having been made for that purpose. And when those loans were contracted by the banks — I am not blaming the banks; I am a friend of the banks; I wish them well; I have been elected bank director 46 times and my sympathies are with them — when the banks contracted the loans amounting to twenty thousand million dollars, they withdrew that amount of working capital which employed labor to that extent. And those loans were paid by the liquidation of ten billion dollars of time deposits and about ten billion dollars of demand deposits.

Now, as Mr. Eccles explained very clearly to the committee, the demand deposits comprise the money of the country which transacts nine-tenth of our business. So that when you contracted that working capital through the liquidation of loans, you not only reduced the amount of working capital twenty thousand million dollars, and threw out of employment the people who were employed by the business using that amount of working capital, but what was still more important, perhaps, you cut down the amount of money available by the contraction of nine-tenths of our business to nearly one-half of what it was.

We had twenty three billions of demand deposits in 1929, and about four billions of so-called cash or pocket money issued by the government of the United States. With that twenty-seven billions we had a production in this country of about three times as much, or 81 billion dollars, and taking the last ten years, you will find that the total production or income of the country, as estimated by the Department of Commerce, corresponds very closely indeed with the amount of money in demand bank deposits and in pocket money multiplied by three. That is a uniform relationship between the money supply and production.

And your problem is to restore that money to this country. There are two ways of doing it. One is through the banks. If the banks would relax, and if the banks would relax the policy of freely lending money for productive purposes, that amount of working capital and that amount of demand deposits would be quickly restored. But the banks do not do so because of fear. You have got to remove their fear before they will return to normal banking. But the government can accomplish that with perfect ease. All that is necessary at the present time is to have the government buy its own bonds through the reserve banks. When they do that, if they bought seventeen billions of bonds which the private persons in this country hold, the first effect of that would be to increase the deposits of the banks by seventeen billion, and when those bonds were transferred by the member banks to the reserve banks, it would increase the member bank reserves by a like amount.

If the government, on the other hand, bought the thirteen billions of bonds, approximately, which the banks are supposed to have, or which they do have, you would not increase the deposits because the deposits have already been created by the purchase of those bonds. It would increase the member bank reserves by a like amount, and when the member banks have a reserve of 100 per cent, subject to check, in the form of reserves, with the Federal Reserve banks, the banks would not have any fear at all because they could liquidate their demand deposits 100 per cent without any difficulty.

That is the great problem with which you are faced. It is restoring the money of the country which has been retired by the calling of loans by the member banks and other banks. That has been so clearly explained to the committee that I do not think it is necessary for me to enlarge upon that any more.

I was asked the question under examination some days ago by Senator Bailey of North Carolina: "Where would you get the money from to buy the United States bonds?"

I replied very mildly that I would find the money the same way that the First National Bank of Raleigh finds the money for bonds it buys from the United States Government. When they buy $100,000 worth of government bonds, they simply take a pen and insert on their books, their ledger, a credit account to the government of the United States subject to check. They hold against that the bonds. That credit is available, but it is subject to demand, and if, for any reason, they did not have the ability to pay the amount in currency, they would have to call on the Federal Reserve banks for the currency, and if their resources failed, then the bank would fail, if they had a run made upon it. It is for that reason that the banks are apprehensive when their demand deposits are large and their available cash reserves are relatively small.

Now, taking the bill which is before you, I wish to express my approval of the proposal made by the Governor of the Federal Reserve Board, in that he asked that the bill should provide that the Federal Reserve Board should control the interest and discount rate; that they should control the ratio of reserves in member banks against their deposits; that they should control the right to buy and sell bonds.

Those three powers are necessary to expand the money of the country or to contract it, having the power either to expand or contract, the power of expansion and contraction, and you can expand when it is needed, and you can contract to prevent inflation.

I use the word "inflation" always as meaning an unjustified expansion, never to mean merely a justified expansion, because a justified expansion is not "inflation."

You need now the same amount of money per capita that we had in 1929, and that amounted to about $225 per capita up to $250 per capita. The calculations vary according to the estimates that are made. When you have furnished this country a mechanism by which this can be accomplished, if you stop there, gentlemen, and do not exercise your duty and your power to regulate the value of the money, which the Constitution of the United States imposes upon you, if you do not have a mandate upon the officials charged with the duty of exercising the powers which you grant, you need not be surprised if you are disappointed afterwards in the exercise of human judgment, which may or may not carry out the hopeful expectations you might entertain.

In my opinion, this bill is defective in the very particular matter of having no legislative mandate, such as you proposed in the Goldsborough bill, which was passed, I believe, in May, 1932. That bill was discussed very fully in the House for two days. It had an overwhelming vote because of the obvious righteousness of the proposal, and you were confronted at that time by the story that it could not be done. In other words, the Federal Reserve banks and the Federal Reserve Board, and the Secretary of the Treasury ignorantly advised you they could not do it. That was the answer then. It is no longer the answer now. It is now plainly stated to you that it can be done, and you are invited to give these powers to the Federal Reserve Board.

To talk about immaterial things, to talk about little things, when this gigantic subject matter is before you does not interest me. I do not take any interest in the matter, outside of these vital fundamental questions. The responsibility is on you, it is on this administration. When the administration came in two years ago, the country was under the impression that this was going to be done; that we were going to have an adequate supply of money; that we were going to have the regulation of the value of money; that we were going to have a sound money, with a uniform, permanent, debt-paying purchasing power; that we were going to have property values restored.

