Calendar No. 1379

75TH CONGRESS } 3d Session } SENATE { REPORT { No. 1328

EXPRESSING THE SENSE OF THE SENATE THAT THE PRICE LEVEL SHOULD BE RAISED TO APPROXIMATELY THE 1926 LEVEL

JANUARY 5 (calendar day, FEBRUARY 9), 1938.—Ordered to be printed, with an illustration

Mr. THOMAS of Oklahoma, from the Committee on Agriculture and Forestry, submitted the following

REPORT

[To accompany S. Res. 216]

The Committee on Agriculture and Forestry, to whom was referred the resolution (S. Res. 216) as follows:

Whereas an unprecedented drop in basic commodity prices from March to December 1937 preceded the collapse of other values and has resulted in industrial paralysis, unemployment, and increased burdens for taxpayers and the Treasury; and

Whereas it has been the repeatedly announced objective of the President to restore a price level equitable to creditors and debtors, and thereafter to maintain economic stability; Therefore be it

Resolved, That it is the sense of the Senate that the Federal Reserve Board, the Treasury, and the executive agencies of the Government should proceed forthwith to adjust the purchasing power of the dollar by the necessary monetary policies and measures to attain within the next twelve months the 1926 price level of wholesale commodities, including farm products—

having considered same, report thereon favorably with a recommendation that the resolution, as amended, do pass.

We recommend that in line 6, on page 1, after the word "months" and before the word "the", the word "approximately" be inserted.

Simplified, the proposal may be stated as follows:

Resolved: That it is the sense of the Senate that the price level should be raised to approximately the 1926 level.

The said resolution was considered with respect to farm prices, prices in general, farm income, national income, unemployment, balancing public and private budgets, reversing present deflationary policies and processes, restoring confidence, and suggesting a program to assist in working out of the present recession and depression.

In considering the resolution, the following questions arise:

First. Is it desirable to have the price level raised?

Second. Is it possible to raise the price level?

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Third. If desirable and possible, how may the price level be raised?
These three questions will be answered in order.

SHOULD THE PRICE LEVEL BE RAISED?

First. What is the price level?

The Bureau of Labor Statistics of the United States Department of Labor collects prices of important commodities at wholesale. An index number is compiled from 784 of the individual-price series to show the trend of wholesale commodity prices. Each item is weighed according to its relative importance in the country's markets and the average for the year 1926 is used as the base in calculating this index.

In 1926 the price level was found to be at 100; hence, the price level of that year is taken as the standard. Each week the price of each of the 784 commodities is ascertained. Such prices are added and the average is taken. If the average price of the 784 commodities thus ascertained is up, then the price level has risen, and if the average is down, then the price level has fallen.

It is by this price level, thus ascertained, that we officially measure the value or purchasing power of our dollar.

The value of the dollar controls prices, and prices control income and prosperity. The graph hereunder shows the fluctuation of the value of the dollar since 1800. When the dollar goes up in value, prices fall, and when the dollar falls, prices rise. It must be admitted that the dollar may become too cheap and prices too high, as in 1919–20, and also that the dollar may become too high and prices too low as in 1931–32.

There must be a point of dollar value between that of 1920 and 1932 which will serve the best interests of our people. Such value should be determined, then the dollar should be adjusted or regulated to that point, and then such dollar should be stabilized. This task can be accomplished.

The following illustrations may give a clearer picture of just what is meant by price level.

In 1920 the price level was 154, or 54 points above the 100 standard; hence, prices were high.

In 1926, the year taken as the standard, the price level was 100 and prices were at a fair level.

In 1929, the year when the great depression came, the price level was 95 and prices of all commodities, save "managed" and "rigged" common stocks, were falling until October and then the whole economic structure became disarranged.

In 1932, the price level was 65, or 35 points below the standard, and prices were the lowest in recent history.

In March 1937 the price level had risen to 88, or still some 12 points below the 1926 standard. While at that time prices were higher than in 1932, yet they were not as high as when the depression came in October 1929, and were much lower than in 1926, the year now referred to as the 100 percent price-level standard.

From March of 1937 to February 5, 1938, the price level fell from 88 to some 80, or 8 points, and as the price level fell, the dollar value increased.

The price level may be expressed by the index numbers of wholesale prices—percentages—or by the purchasing power of the dollar as expressed in wholesale prices by percentages or cents.

