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OGDEN, UTAH

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Let me say at the outset that I am not appearing here as a representative of any one class or section. Nor am I suggesting measures designed to help my section of the country at the expense of any other section. The ideas I shall present have not been gained thru contact with or interests in any one line of private or public occupation. I happen to be interested in the following businesses:

PRESIDENT OF FIRST SECURITY CORPORATION, owning and operating 26 banks and one trust company in the principal points of Utah and Southern Idaho, all in the trade territory of the Salt Lake Federal Reserve Branch. Total resources of approximately $50,000,000. None of these banks are borrowing money from the Reconstruction Finance Corporation. The organization has experienced the effects of numerous, important bank failures in the same communities in which it operates.

VICE-PRESIDENT & TREASURER OF THE AMALGAMATED SUGAR COMPANY, one of the large beet sugar companies of the United States, producing the past year 2,000,000 bags of sugar.

PRESIDENT OF SEGO MILK PRODUCTS COMPANY, engaged in the production of evaporated milk, butter, cheese and ice cream with plants in the states of Utah, Idaho and California.

PRESIDENT OF THE UTAH CONSTRUCTION COMPANY, largely engaged in railroad, highway and dam construction, and one of the six companies building Boulder Dam.

PRESIDENT OF THE STODDARD LUMBER COMPANY, a pine lumber manufacturing concern in Eastern Oregon, normally producing thirty million feet per year.

DIRECTOR OF TWO CHAIN RETAIL CONCERNS -- the Anderson Lumber Company, owning and operating 14 retail lumber yards in Northern Utah and Southern Idaho --- the Mountain States Implement Company, owning and operating a wholesale house in Ogden and 10 retail stores in Northern Utah and Southern Idaho.

MEMBER OF GOVERNOR'S EXECUTIVE RELIEF COMMITTEE

DIRECTOR OF SALT LAKE BRANCH OF RECONSTRUCTION FINANCE CORPORATION

I mention these contacts merely to rebut any assumption that my views are founded upon theory alone. I am, however, without political experience, having never held a political office. Nor are my politics entirely free from blemish, as I am one of the many who last fall wandered from the Republican fold, although with some misgivings, because I felt that Republican leadership had failed to act with sufficient understanding and courage to remedy the ills from which we now suffer.

The measures proposed by me, while more far-reaching than have been used to date, are predicated upon sound government finance. Nor do they involve any measure of inflation of the popular brand. I believe the adoption of any or all of them would not in any degree weaken our gold standard or cheapen the gold content of our dollar. On the contrary, I am firmly convinced that these measures would protect and strengthen the sound money of this country and its gold standard. The propositions I offer are all intended to bring about, by government action, an increase of purchasing power on the part of all the people, resulting in an immediate and increasing volume in all lines of business with consequent diminution of unemployment and distress and general restoration of our national income. When this is accomplished, and not before, can the government hope to balance its budget and our people regain the standard of living to which the material wealth of this country entitles them.

Before effective action can be taken to stop the devastating effects of the depression, it must be recognized that the break-down of our present economic system is due to the failure of our political and financial leadership to intelligently deal with the money problem. In the real world there is no cause nor reason for the unemployment with its resultant destitution and suffering of fully one-third of our entire population. We have all and more of the material wealth which we had at the peak of our prosperity in the year 1929. Our people need and want everything which our abundant facilities and resources are able to provide for them. The problem of production has been solved and we need no further capital accumulation for the present, which could only be utilized in further increasing our productive facilities or extending further foreign credits. We have a complete economic plant able to supply a super-abundance of not only all of the necessities of our people, but the comforts and luxuries as well. Our problem, then, becomes one purely of distribution. This can only be brought about by providing purchasing power sufficiently adequate to enable the people to obtain the consumption goods which we, as a nation, are able to produce. The economic system can serve no other purpose and expect to survive.

If our problem is then the result of the failure of our money system to properly function, which today is generally recognized, we then must turn to the consideration of the necessary corrective measures to be brought about in that field; otherwise, we can only expect to sink deeper in our dilemma and distress, with possible revolution, with social disintegration, with the world in ruins, the net work of its financial obligations in shreds, with the very basis of law and order shattered. Under such a condition nothing but a primitive society is possible. Difficult and slow would then be the process of rebuilding and it could only then be brought about on a basis of a new political, economic and social system.

Why risk such a catastrophe when it can be averted by aggressive measures in the right direction on the part of the government?