When the Goldsborough bill passed, I took the bill and the recorded testimony before the Committee to Mr. Roosevelt in New York City, and handed it to him in person. I asked him whether he was in favor of the Goldsborough bill. He replied that he was in favor of it. He has consistently maintained that position, because in his inaugural address he stated it, and in his cable to the London Economics Conference, he said:

> "Let me be frank in saying that the United States seeks the kind of dollar which a generation hence will have the same purchasing and debt-paying power as the dollar value we hope to attain in the near future."

And in his following address to the American public October 22, 1933, he said:

> "When we have restored the price level, we shall seek to establish and maintain a dollar which will not change its purchasing and debt-paying power during the succeeding generation. I have said that in my message to the American Delegation last July, and I say it now once more."

He added:

> "Some people are putting the cart before the horse. They want a permanent revaluation of the dollar first - <u>it is the government's policy to restore the price level first.</u>"

I regretted it as most unfortunate that President Roosevelt's advisors were able to persuade him to defer dealing with this fundamental until the NRA, the AAA, the RFC, etc., etc., could be tested out. Whatever measure there is of disappointment in these administrative efforts can be largely accounted for by the failure to restore property values, to restore working capital, and to restore the volume of the medium of exchange in demand bank deposits which had been destroyed by contraction.

You cannot restore property values without restoring the money by which to restore property values. Property values depend absolutely upon the volume of your money.

Your power to coin money and regulate the value thereof, under the Constitution of the United States, is the power of regulating the value of money by regulating the supply.

The Governor of the Federal Reserve Board has very clearly pointed out to you all that is necessary to be done to give that power to the Federal Reserve Board. The control of the interest and discount rate, the control of the reserves, the control of the right to buy and sell bonds, that is the way the Bank of England regulates money in London, and has been doing for nearly 100 years. That is the way England checks itself from a monetary panic, by simply passing a resolution of the ministry, authorizing the Bank of England to issue unlimited legal tender money on sound assets other than gold. They cured the panic of 1847 in that way in a few days. They stopped the panic of 1857 in the same way. They cured the panic of 1866, when Overend-Guerney failed, in the same way, and when the Baring Brothers failed in 1890, they controlled the panic in that way. They do not fear that kind of panic any more, because they know they can control it, and they are now regulating the value of money in Great Britain by regulating the supply of the money.

They are doing the very thing that I am counselling now. Sweden is doing the same thing, and has regulated it with particular accuracy down to one or two per cent. You have the greatest opportunity in the world now, by framing this bill properly and efficiently, so as to make your will control it, so as to have the Congress of the United States framing the policy and directing the policy of this country. To regulate the value of money, when you give this power, you ought, in my judgment, to put in this bill a mandate requiring the powers you grant to be used to restore and maintain the purchasing power of money along the lines of the Goldsborough bill which you passed by such a splendid majority, and which certainly excited my most ardent admiration.

The legislative mandate will remove the executive officers from the danger of being diverted from their duty by selfish advice or by political influence of any kind. The honesty of our officials can be depended upon when they have a clear instruction as to what to do. If they fail, the Congress would have the plainest evidence of it and could correct it.

While the demand bank deposit is about 19 times as important as pocket money, because checks transact 19 times as much business, our pocket money should be simplified by issuing only one form of paper money in which the note employed would not be described as a promise-to-pay (an artful device of selfish interest), but should be designated as so many dollars issued in pursuance to the constitutional mandate of Article 1, Section 8, Clause 5, which authorizes Congress to coin money and regulate the value thereof.

The Statute should declare the gold and silver in the Treasury to be available for the payment of foreign trade balances, and in science, and in the arts, at a fixed price.

The fear that our dollars would not be kept at parity with gold has no real foundation, for it has been demonstrated by the Gold Standard Act of March 14, 1900, that a very small amount of gold, to-wit, $150,000,000 in gold coin, has kept from five to seven billions of currency at parity with gold, and without the employment of any of the gold reserve referred to. If, therefore, $150,000,000 of gold coin will keep at parity with gold five billions of paper money without impairment for 33 years, how long would 8½ billions of dollars maintain the parity of our paper money?

The question itself is obviously absurd. The same thing is true of silver. Now that our money is all legal tender, it not only is as good as gold, but it is better than gold, for it can perform services more economically than gold, more conveniently than gold, and when gold is desired for legitimate purposes it can command the supply of gold required. It isn't the gold in the dollar which gives it its value, but it is the demand for the dollar in the transaction of domestic and foreign business. The domestic demand for dollars in 1929, in checks alone, was over $1,200,000,000; more than 100 times all the monetary gold in the world then existing, and 300 times as much gold as we had in the United States; and, as a money metal in the United States, gold had even then a negligible use. It has no use now, because of the wisdom of Congress in taking public ownership of the gold supply and confining its use to domestic needs as a commodity and to the payment of foreign trade balances. The form of money which I advise would greatly save expense and the cost and trouble of accounting. It would facilitate our business in a constructive manner.

Now Mr. Chairman, that is all I have to say.