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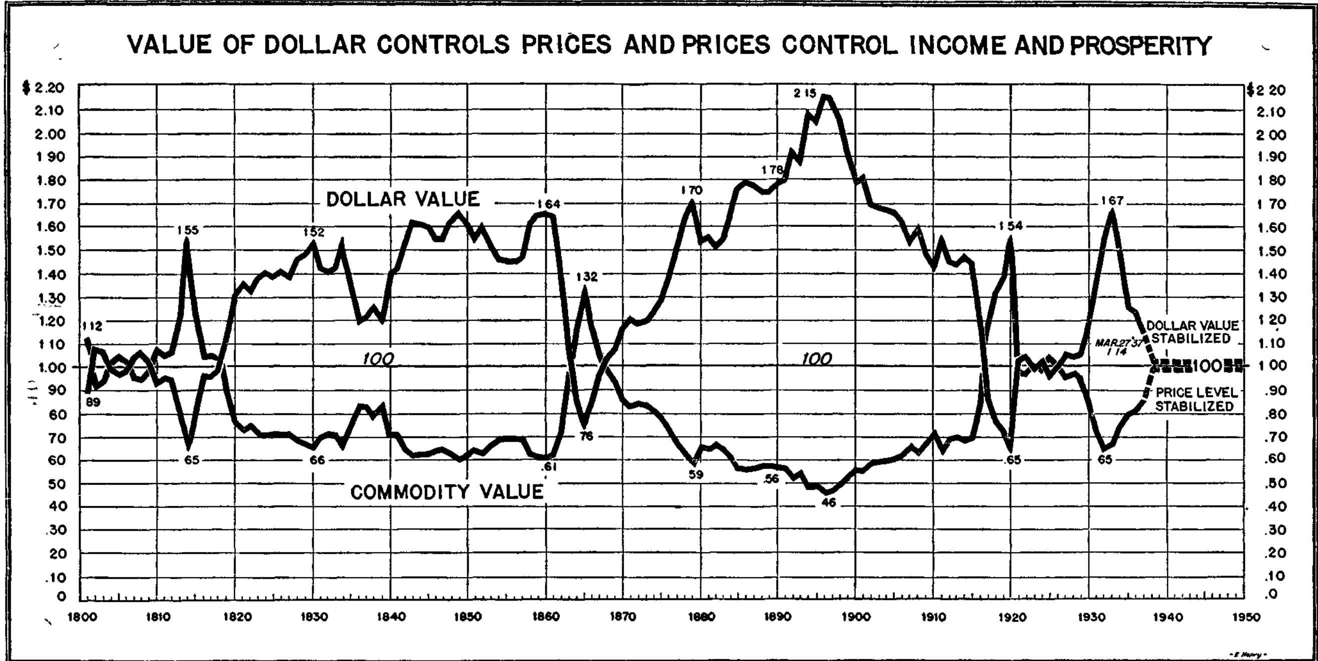

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DOLLAR VALUE AS EXPRESSED IN WHOLESALE PRICES

According to this formula, and as indicated by the graph, in 1920 when the price level was 154, the dollar value was 65 cents and in 1932 when the price level was 65, the dollar value was 154 cents.

Thus, it is seen that in 12 years—from 1920 to 1932—the purchasing power or value of the dollar as expressed in terms of wholesale prices, including farm commodities, fluctuated from 65 cents in 1920 to 167 cents in February 1933. It was this fluctuation of 102 cents in the value of the dollar which caused the high prices in 1919–20 and the low prices in 1932–33.

It must be obvious that all persons, save the sure-thing gamblers in money, exchange, commodities, and securities, are interested in and demanding a properly valued dollar and thereafter that such dollar be stabilized.

When the dollar is properly valued and then stabilized, such policy will regulate and adjust the price level and at the same time stabilize such price level.

We next call attention to the different price levels as same are reflected in specific prices:

In 1920, with the price level at 154, we saw wheat sell for $3 per bushel, corn sold for $1.90 per bushel, and cotton sold for 44 cents per pound.

In February 1933, with the price level at 59, we saw wheat sell for 25 cents per bushel, corn sold for 15 cents per bushel, and cotton sold for 5 cents per pound.

In March 1937, with the price level at 88, wheat sold for $1.43 per bushel, corn sold for $1.35 per bushel, and cotton sold for 14½ cents per pound.

Since March 1937 the price level has fallen and as the price level came down farm commodity and security prices tumbled into almost a collapse.

EFFECT OF PRICE LEVEL AND DOLLAR VALUE UPON PROPERTY VALUES, FARM PRICES, NATIONAL INCOME, TAXES, INTEREST, DEBTS, EMPLOYMENT, BUDGET BALANCING, CONFIDENCE, AND PROSPERITY

The committee reports that a rising price level raises prices and property values generally; that a falling price level causes prices of all kinds of property to fall and that a stationary or stabilized price level tends to stabilize prices and the value of property.

Property values.—By some statisticians, the total value of all property, of every kind and character, in the United States and our possessions, has been estimated at $400,000,000,000.

For an illustration, we will take this figure to represent 100 percent. Then, 1 percent would be $4,000,000,000. Any change in the price level would be reflected immediately in the value of the property of the United States.

Should the price level fall, the total value of all property would fall correspondingly, and should the price level rise, the value of all property would rise accordingly.

In 1920, with low-valued dollars and a high price level, we had high-priced commodities and high-valued property. While in 1932, with a high-valued dollar and a low price level, we had low prices and low-valued property.

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Taxes.—The price level and the value of the dollar have the same identical effect upon taxes as upon property values.

A change in the price level and dollar value does not automatically change the amount of taxes as expressed in dollars, but does change the value of taxes as expressed in commodities and property.

For example, in 1932 a farmer owing $100 in taxes, had to produce and sell 4 bales of cotton at 5 cents per pound, or 400 bushels of wheat at 25 cents per bushel to secure such $100. While in March 1937 the same $100 in taxes could have been paid with less than 1½ bales of cotton, or with less than 75 bushels of wheat; hence, it is obvious that to raise the price level lowers taxes in terms of property, because property values rise while taxes in terms of dollars are not thus affected.

Interest and debts.—The argument applicable to taxes is applicable to interest and debts.

A rising price level lowers taxes, interest, and debts in terms of property, while a falling price level increases taxes, interest, and debts in terms of the things that people have to produce and sell in order to secure dollars.

Employment, income, and prosperity.—History shows that a rising price level stimulates employment, increases income and promotes prosperity, while a falling price level brings about unemployment, decreases income and brings on panic, depression, and recession.

A rising price level increases purchasing power, while a falling price level causes a loss of such purchasing power and such loss causes a slump in business, first at the store, then at the wholesale house, then at the factory, and thereafter, all up and down, and all over the country.

As hereinbefore reported, the price level on March 1, 1937, was 88, and such price level at the present time is 80; hence, such price level has fallen 8 points during the past 11 months.

The committee reports that the fall in the price level, which means a fall in prices generally, has had a very marked effect upon our domestic economy.

The following specific instances may be cited:

Illustration No. 1: Numerous authorities have, as stated, valued all property in the United States and our possessions, during normal times, at some $400,000,000,000. If we take this sum as a basis, then we might say that $400,000,000,000 will be 100 percent. One percent would be $4,000,000,000. If the fall in the price level reduces property values at the rate suggested, then the fall of 8 points would mean a depreciation of our total property values in the sum of $32,000,000,000.

Illustration No. 2: Numerous statistical authorities have estimated our total massed debts to be some $250,000,000,000. Taking this sum as a basis and assuming that such sum equals 100 percent, then 1 percent would equal $2,500,000,000. The fall in the price level, causing a fall in prices and values of property, when reflected in the massed debts, would mean that it would take more property to liquidate one dollar of indebtedness under the present price level than under the price level of March 1, 1937.

Applying the same formula as applied to the fall in the value of all property, we find that while the massed debts may not have increased in terms of dollars, yet if we should proceed to liquidate such indebtedness, it would require more property at the lower prices; hence, if 1

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percent in the fall of the price level equals $2,500,000,000, then 8 percent would equal seven times $2,500,000,000, or a total of $20,000,000,000. This means that although the massed debts have not necessarily increased in terms of dollars, such debts have increased in terms of property, so that now it would take the sum of approximately $20,000,000,000 more in value to liquidate such massed debts than it would have required on March 1, 1937.

Illustration No. 3, national debt: The national debt is now approximately $37,000,000,000. Assuming that such $37,000,000,000 equals 100 percent, then 1 percent would equal $370,000,000. Applying the same formula to No. 3 as was applied to Nos. 1 and 2, we find that while the national debt may not have increased in dollars during the past 10 months, yet to liquidate the national debt it would now require more property to liquidate such indebtedness. If 1 percent equals $370,000,000, then the 8 percent which represents the fall in the price level would mean that the national debt has increased in value eight times $370,000,000,000, or a total of $2,960,000,000.

Illustration No. 4, States, counties, cities: If all debts have increased in terms of property, as illustrated in Nos. 2 and 3 above, then the State, county, city, and local debts have likewise increased, not in terms of dollars but in terms of property values necessary to liquidate such indebtedness.

Illustration No. 5, total tax burden: It is estimated that it is now costing all units of Government—National, State, county, city, and district—some $17,000,000,000 per annum to meet governmental and public expenses. Assuming that this $17,000,000,000 will be 100 percent, then 1 percent would equal $170,000,000.

Applying the same formula as applied above to our total tax bill, we find that while such bill may not have increased in numbers of dollars, yet in the amount of propetry required to secure the dollars with which to pay such taxes, we find that such total tax bill has increased 8 times $170,000,000, or a total of $1,360,000,000.

Illustration No. 6, interest: If the estimate of $250,000,000,000 of total massed indebtedness is a fairly correct one, then it would be safe to assume that the interest charges on the total massed indebtedness would be at least $10,000,000,000 per annum. If we should apply the same formula as used above to the interest item, we would find the following: $10,000,000,000 equals 100 percent. One percent would equal $100,000,000. The eight-point fall in the price level would equal in property values eight times $100,000,000, or a total of $800,000,000.

This means that while the interest item may not necessarily have been increased, yet to liquidate such interest item it would take approximately $800,000,000 more of property to secure the dollars necessary to meet such total interest bill.