Mr. Cross. Senator, one of the most vital things that we could do and do I think officially, is to stabilize the purchasing power of the dollar in harmony with some commodity index, covering some period, 1921 to 1929, or 1926, or whatever it might be. I have been thinking recently about the fact that England, ever and anon, let their pound slide down, unquestionably on purpose. They are getting an advantage in export trade as a result. Since she has not her pound stabilized, if we were to put a provision in this bill to stabilize the purchasing power of the dollar on some commodity level, would it not probably be wise to say that we must not let its purchasing power drop 2 per cent below the line, but have a leeway for conditions which present themselves, where you could go 20 percent further? In other words, if England kept cheapening her pound, we would keep cheapening our dollar, and put the price level higher. Of course, she has got to reach a limit on that kind of thing some time, but it occurred to me, if we were to stabilize on a fixed limit, now, say, -- and I am using England as an illustration -- she might just cheapen her pound under our dollar, and in that way get an advantage on her exports.

Mr. Owen. Mr. Congressman, what we need in our country is a stability in the purchasing power of money, so as to establish a fixed, an honest, and a just relationship between debtor and creditor, and so as to have a standard measure of value upon which manufacturers and merchants could depend.

Mr. Cross. I understand.

Mr. Owen. That is the great objective, and what England may do with a view to cheapening her pound, to expand temporarily her foreign commerce, should not concern us. What we want to do and what we need to do is to establish an honest, stable, permanent debt-paying purchasing dollar, and when we do it at home, Mr. Congressman, we will do far more than would appear to be the domestic result. We would, in that event, fix permanently the purchasing power of an ounce of gold, which is thirty-five times that table index of one dollar, and therefore you would give a standard to the whole world, using gold as the basis of a stable measure of value. You could do the same thing with silver, by fixing a fixed relationship then afterwards between silver and gold, and we have enough gold and we can command enough silver to accomplish that purpose without difficulty. But our great problem is at home. Look at what has taken place in this country. If you could only visualize the 10,000 perople who commit suicide annually under recent conditions, if you could visualize 13,000 armies of 1,000 each walking the streets of Washington, telling that pallid tale of distress and woe, you would realize the enormity of what has taken place in this country by the destruction of the medium of exchange; the destruction, therefore, of all values of property and the destruction of employment.

Mr. Cross. Now, another question, Senator. What do you think about putting an amendment in Title II, providing for the government to purchase the stock of the member banks in the Federal Reserve banks?

Mr. Owen. All the values that are in the Federal Reserve banking system have been created by the government except $143,000,000.

Mr. Cross. I know that.

Mr. Owen. My own opinion is the government of the United States needs an instrumentality belonging to it, not belonging to somebody else. It is the private ownership of the stock of these banks which leads to their right to select the directors and the governor and the control, and when they control, they control the credit of the United States. They control the money of the United States, and, without knowing it, they have expanded our money and contracted our money in such a way as to make bull movements and bear movements, out of which the speculators profit, in both cases. I do not think that the banks should be charged with any wilfull purpose about it. They are just human beings, such as we are. They are following the line of their own interest, conducting the banking business for profit, and I think, gentlemen, the government of the United States ought to go out of the banking business for profit and leave the banks to do the lending to the country, but the government of the United States ought to control the volume of money, the supply of money, so as to give this country what President Roosevelt said we should have, money of a permanent, debt-paying purchasing power. When you have done that, you will have discharged your full duty, and this country will rise up to call you blessed, and if you do not, they will rise up and call you be-damned.

Mr. Cross. That is what they are calling us now.

Mr. Owen. That is what they are going to call you. Do not make any mistake about that. If you do not give this country immediate relief, something is going to happen to you.

Mr. Cross. Here is another question, but I do not know whether it is very material --

Mr. Owen. I have taken the liberty of talking very freely to you gentlemen, because I feel myself a sort of older brother in talking to you, and I have been talking to you as a friendly counsellor who has given a long study to the question of monetary science.

Mr. Cross. What do you think of, instead of requiring the 40 cents in gold back of the notes, you require say, 30.

Mr. Owen. I did not quite catch your question, Mr. Congressman.

Mr. Cross. I said, in place of requiring 40 cents of gold certificates back of the Federal Reserve notes, you require 30 in gold and 10 in silver. What do you think of that kind of a proposition?

Mr. Owen. I think it is a joke.

Mr. Cross. Do you not think --

Mr. Owen. I am speaking seriously, Mr. Congressman. Permit me to say, we have something about 8 1/2 billion dollars of gold, and a large amount of silver, but we have got what is far more than that, far more than that; we have got taxing power in the United States, representing the earning power of a very great industrial people, whose normal production is ninety billion of dollars, and who could get into production 150 billions, if they were furnished with the proper supply of money.

Mr. Cross. Now --

Mr. Owen. Just a minute. I have not finished answering your question. I am going to answer it. Behind whatever money we issue would be, of course, the gold and silver controlled by the government. The government has taken over all the gold now, and the only use of gold now permitted by law is to pay international trade balances and for commodity purposes, making jewelry and in the arts and sciences, and at a fixed price of $35.

Now, Mr. Congressman, on the 14th of March, 1900, we passed what was called the Gold Standard Act, requiring that the gold dollar should contain 25.8 grains and 9 tenths fine, and that our paper money, should be kept at parity with gold.

To keep all the money at parity with gold, we put into the Treasury 150 million dollars of gold coin, and that kept our money up to five billion, and at the parity with gold, without using any of the 150 millions of gold at all. That is why I say it is a joke to talk about putting gold behind our money, when that is confined, in my way of thinking, to a reasonable base. We do not need any gold behind our money.

Mr. Cross. You have in this bill 40 cents in gold back of every note.

Mr. Owen. I say it is a joke just the same.