From the foregoing illustrations it is obvious that by lowering the price level we increase the value of taxes, debts, and interest, and that by raising the price level we decrease the value of taxes, debts, and interest.

The effect of raising or lowering the price level may be explained in another way. When we increase the price level, we increase the value of property and make it easier for producers and property owners to secure dollars with which to meet their fixed charges, and by lowering the price level we thereby decrease the value of products and property

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and make it more difficult for taxpayers to secure dollars with which to meet such overhead and fixed charges.

Summarizing, we report that to lower the price level means increasing the cost of government, while the raising of the price level decreases the cost of government, not in dollars in either instance, but in the value of property necessary to be exchanged for dollars to meet such taxes, debts, interest, and governmental expenses.

DOLLAR VALUE CONTROLS PRICES, INCOME, AND PROSPERITY

The record of farm and national income shows conclusively that the value of the dollar controls both.

From 1910 to 1915, inclusive, the dollar value, although very high, was stable, ranging between 145 and 150, and during said years farm income fluctuated very little and as follows:

Farm income

Year	Amount	Year	Amount
1910	$6,600,000,000	1913	$7,000,000,000
1911	6,400,000,000	1914	7,000,000,000
1912	6,800,000,000	1915	7,400,000,000

During the same years, with a stable valued dollar, which means a stable price level, although very low—at 70—we had national incomes as follows:

National income

Year	Amount	Year	Amount
1910	$28,000,000,000	1913	$31,900,000,000
1911	28,300,000,000	1914	31,600,000,000
1912	30,300,000,000	1915	33,000,000,000

In 1915 the Federal Reserve System began to function. Currency in circulation was increased and credit was expanded and the result was a drastic cheapening of the dollar and a comparable increase in the price level.

From the first of 1915 to the end of 1916 the dollar value fell from 150 to 100 and the price level rose from 70 to 100. With a cheapened dollar and an increased price level, farm income increased from $7,400,000,000 in 1915 to $9,000,000,000 in 1916.

At the same time the national income increased from $33,000,000,000 in 1915 to $39,000,000,000 in 1916.

From 1916 to 1920 the dollar value fell from 100 to 64, which meant that at the same time the price level rose from 100 to 154.

With this rise of the price level farm income increased from $9,000,000,000 in 1916 to $17,000,000,000 in 1919, and while farm income was thus increased, the national income increased from $38,000,000,000 in 1916 to $65,000,000,000 in 1920.

Thus it is obvious that a low price level produces a low farm and national income and that a high price level produces a high farm and national income.

To reinforce this point, the committee calls attention to the following records:

LOW PRICE LEVEL PRODUCES LOW INCOME

1914 WITH LOW PRICE LEVEL AT 70

Item	Amount
Farm income	$7,000,000,000
National income	33,000,000,000
Value, farm property	39,000,000,000
Value, exports	1,800,000,000
Amount Treasury income	700,000,000

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1920 HIGH PRICE LEVEL AT 154

Farm income	$13, 000, 000, 000
National income	69, 000, 000, 000
Value, farm property	66, 000, 000, 000
Value, exports	8, 200, 000, 000
Amount Treasury income	6, 000, 000, 000

1932 WITH LOW PRICE LEVEL AT 64

Farm income	$5, 000, 000, 000
National income	48, 000, 000, 000
Value, farm property	36, 000, 000, 000
Value, exports	1, 600, 000, 000
Amount Treasury income	2, 100, 000, 000

The committee gives another illustration of the influence of the value of the dollar on prices.

In 1920 we had a high price level—at 154. On June 20 of that year we had the following prices:

Wheat	per bushel	$2. 50
Cotton	per pound	. 42
Corn	per bushel	1. 90
Oats	do	1. 04

In 1933 we had a low price level—at 64—with prices as follows:

Wheat	per bushel	$0. 30
Cotton	per pound	. 05
Corn	per bushel	. 15
Oats	do	. 10

The resolution under consideration proposes to express the sense of the Senate that the 1926 price level should be reinstated.

The 1926 price level was at 100. With such price level we had the following prices:

Wheat	per bushel	$1. 67
Cotton	per pound	. 20
Corn	per bushel	. 90
Oats	do	. 50

In 1926, with the price level at 100 producing fair prices, we had the following:

Farm income	$11, 500, 000, 000
National income	78, 000, 000, 000
Value, farm property	49, 000, 000, 000
Value, exports	4, 800, 000, 000
Amount, Treasury income	4, 000, 000, 000

From 1926 to 1938—12 years—we have an increased population, vastly expanded facilities for production, doubled taxes—National, State, county, and city—and with doubled debts, our farm income for 1937 was $1,000,000,000 less than in 1926. Our national income last year was some $10,000,000,000 less than that of 12 years ago and likewise the value of farm property and the value of exports were vastly less than the values of the same items in 1926.

These figures are convincing that if taxes, debts, and interest increase, the price level must likewise be increased to afford an increased farm and national income, as well as an increased income to the Federal Treasury.

BALANCING THE BUDGET

All agree that our Budget should be balanced, and the question constantly arises as to how this can be accomplished.

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It must be conceded that the Budget cannot be balanced on a falling wage and falling price level. Likewise, the Budget cannot be balanced on the present price level.

We report that there is only one possible way to balance the Budget and that is by raising prices so that there may be profit in the transaction of business.

It has been said that one-third of our people are ill-housed, ill-clad, and ill-fed, so that among this one-third—some 40 million people—there can be little business and little if any profit.

The record shows that many of our industries are already in the hands of receivers; hence, there can be little if any profit from such institutions.

The record shows that some 7 out of every 10 of our farmers are either share-croppers or tenants, and that those who still own their land or retain some equity in their land are fearful that they will soon lose their homes. All farmers agree that their trouble is "low-farm prices."

The President, in his January 3, 1938, message to the Congress, said:

> To raise the purchasing power of the farmer is, however, not enough. It will not stay raised if we do not also raise the purchasing power of that third of the Nation which receives its income from industrial employment. Millions of industrial workers receive pay so low that they have little buying power. Aside from the undoubted fact that they thereby suffer great human hardship, they are unable to buy adequate food and shelter, to maintain health or to buy their share of manufactured goods.

Again he said:

> * * * if the purchasing power of the Nation as a whole—in other words, the total of the Nation's income—can be still further increased—other happy results will flow from such increase.
>
> We have raised the Nation's income from 38 billion dollars in the year 1932 to about 68 billion dollars in the year 1937. Our goal, our objective, is to raise it to 90 or 100 billion dollars—

but it is obvious that we can never raise the farmer's income or secure such a national income on either a falling price level or on the present price level, or on any price level lower than that of 1926.

The committee reports that it is not only desirable that the price level be raised, but that in order to secure the income desired, to balance the Budget, and to restore national prosperity, it is absolutely necessary that such level be raised approximately to that of 1926.

The second question is as follows:

IS IT POSSIBLE TO RAISE THE PRICE LEVEL?

The answer is, "Yes." The price level may be raised or lowered at the will of the money managers. The money managers are those persons, bureaus, and departments having control over the discount rate, reserves, credit, open-market operations, circulation, and the gold content of the dollar.

HOW MAY THE PRICE LEVEL BE RAISED?

The price level may be raised by either of the following acts:

(*a*) Lowering of discount rate.
(*b*) Lowering of reserve.
(*c*) Liberalizing credits.

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(*d*) Open-market operations.
(*e*) Increase currency circulation.
(*f*) Reduce gold content of the dollar.

Conversely, the price level may be lowered by reverse action on either of said mentioned acts or policies.

In addition to answering the question, "Is it desirable to have the price level raised?" in the affirmative, the committee calls attention to the following specific instances wherein such price level has been raised and also lowered.

PRICE LEVEL WAS LOWERED IN 1920

The year 1920 was a national-campaign year. The Democratic Party was in power and the minority, or Republican Party, held its national convention in Chicago on June 8 to 12.

In its platform declaration the minority party condemned the majority party and charged the majority party with being responsible for the high cost of living.

In the minority party's platform declaration we find the following language:

THE HIGH COST OF LIVING

> The prime cause of the high cost of living has been, first and foremost, a 50-percent depreciation in the purchasing power of the dollar, due to a gross expansion of our currency and credit.

In addition to condemning the majority party for having been responsible for the high prices, the minority party, outlined its program and pledged its leaders that they would faithfully carry into effect such program.

In the same platform we find the following pledge:

> We pledge ourselves to earnest and consistent attack upon the high cost of living by rigorous avoidance of further inflation in our Government borrowing, by courageous and intelligent deflation of overexpanded credit and currency * * *.

In the election of November 1920 the minority party became the majority party and on March 4, 1921, the Republican Party took over the management of the Government.

Prior to the change of administrations, the Federal Reserve System, acting through its governor, members and advisors, suggested, secured, and promulgated the following actions and policies:

On May 15, 1920, Senator McCormick of Illinois, introduced Senate Resolution 363, directing the Federal Reserve Board "* * * to advise the Senate what steps it purposes to take or to recommend to the member banks of the Federal Reserve System to meet the existing inflation of currency and credit and consequently high prices * * *."

The resolution was passed by the Senate on May 17, and on May 25, the Federal Reserve Board, acting through its Governor, W. P. G. Harding, reported to the Senate that the Board was suggesting and recommending the following policies:

1. Discount rates should be raised.
2. Member banks should call loans on agricultural products, thus forcing the sale of such products.
3. Member bank credits should be restricted.
4. Existing loans should be liquidated.
5. Expansion of loans should be checked.

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6. That member banks should use their power to limit the volume and character of loans.

7. The Federal Reserve banks should establish normal discount or credit lines for each member bank and should impose graduated discount rates on loans in excess of the normal line.