The Chairman. Under your Gold Standard Act, provision was made for replenishing that fund.

Mr. Owen. 3 per cent gold bonds.

The Chairman. At any time it might be depleted.

Mr. Owen. 3 per cent gold bonds. It never needed to be employed. The gold was never depleted. People did not want the gold. They wanted money. They do not use pocket money for transacting 19/20ths of the business of the country, but they use check money, based on demand bank deposits. That is what they use. They are not thinking about gold and do not care anything about gold. It is only the bankers who do that with respect to gold and silver with the effect of confusing innocent men.

Mr. Cross. In other words, 40 per cent gold back of the dollar here might as well be wiped out?

Mr. Owen. It might.

Mr. Hancock. Senator, do you not think that the administration is making a serious and desperate effort to furnish the country with an adequate currency system today?

Mr. Owen. I think that this bill is a tremendous step forward in the right direction, and I have every hope in the world that this bill will pass. I am only pointing out to you that you should add a mandate, such as the Goldsborough bill, which you passed two years ago, because without a mandate you will have the same thing occurring which occurred the last two years. You authorized three billions of bonds to be bought through the Federal Reserve banks, did you not, as you authorized three billion dollars of currency to be issued, did you not? Congress authorized it, but it did not put a mandate on it, and it has not been employed, and the money available for business has been contracted instead of expanded -- do not underestimate the vast importance of this because it is a reality. By the sight of government bonds, when the government bonds are sold to the member bank, it does create a deposit. But up to this time approximately all those deposits which have been thereby created have been consumed by requiring the industrial elements of this nation to a like amount of debts to the banks, and the loans to our industries have been decreased while the deposits have increased. The natural result has been to take productive capital from industry and transfer a credit to the payees. Do not make any mistake about that.

Mr. Hancock. Senator, I appreciate very much the constructive suggestion which you have made. I do not care to inject anything that smacks of politics in connection with the consideration of this legislation, but I have had it in mind for a good long time, the difference in the language which our President used at the time of his inaugural address and the platform adopted by the Democratic Party in Chicago. I understand that that platform, as you well know, recommended a sound currency system at all hazards.

Mr. Owen. Yes, certainly.

Mr. Hancock. Mr. Roosevelt, however, in his inaugural address, referred to the same subject, and promised the people a sound but adequate currency system for the country.

Mr. Owen. The words "sound money" have been unjustly given a double meaning. The words "sound money" as used by the advocates of the gold standard, mean gold money, redeemable in government gold of 25.8 grains per dollar. That is what the standpatters mean by "sound money", but I do not mean that; but informed people mean sound money which has a uniform, debt-paying purchasing power. Mr. Roosevelt's interpretation of the word "sound" money is entirely correct, in my opinion. I certainly commend him for it.

I organized, or took part in organizing the Sound Money League, in which I have been advocating just that kind of dollar, because that is the only sound dollar we could have.

Let me describe what took place with the gold dollar, because the gold dollar had the same purchasing power index as our other dollar had, and yet in May, 1920, the index was 60. In February, 1933, it was 166. The variation was the variation between 100 and 278, showing that that was not sound money.

Mr. Hancock. Do you not think it is fair to conclude that the Governor of the Federal Reserve Board has come here with this bill and advocated it so intelligently and so strongly, is an almost sure sign that the President is striving to carry out his pledge made in his inaugural address?

Mr. Owen. I heard the evidence given for the first two days by Governor Eccles, and it was in accord with my own views. I sat in two days, listening to it, and I felt entirely in accord with it.

Mr. Hancock. Would not the government, under this legislation, particularly Title II, be in a position to furnish the country with a dependable and adequate medium of exchange?

Mr. Owen. Yes, but if the government were to undertake to say to these privately-owned reserve banks, "I want you to buy five billions of gold bonds," that the privately-owned reserve banks would be in a position to raise a great outcry against compelling them to do that, whereas if the government bought those banks, by a cross entry, of 143 million dollars on the books — and that is all it would take — it would be in the position of actual control and it would not take any money at all.

Mr. Hancock. Do you not think that whatever authority may be vested with this great sovereign power, that some latitude of discretion should be left with that particular authority?

Mr. Owen. Certainly, the latitude of carrying out your will, but your will ought to be described so as to tell what you want. You ought to tell them plainly that you want them to bring back the dollar to the normal value, and keep it there, and when you do that you will have discharged your duty, and if you do not, I do not think you will have discharged your duty.

Mr. Hancock. Senator, what would you say is the normal level of the dollar?

Mr. Owen. I would say 1926 is a reasonably normal level, because it is the same as the average 1914 to 1930, inclusive, and because it is the average of 1921 to 1929, inclusive.

Mr. Hancock. Would you not allow for normal economic changes in determining that level?

Mr. Owen. Yes, certainly, and, more than that, I think the suggestion which has been made here is a good and wise one, to base the index upon basic commodities, and I think that that ought to be further discussed by the Board, and the Board will make reports to the members of Congress at least once a year, and I think preferably every quarter so that the Board would tell the members of Congress what they are doing to carry out the policy of the Congress with regard to money, so frequently that they would never lose sight of their job; and their sole job, in my opinion, is regulating the volume and value of money. Your chief duty is to declare the policy—not necessarily the details.

Mr. Hancock. Do you not think that other things than commodities should enter into a determination of the matter?