8. Served notice that the Federal Reserve banks have power to refuse to discount any form or class of paper.

9. Suggested notice to the public that the Federal Reserve banks have the power to control and regulate credit.

10. Served notice to the public that they must economize, must limit demands for banking credit, and must begin to pay existing debts.

11. Suggested that the member banks educate and impress the public with notice of the Federal Reserve's announced policy.

The new administration came completely into power on March 4, 1921. On March 1, 1921, we had money in circulation in the sum of $6,207,000,000. Eighteen months later, or on September 1, 1922, we had only $4,393,000,000 in circulation; hence, it is seen that in 18 months we lost the sum of over $1,800,000,000, or $100,000,000 per month in currency in circulation.

The new program promised "courageous and intelligent deflation of overexpanded credit and currency," and through the orders of the Federal Reserve Board, credit was deflated and likewise through the policies promulgated the actual currency in circulation was deflated to the extent of almost $2,000,000,000, or some 30 percent of the money in circulation when the new administration took over the reins of Government.

The effect of this deflationary policy was a general and severe fall in prices as hereinbefore indicated and history records the era as the "panic of 1921."

In 1921 Benjamin Strong was Governor of the Federal Reserve Bank in New York City. Governor Strong was an able and powerful financial executive. Because of less ability elsewhere, Governor Strong was able to and did dictate and control the policies not only of the New York Federal Reserve Bank, but of the other Federal Reserve banks and even the policies of the Federal Reserve Board and the Treasury Department at Washington.

Governor Strong so managed the Government's financial policies as to bring about the 100 price level. Such price level was first attained in 1923. From 1923 to 1928, the date of the death of Governor Strong, the price level was maintained as follows:

Year	Price level	Year	Price level
1923	100	1926	100
1924	98	1927	95
1925	103	1928	96

During the years above mentioned, Calvin Coolidge was President, and the comparatively stable price level was equaled by a comparatively stable dollar value.

Your committee reports that such price level was brought about and maintained through the management and control of the value of the dollar.

The Bureau of Labor Statistics show that during said years the value of the dollar was as follows:

Year	Value	Year	Value
1923	.994	1926	1.00
1924	1.019	1927	1.048
1925	.966	1928	1.034

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The record shows that at the death of Governor Strong in 1928 the value of the dollar began to increase and the price level began to fall.

The following tables show just what has happened with respect to the dollar value and price level since 1928:

	Dollar value	Price level		Dollar value	Price level
1928	$1.034	96.7	1934	1.340	74.9
1929	1.049	95.3	1935	1.253	80.0
1930	1.157	86.4	1936	1.263	80.8
1931	1.370	73.0	1937:		
1932	1.543	64.8	March	1.12	88.0
1933:			June	1.147	86.5
February	1.672	59.8	December	1.235	81.0
For year	1.517	65.9			

PRICE LEVEL WAS RAISED IN 1933

In February 1933 the price level was so low that business of every kind throughout the entire country was at a standstill. It was the low price level which destroyed practically all values and the banks were forced to close.

As a relief measure the new administration decided to raise the price level. Direct action was taken. Congress conferred power on the President to do the following things:

1. To increase the circulation of currency through an expansion of Federal Reserve notes and Treasury notes.

2. To devalue the gold dollar by reducing the gold content of the basic monetary unit.

3. To expand the currency through a wider use of silver.

Power No. 2 has been used.

The weight of the gold dollar was reduced from 25.8 grains of gold, nine-tenths fine, to 15 5/21 grains, nine-tenths fine. By reducing the size and weight of the gold nugget called a dollar the new gold dollar is not so large hence not so valuable and, therefore, will not purchase as much in the way of commodities. The devaluation of the gold content of the dollar automatically and instantly raised prices.

Power No. 3 likewise has been used.

The present administration, operating under the silver program, has purchased more than 1½ billion ounces of silver and has issued currency to the value of such silver; and such currency is now in circulation. Through this policy, almost $1,000,000,000 of new and additional silver certificates have been placed in circulation.

As the result of the financial policy adopted, the price level was raised gradually from the low point in February 1933, to 88 in March of 1937. During the 4 years of 1933, 1934, 1935, and 1936, the price level was raised gradually, which meant that prices were likewise gradually raised until March of 1937.

Because of the increase of the price level unemployment had decreased, tax collections had improved, business conditions were approaching normal, and everything appeared hopeful for reaching the end of the 1929 depression.

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PRICE-LEVEL RISE CHECKED IN MARCH 1937 AND LOWERED 8 POINTS TO DATE

The record shows that officials of the Federal Reserve System recommended and took steps early in the year 1937 to check the rising price level, consequently the rising prices.

To check rising prices, the Federal Reserve System recommended the following specific things:

1. Raising discount rates.
2. Increasing bank reserves.
3. Sterilizing gold.
4. Issuing releases calling attention to rising prices and prophesying inflation if such trend should continue.