Mr. Owen. No, I think that is enough. They have had the Saurbek index in Great Britain for many years, and it served as a good enough level. The value of the all-commodity index is this: That it represents a value of all human labor for a period of one year, we will say, and that is comparatively stable in volume and in its essential usefulness, and if money is kept stable in relation to it, you will have the greatest stability of which you are capable.

Mr. Hancock. One question and then I am through, Senator.

Mr. Owen. Yes, sir.

Mr. Hancock. With respect to purchasing the obligations now held by the banks in order to replenish the supply of money, you say that a transaction of that kind on the part of the government will be similar to a transaction on the part of any bank. For instance, take the First National Bank of Raleigh, North Carolina.

Mr. Owen. I say that when the purchase by the Federal Reserve banks of United States bonds is made, it would be identical in character with that of the purchase of bonds by the First National Bank of Raleigh. They would give a book-entry credit against the purchase of the bonds. If they wanted that paid in money, they could get it, because the Federal Reserve banks can get all the money they require against bonds. People do not want pocket money. They wantbank credit. That is what they want.

Mr. Hancock. I understand.

Mr. Owen. That is what they need.

Mr. Goldsborough. Senator Owen, do you remember going over a bill that I introduced early this session, providing for the establishment of a bank which should absorb the national debt?

Mr. Owen. By purchasing the bonds outstanding?

Mr. Goldsborough. Yes.

Mr. Owen. Yes, I do.

Mr. Goldsborough. Do you remember the bill provided that the capital stock should be furnished by the Treasury?

Mr. Owen. By what?

Mr. Goldsborough. The capital stock of this bank should be furnished by the Treasury.

Mr. Owen. Yes.

Mr. Goldsborough. Money which was not then being used for support of other money, and that as the purchase of these bonds tended to raise the reserves of the banks, the Federal Reserve Board was directed to raise their reserve requirements in order to prevent undue inflation.

Mr. Owen. Yes.

Mr. Goldsborough. All right. Now, then, my question is this: A gentleman who is to appear before this committee tomorrow, characterized that bill in this language:

"Now, Mr. Goldsborough's proposition would have the government paying off its investors not through money raised through borrowing or taxation but by means of paper money printed by the government. Such money is in the nature of forged notes, forged by a government against its people. He is asking the government to go into the business of forging notes. If in his private affairs a man borrows at a bank or elsewhere and then finds it difficult to pay and gives a forged note or counterfeit money in settlement, he is put behind the bars. We demand that he live up to his contract, and that he make his wealth with which to pay his debt. We do not allow him to issue forged notes or to set up a printing press to run off the necessary amount of notes to pay off this debt. In simple but accurate terms that is what Mr. Goldsborough and several others in Congress are proposing to do."

I would like to get your judgment as to the value of that statement.

Mr. Owen. It has no value, or it has no truth in it. The truth is that when the First National Bank of Raleigh buys $100,000 worth of government bonds and gives a credit against them, they give value for value, and the same thing would be true with regard to the government of the United States in buying its own bonds through the Federal Reserve banks. They would give dollar-for-dollar value. If the public wanted legal tender notes for it, they could get it, but they do not want legal tender notes. The government in buying its own bond of $1,000, and giving the equivalent for it, a sound bank credit, convertible into legal tender money, is giving full value. That is a very amazing statement you read. I cannot imagine any person informed with regard to monetary science would make it.

Mr. Goldsborough. He is going to be seriously offered here tomorrow in opposition to the bill, which we are here considering.

Senator, what argument can be made, if any -- I do not know of any myself -- but what argument can be made that money, which is merely manufactured on the books of a bank, which really had nothing in comparison with what the government of the United States has, that money manufactured on the books of a bank is more valuable and is of a higher degree of monetary consequence than money issued by the government of the United States that has behind it every resource of every individual in the country?

Mr. Owen. Mr. Congressman, I do not sympathize with those who say that the banks make money out of nothing, because when a bank lends money, a certain amount of money, one thousand dollars, say, they take a mortgage on my property worth $2,000, $3,000 or $4,000. They ask a larger amount of security than the loan ordinarily, and it is against that property of value that they issue this credit. The weak spot in it is that when they are called upon to liquidate that in pocket money, in currency, they have not got that to pay with.

What you say with regard to the government is perfectly true.

Mr. Goldsborough. I had reference to government borrowing from banks. That is what I am talking about.

Mr. Owen. The government borrows from a bank by giving its bonds to the bank, and the bank takes the government bonds and enters a book credit.

Mr. Goldsborough. First the government sends their bonds to the bank, and then the bank loans the government the money, and the government loans the money back to the bank and pays interest on it. That is substantially right?

Mr. Owen. That is about right.

Mr. Goldsborough. Is there any value created in the money which eventually goes into the market, because the government instead of issuing this money directly furnishes its bonds to a bank and has a bank setting up a bookkeeping entry? Is there any more value to that money?

Mr. Owen. No, that is self-evident. The question answers itself.

Mr. Goldsborough. I know the question answers itself, but because it is contradicted so often, it is worth while to know it.

I am through.

Mr. Ford. Senator, I want to ask one question.

Mr. Owen. Yes, sir.

Mr. Ford. Assuming that the Patman bill becomes a law, what effect would that have on the country?

Mr. Owen. It would have an effect on the country primarily of introducing that amount of pocket money. A large part of it, I assume, would flow back into the banks, and if they owed the Federal Reserve banks anything, they would liquidate that debt to the Federal Reserve banks for that, but they do not owe the Federal Reserve banks anything but have large balances in the Reserve banks now, and, therefore, that would add materially to the available amount of money in the country. That is my opinion about it. It would help substantially.

Mr. Ford. It would have a tendency to help business?

Mr. Owen. It would substantially help the whole country. We are suffering from lack of money, and that is the only way we can do it. We have got everything else on earth. We have got the ablest people on earth, and our factories are running only one-sixth of their time. We have got splendid climatic conditions, and our country is fertile, and we have everything on earth but money, but you cannot transact business without money. Civilization depends on money. If you have got to go back to bartering, civilization would cease. Everybody knows that. It is self-evident.

Then the statistics which have been laid before you show that. I suppose you have seen these statistics and chart compiled by the Federal Reserve Bureau which shows completely the trouble. We have lost twenty billion dollars of capital employed in production. We have lost ten billion of time deposits, potential demand deposits, and approximately ten billion dollars of actual demand deposits which function as check money in business, and which have a turn-over 36 times a year.

Mr. Ford. Governor Eccles says that the two billion dollar excess reserve is capable of supporting a twenty billion dollar bank credit.

Mr. Owen. That is a technical observation, meaning this: Under the present system of a ratio of ten per cent on the average of reserves against deposits, those reserves could be employed to expand ten times. But the difficulty with our country has been that those reserves are entirely too small; that those reserves, instead of being 10 per cent should be raised to a point where the banks would have no fear of our demand depositors. This should be made at least 50 to 100 per cent, gradually, and steadily raised, and in that way the banks would have no fear. That was explained very clearly by Professor Fisher and Mr. Hemphill a few days ago. I was sitting here and I heard their testimony. It was very clearly stated.

Mr. Ford. I am thinking this situation over: If a bank had to maintain a 100 per cent reserve on its check deposits, what possibility or what opportunity for profit would there be in banking?

Mr. Owen. The total amount of bank deposits in 1929 was about 55 billions. So that only 23 billions were demand deposits. All the balance was time deposits or savings accounts. And I think that this bill has some very valuable provisions in it, in providing that all bills of value, practically, shall be eligible, and I think it has a very important provision in authorizing the loans against real estate. When the banks have their fear of the demand depositors removed by a large reserve against their demand deposits, and it does not cost them anything to get the reserves, it will save the government the interest charge of the bonds that are bought.

Mr. Ford. That is what puzzles me. Maybe I am dumb, but I am just trying to find out. A bank has $500,000 worth of demand deposits.

Mr. Owen. Yes, sir.

Mr. Ford. It has to keep a $500,000 cash reserve against that, and where does it get the $500,000 unless the banks' owners put it up?

Mr. Owen. The bank you speak of, with $500,000 has in its own vaults at this time probably $500,000 in government bonds. All they have got to do is to sell those bonds to the Federal Reserve bank that have a reserve of 100 per cent against their deposits. 50 per cent, I think, should be enough, except for the principle involved in the proposition, the manufacture of money by the banks, which I think ought to cease.

Mr. Ford. Where would their income come from, if they sold their bonds for $500,000?

Mr. Owen. At present they have 56 million accounts. If they charged $1 a month for each account, as a service charge, they would get twice as much as they do now for the bonds. I am giving you the facts with regard to it. They are entitled to be paid for the service they render.

Mr. Ford. Then why should the banks object to it?

Mr. Owen. They do not understand it. They do not know as much as you think they do. I do not mean to criticize them, because I am very friendly with them. I do not feel any element of hostility to them. I think they are just as good as we are, and they have done the best they know how, and I think they have proved a good alibi when 15,000 of them have died.

Mr. Goldsborough. This point has been raised here by different members of the committee -- and I do not agree with them at all, but it has been raised, and possibly you could throw some light on it, more light than I have been able to -- that if banks were put on a 100 per cent reserve, they would have only capital stock and surplus, and there would be a deficiency.

Mr. Owen. That is not so. They would have their savings accounts and their time deposits as well, their real estate loans and loans against both time deposits, and excess demand deposits, and interest on their investments. When they render service, they are entitled to be paid for it, and they ought to be paid for it, and they ought to be allowed to do so.

Mr. Goldsborough. Do you not think, Senator, when it comes to payment of services, it would be economically sound to let the United States government assume it, rather than the depositors themselves?

Mr. Owen. That is a matter of policy. The banks are entitled to be paid for the service they render, I think.

Mr. Goldsborough. So do I.

Mr. Owen. They are not aliens. They are our own citizens. They are our friends and our brothers and they are handling the money which they have, and the money of our neighbors. We have no fault with them.

Mr. Goldsborough. I want to ask one more question. It is getting late, and we do not want to hold here much longer. I have made this statement, Senator, in this Committee and other places and from the floor of the House: That under our average ten per cent reserve system, that if every individual in this country had the financial genius of the Senior Morgan, and the inventive genius of an Edison or a Pope, and the energy of a north German farmer, that there could be no permanent prosperity in this country, because as soon as they began all to pay their debts, we would immediately have a deficiency of money and depression would be inevitable, because as soon as you begin to pay your debts you create a deficiency of money. Is not that right?

Mr. Owen. Certainly that is right on your hypothesis. When you pay off these debts, upon which the money is based, of course you contract the money, and that is the whole point of this discussion. It is, that the United States Government should furnish the money, and that in order to furnish the money the money should be based either upon the outstanding public debt, or issued as a straight credit based on the taxing power. The Government must issue the money required, whatever it is. It must not be issued by the privately-owned banks as a debt. The outstanding public debt can be used instead of the private debt for the issuance of money. That is a plain proposition, and I do not see how anyone can fail to see it.