The result of the monetary policies just mentioned was a check to the rising price level. Not only was the price-level rise stopped, but immediately it began to fall and with the fall of the price-level commodity prices went down, resulting in a slowing-up of business, the closing of factories, increased unemployment, and the initiation of the present recession.

As set forth in this report, the present recession has cost the people of the United States some $50,000,000,000. This total is made up from the items heretofore mentioned, and as follows:

1. Loss in property value	$32, 000, 000, 000
2. Loss caused by increased value of debts	20, 000, 000, 000
3. Loss caused by increased value of taxes	1, 360, 000, 000
4. Loss caused by increased value of interest	800, 000, 000
5. Loss caused by increased national debt is $2,960,000,000, but such amount is included in No. 2.	
6. Loss caused by increased State, county, city, and district debts is comparably increased and amount is likewise shown in No. 2.	
7. The economic loss caused by the slowing up of business, loss of employment, and other direct losses could only be estimated, but the sum would be very large	(?)
Total cost of recession to date	54, 160, 000, 000

WHAT WILL HAPPEN IF PRICE LEVEL IS NOT RAISED?

Judging the future by the past, we will have a continuation of immediate present and recent past economic conditions. This will mean that one-third of our population will remain ill-housed, ill-clad, and ill-fed; that farmers will continue to lose their homes; that because of lack of buying power in the hands of farmers and wage earners, industry generally will languish, and because of lack of business, profits will be scant, national income low, and the budgets of the Nation, States, counties, and cities will remain unbalanced.

A continuation of such conditions will make necessary continued expenditures for relief, which in turn will make necessary continued borrowing, and the consequent continued issuance of bonds; hence, still further increasing public and private debts.

What will such a policy lead to eventually?

The inevitable end is almost in sight. The credit of the several units of Government is not unlimited. Already many cities and towns are going into voluntary bankruptcy.

Should the present trend continue, it will be only a question of time until the banks will be forced to convert some of their bonds into cash. Should a wave of selling set in, the only purchaser would be

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the Government. If the selling should persist, the Government would be forced to resort to payment or redemption of bonds in currency.

Should another major depression come, the banks will prepare for the worst and will convert some, if not all, their bonds into currency. Such a policy would force the very kind of inflation that all are opposing; hence, your committee is of the opinion that the Government should take steps now to prevent the disaster toward which the present policy is surely leading.

The committee is of the opinion that it is not alone a question of the desirability of having the price level raised, but is an absolute necessity for the very obvious reason that our heavy tax, debt, and interest structure make such price rise inevitable.

The question now resolves itself into whether the price rise shall be gradual, orderly, and at all times under control, or whether the money managers will persist in a deflationary policy, thereby forcing bond liquidation and the accompanying unregulated and perhaps uncontrolled inflation.

WHO PROFIT BY DEFLATION?

Some, who do not stop to think or do not take the time to think the matter through, may believe that all are against panics, depressions, and recessions, but unfortunately such is not the truth.

While all know that industry, manufacturing, transportation, owners of property—save money and fixed investments—producers and debtors, have lost heavily in past panics, depressions, and recessions, yet but few know that the holders of fixed investments have profited immeasurably because of the same economic conditions which have so nearly bankrupt the entire country.

To summarize the arguments herein set forth we assert that the same economic law which governs the value of commodities likewise governs the value of money.

When commodities, such as wheat, corn, cotton, or any other article, are scarce their value is high and when they are plentiful their value is low. This same economic law governs the value of money. When dollars are scarce their value is high and when dollars are plentiful their value is low.

In 1919–20 dollars were plentiful; hence, cheaper, and commodity and property values were the highest in decades.

In 1932–33 dollars were scarce; hence, high, and commodity and property values were the lowest in generations.

Fixed investments, bonds, mortgages, and notes are of the equivalent of dollars, and the value of such investments, measured in commodities and property, rises and falls with the rise and fall of the dollar value; therefore, when dollars were scarce, as in 1932–33, values were low; hence, in such years dollars in bonds, mortgages, and notes were highly valued when measured in commodities and property.

In 1919–20, with dollars plentiful and cheap, a $100 bond or note could be paid with 40 bushels of wheat, while in 1932–33, with dollars scarce and high, it took over 400 bushels of wheat to liquidate a $100 debt.

In other words, in 1932–33, with scarce money, the holder of a $100 bond was worth 400 bushels of wheat, while in 1919–20, with money plentiful, the holder of a $100 bond was worth only 40 bushels of wheat.

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It does not require a financier or much thinking to realize that it is to the interest of the bondholders to have scarce money; hence, dear money, and the consequent low prices and low-valued property.

As an estimate, we report that the holder of a million dollars in bonds, mortgages or notes, is at least $80,000 richer in property today than on March 1, 1937. As measured in wheat, such bondholder is some $300,000 richer than 11 months ago, and as measured in corn, he is over $500,000 richer than on March 1, 1937.