It has the advantage of saving 3 per cent interest and 5 per cent amortization on a debt which will soon equal 36 billions, a saving of nearly 3 billions per annum. This saving is only a part of the benefit to the government, for the national income would double when the national production doubles. The national revenues would double when the national production doubles. Why talk about trifles when this saving is before you?

Mr. Hancock. May I ask one question?

Mr. Owen. Certainly.

Mr. Hancock. That statement which Mr. Goldsborough has just related, that he has made on the floor of the House, has given me a lot of trouble in understanding it.

Mr. Owen. In what way?

Mr. Hancock. I want to ask you this: If such a situation as he described should ever come to pass in this country, under our present monetary system, why would anybody need any credit?

Mr. Owen. You speak of this matter?

Mr. Hancock. All the debts were discharged.

Mr. Owen. I do not infer that he meant all the debts were discharged. What Mr. Goldsborough really meant by it ---

Mr. Hancock. I think I am quoting him correctly. His argument is under our present monetary system, if I understood it correctly ---

Mr. Goldsborough. Starting with the debt we now have.

Mr. Hancock. Starting with the debt we now have, the people would get in such a position that they could discharge those obligations, that you would thereby automatically so contract your credit money that you would not need ---

Mr. Owen. Let me explain that matter, if I may. What Mr. Goldsborough really means, I think, is this: That the private debts were the basis of the issuance of the money, and when those private debts are called in, those private debts are liquidated by checks on the demand bank deposits, and therefore it is retiring the money of the country. That is what he really means. He means that the money of the country is based on private debt.

Mr. Hancock. I think I understand him, and, as I see it, I am trying to analyze it. I am wondering if it would not be a very fine thing if all the debts were paid, and everybody's property was clear.

Mr. Owen. We have had a very fine thing during the last few years, the contraction of loans by twenty billions, the contraction of our money supply by one half, and of our National property values by half, or two hundred billions.

The Chairman. He means after your debts are paid.

Mr. Hancock. Would not all of those assets against which this credit is issued be immediately available for any currency assets?

Mr. Owen. When you liquidate the outstanding debts you of course bring on these conditions. When you restore the money which is based on those debts, by making new loans, you bring back the money and bring back prosperity again, because it is in that way that we have been creating money, and it is against that means that I am protesting, and suggesting that the money shall be based on the public debt, and not upon the private basis of debt, and thus make the money permanent in supply. That is the very point I am trying to make. I do not know whether I am intelligible or not, but I understand very clearly what I am trying to convey to you, and that is that the money which previous to 1929 was based upon private debt has been retired by the liquidation of the private debts, and that the future money should be based upon a public debt that cannot be retired by privately-owned banks. That is what I am trying to tell you.

Mr. Hancock. Senator, do I understand that you would want the government to always be in debt?

Mr. Owen. No, that is not necessary, Mr. Congressman. This is the first step, but it is enough.

When the bonds shall have been bought by a government-owned bank, they would offset the credits issued against them. The credits issued against them are credits by the United States not bearing interest, but functioning as money. This could be done without bonds. The government could issue credit to a government-owned bank even if it had no bonds, and furnish the money of the country in this way, by having those who wanted such money obtain it for actual money in any bankable form. There is nothing mysterious about this. Government money does not have to be in the form of one-dollar bills, used for pocket money. It can be for $100,000,000 credits added on the ledger of a government-owned bank, of which the United States is responsible exclusively, without any private ownership whatever. The government must have its own agency undiluted and un-interfered with by the specious plea of private ownership of the instrument through which the United States discharges its constitutional duty to issue money and regulate the value thereof.

While the Reserve Banks are in private ownership, it will be necessary to remember that the earnings on the bonds bought would belong to the member banks who owned the stock. Therefore, the savings to the government, both of interest and amortization on these bonds, would not accrue, and the benefits arising therefrom in the matter of interest would go to the member banks in violation of the fundamental purpose of the Federal Reserve Act of 1913, which provided that all earnings should go to the government of the United States, except a reasonable interest on the stock. This law was amended by the 73rd Congress to pass the profits to the surplus of the Federal Reserve Banks. This, of course, must be changed in any event, in order to deal justly with the government itself. When the government owns the banks this difficulty vanishes, and the government will get the benefit of both the interest and amortization payments, which would be, necessary. It is the first step to have the government of the United States furnishing the money that the country requires, and the Constitution provides. You are required to coin money and regulate the value of it, and you can only do it by furnishing the supply of money. You can do that by a credit instrument from the Treasury of the United States, convertible into legal tender on demand, just as well as you can on bonds. Suppose the Treasury of the United States gave a credit note to the Federal Reserve Bank, convertible into legal tender on demand. They are not going to demand legal tender because they do not want that much pocket money, but suppose they do that, they can use the credit to buy the bonds with anyhow. Can't they?

Mr. Hancock. Yes, I expect I understand. It is a pretty deep subject for me.

Mr. Owen. I do not think it is deep, but the only thing is it requires attention. You cannot understand anything without giving it some attention, and the life of a Congressman is so bedeviled by outside things, they are doing forty thousand things at once, and I wonder how they do go down deeply into a question of this sort.

Those who are opposed to the Administration Banking bill of 1935 will strenuously urge the importance of delay. They will offer no means of giving the country relief from its great distress. They will urge with learned words that a bank has a very delicate mechanism from which all sorts of unexpected results may follow unless the banking laws are framed by a committee of experts such as the Economists' National Committee on Monetary Policy, headed by Professor Kemmerer, Professor Spahr, Dr. H. Parker Willis, and others. These gentlemen will urge delay without offering any immediate remedy. They will insist upon letting nature take its course; letting the creditor take over the mortgaged property of the debtor at half its value. These gentlemen, whether consciously or unconsciously, voice the views of our leaders of finance, under whose guidance this country suffered the enormous losses inflicted for the last fifteen years by its great depressions ignorantly caused by expansion and ill-considered contraction of our national money supply by privately owned banks moved into action by propaganda.

These representatives of the views of financial leaders, and who generally owe their bread and butter to generous endowments, will also strenuously urge that the existing order of manufacturing and expanding money and contracting money by privately owned banks is the only way; that no man can prevent bull movements or bear movements; that they are inevitable, due to the laws of human nature, and that the government should let them alone.

They will denounce the idea of the government performing its constitutional duty to coin money and regulate the value thereof, and they will denounce the present bill as setting up a supreme dictatorship in Mr. Roosevelt, who could, they assert, through the exercise of his political control of the Federal Reserve Board, dictate the conditions of life and death, not only to the banks, but to every business man in the country. They urge that this political control of the banking system, and the issuance and regulation of the value of money, would give the powers of life and death over business. But they fail to realize that the American people have their choice only between public control and private control. They fail to see that private control is swayed by press propaganda - from extreme optimism to extreme pessimism; from a bull market to a bear market - and that these conditions give the speculators, the money changers of the country, the opportunity of depriving uninformed people of the proceeds of their labor.

They oppose Congress exercising what they call political control, which the constitution imposes as a duty on Congress. Political control, when wisely exercised by Congress, would assure the most beneficent results when Congress, in exercising its political power and its political control, imposes a legislative mandate on the Federal Reserve Board and the Federal Reserve Banks, requiring them by law to provide the country with an adequate supply of sound money of uniform debt-paying, purchasing, power - as President Roosevelt promised the country.

Our dangerous expansion of credit preceding the recent depression was not in the commodity markets, or the field of production, for the general price level actually went down to 98. Our dangerous expansion was produced in making loans for unproductive or speculative purposes in the security exchanges, supplemented by about 3 billions of foreign money attracted by usurious rates on call on the stock exchanges. This forced market price of stocks far beyond a price justified by earning power. Our government should have power to control such operations which are so dangerous to the public interest.

Such legislative mandate would deprive the Federal Reserve Board, or the President himself, of the power of using the system with partiality or partisan discrimination.

The Goldsborough bill of 1932, declaring the policy to restore and maintain the purchasing power of the dollar on the average commodity index of 1921-1929, and directing the Secretary of the Treasury, the Federal Reserve Board, and the Federal Reserve Banks, to make effective this policy, is a complete answer to the argument that the present Administration bill could be used for partisan or selfish political purposes; because it is only necessary to insert this legislative mandate to meet these charges of possible partisan partiality.

This Goldsborough bill passed as stated by a vote of 289 to 60; 172 Democrats and 117 Republicans supporting this benign, intelligent and patriotic policy.

The opponents of the administration will urge that all will be well, and our country will be restored to prosperity, if we merely go back to the Gold Standard Act of March 14, 1900; a standard of weight and not of value; a standard which has fluctuated from an index of 145 in May, 1913, to 60 in May, 1920, to 166 in February, 1933. Even Professor Kemmerer, who is Chairman of the Economists' National Committee on Monetary Policy, had this to say as President of the Stable Money League, in December, 1927:

> "**** The world sooner or later must either learn how to stabilize the gold standard, or devise some other monetary standard to take its place.
>
> "There is probably no defect in the world's economic organization today more serious than the fact that we use as our unit of value, not a thing with a fixed value, but a fixed weight of gold with a widely varying value. In a little less than a half century here in the United States, we have seen our yardstick of value, the value of a gold dollar, exhibit the following gyrations: From 1879 to 1896 it rose 27 per cent; from 1896 to 1920, it fell 70 per cent; from 1920 to September, 1927, it rose 56 per cent. If, figuratively speaking, we say that the yardstick of value was 36 inches long in 1879, when the United States returned to the gold standard, then it was 46 inches long in 1896, 13½ inches long in 1920, and is 21 inches long today."

This Stable Money League was backed up by important names in the industrial and financial world such as Owen D. Young, Russell C. Leffingwell, John Hays Hammond, the late George Eastman and Paul M. Warburg, Waddill Catchings, James H. Rand, Jr., Henry A. Wallace, Malcolm C. Rorty, Frederic A. Delano, Charles Evans Hughes, Elihu Root, Otto H. Kahn, Roland W. Boyden, and George M. Reynolds.

Mr. Hancock. I am sure all the members of the Committee enjoy hearing you, and I am sure I do.

Mr. Owen. I enjoy it, I am sure.

The Chairman. We must thank you for your very able statement.

Mr. Owen. I thank you, Mr. Chairman, and the members of the Committee.

The Chairman. We will adjourn until tomorrow morning at ten-thirty.

(Whereupon, the Committee adjourned until tomorrow, Wednesday, March 27, 1935, at 10:30 o'clock, a.m.)

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