It is to the interest of the holder of bonds to have dollars scarce and highly valued; hence, the program of deflation inaugurated in March 1937 has brought about the following specific results:

1. Has destroyed billions of dollars of money—over $1,000,000,000 in bank deposits in New York City alone.
2. Has caused a total loss to all our people of over $50,000,000,000.
3. Has caused increased unemployment.
4. Has increased debts, taxes, and interest and widespread suffering and distress.
5. Has increased the wealth of the bondholder and investor class approximately $20,000,000,000.

While panics, depressions, and recessions bring bankruptcy, suffering, and distress to tens of millions of our people, yet such man-made economic conditions bring opportunities, advantages, and wealth to the fortunate few bondholders of the country.

WHO IS RESPONSIBLE FOR PANICS, DEPRESSIONS, AND RECESSIONS?

The Constitution confers upon the Congress the power to coin money and to regulate the value thereof.

The Congress has vitalized the power to coin money but has failed to vitalize the power to regulate the value of the dollar.

Because of such failure the value of the dollar has never been regulated other than as to the weight and fineness of the various metallic coins called dollars.

Because the Congress has failed to regulate the value of the dollar, such dollar has fluctuated violently, causing the booms and depressions as recorded in the economic history of our country.

Without regard to the person or persons charged with being responsible for the panics, depressions, and recessions of the past and present, the fact is that the Congress was and is wholly responsible for such panics, depressions, and recessions because of its failure to carry out the clear constitutional mandate to regulate the value of the dollar.

CONFIDENCE AND STABILITY

Public confidence is based upon stability.

The Committee on Agriculture and Forestry developed and announced its policy in the Agricultural Adjustment Act of 1933. Such policy was stated on page 7 of such committee report in the following language:

> * * * that the purchasing power of the dollar should be fixed and established at that point to serve the best interests of the people, trade, commerce and industry, and that when such value is once fixed it should be stabilized at such value.
>
> We report further that no just, substantial, reliable, or permanent relief can be provided agriculture or any other industry until the money question is considered and adjusted.

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All must admit that to date the dollar value has not been satisfactorily adjusted. The line marked "Dollar value" on the graph in this report shows that the value of such dollar has bounced up and down for 137 years, and that as such dollar value changes the price level likewise changes.

With such a system, only the managers of this bouncing dollar know which way it is to bounce and the few managers, at all times with perfect inside information, know just which way the dollar value is to rebound and what the effect will be upon values and prices. It is possible that this most valuable information in the hands of the few may account for the concentration of the vast resources and wealth in the hands of a very few of our people.

For 100 years our financial system has been not wholly unlike a shell game, with a manager, or a few managers, operating the shells and likewise, to the public, the invisible pellet.

The Committee on Agriculture and Forestry is still pressing for action. The President has most clearly and definitely stated the objective.

ROOSEVELT PROGRAM

On May 6, 1933, over a Nation-wide radio hook-up, President Roosevelt said:

> The administration has the definite objective of raising commodity prices to such an extent that those who have borrowed money will, on the average, be able to repay that money in the same kind of dollar which they borrowed.

Again on July 3, 1933, in a message to the London Economic Conference, the President 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 on July 5, 1933, in a second message to the World Economic Conference in London, he said:

> The revaluation of the dollar in terms of American commodities is an end from which the Government and the people of the United States cannot be diverted. We wish to make this perfectly clear: We are interested in American commodity prices.

On October 22, 1933, in a Nation-wide radio address, the President said:

> It is the Government's policy to restore the price level first.

Also in this address, 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 said that in my message to the American delegation in London last July. And I say it now once more.

In 1933 your committee proposed and recommended legislation to raise prices. Such recommendations were accepted and the price-raising program was initiated.

Now, as a second step, we propose and recommend that prices be raised to approximately the 1926 level.

As herein stated and illustrated, the price level as measured in dollars may be raised to any desired point.

The executive branches of the Government, having power and control over the coinage and circulation of money, and the control and issuance of credit, have all necessary power to raise the price level to

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any given point and such agencies have full knowledge of how to use such power to bring about the end suggested and recommended.

To recapitulate, we suggest the use of any or all of the following existing powers:

1. Desterilize our surplus gold.
2. Force into circulation available silver certificates.
3. Lower discount rates.
4. Lower reserve requirements.
5. Open-market operations.
6. Further devalue the gold dollar.
7. Issuance and use of additional Federal Reserve notes and Treasury notes as authorized by existing law.

With prices and the price level restored, as recommended herein, the committee, at a subsequent date, reserves the right to recommend the third step, and such third step shall be as set out in our committee report of 1933 and as definitely defined by the President in his October 22, 1933, radio address.

The third step will be to determine the proper price level and then to stabilize such level.

The committee recommends that the Senate approve Senate Resolution No. 216 and that the several departments of the Government be requested to cooperate in carrying out the policy therein stated.

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