Our leadership has delayed far too long in attempting to deal intelligently with our problems, which can be met only by the bold and courageous action of government, coupled with the unselfish, intelligent and cooperative support of our business and financial leadership, the whole effort designed in the interest of our entire people. In the mad confusion and fear brought about by our present disordered economy, we need bold and courageous leadership more than at any other time in our history. Our industrial evolution has made necessary a new economic philosophy, a new business point of view and fundamental changes in our social system. The Nineteenth century economics will no longer serve our purpose -- an economic age 150 years old has come to an end. The orthodox capitalistic system of uncontrolled individualism, with its free competition, will no longer serve our purpose. We must think in terms of the scientific technological interdependent machine age, which can only survive and function under a modified capitalistic system controlled and regulated from the top by government.

What I have said could no doubt be considered academic unless the discussion of it reveals some specific constructive propositions for solution of our immediate problems, which now call for first-aid measures due to the failure of those in authority to act sooner. Before offering and considering in detail what I will term a "five-point program", it is pertinent to consider the operation of our money world, how it has failed to be a servant in our real world and instead is our tyrant and master.

Money has no utility or economic value except to serve as a medium of exchange. Inflation and deflation are expressed in the increased and decreased purchasing power of money, which we speak of as a cheap dollar or a dear dollar, according to what it will buy. At present our dollar is too valuable measured in goods and services, or, conversely, goods and services are too cheap measured in dollars. Were it not for our debt structure the fluctuating and unstable dollar would not raise such havoc with our economic system. Our debt and credit structure is the very foundation of our capitalistic society and our unstable dollar results in a large measure from the uncontrolled operation of this sytem.

We could do business on the basis of any dollar value as long as we have a reasonable balance between the value of all goods and services if it were not for the debt structure. The debt structure has obtained its present astronomical proportions due to an unbalanced distribution of wealth production as measured in buying power during our years of prosperity. Too much of the product of labor was diverted into capital goods and as a result what seemed to be our prosperity was maintained on a basis of abnormal credit both at home and abroad. The time came when we seemed to reach a point of saturation in the credit structure where, generally speaking, additional credit was no longer available, with the result that debtors were forced to curtail their consumption in an effort to creat a margin to apply on the reduction of debts. This naturally reduced the demand for goods of all kinds, bringing about what appeared to be over-production, but what in reality was under-consumption measured in terms of the real world and not the money world. This naturally brought about a falling in prices and unemployment. Unemployment further decreased the consumption of goods, which further increased unemployment, thus bringing about a continuing decline in prices. Earnings began to disappear, requiring economies of all kinds -- decreases in wages, salaries and time of those employed. And thus the vicious cycle of deflation was continued until after nearly four years we find one-third of our entire working population unemployed, with the price of everything greatly reduced, raw products of all kinds selling at an unprecedentedly low level; our national income reduced by 50% with the aggregate debt burden greater than ever before, not in dollars but measured by present values which represents the ability to pay; fixed charges, such as taxes, railroad and utility rates, insurance and interest charges close to the 1929 level and requiring such a portion of the national income to meet them that the amount left for consumption goods is not sufficient to support the population.

As a result of this pressure we hear demands for increased economies in every field, both public and private, which can only make for further distress and unemployment and less buying power. The debt structure, in spite of the great amount of liquidation during the past three years, is rapidly becoming unsupportable, with the result that foreclosures, receiverships and bankruptcies are increasing in every field; delinquent taxes are mounting and forcing the closing of schools, thus breaking down our educational system, and moratoriums of all kinds are being resorted to -- all this resulting in a steady and gradual breaking down of our entire credit structure, which can only bring additional distress, fear, rebellion and chaos. Individuals, corporations, cities and states cannot, of themselves, do anything except play according to the rules of the present money system and make their outgo balance their income, or ultimately "go broke". Most of them are unable, much as they may desire, to give consideration to helping the general situation except as they may influence the action of the Federal government, which is in an entirely different category, it being able to make and change the rules.

The government controls the gold reserve, the power to issue money and credit, thus largely regulating the price structure. Through its power of taxation it can control the accumulation and distribution of wealth production. It can mobilize the resources of the nation for the benefit of its people. As an example of government control and operation of the economic system look to the period of the war, at which time, under government direction, we were able to produce enough and support not only our entire civilian population on a standard of living far higher than at present, but an immense army of our most productive workers engaged in the business of war, parasites on the economic system, consuming and destroying vast quantities produced by our civilian population: we also provided the allies with an endless stream of war materials and consumption goods of all kinds. It seemed as though we were enriched by the waste and destruction of war. Certainly we were not impoverished, because we did not consume and waste except that which we produced. As a matter of fact we consumed and wasted less than we produced as evidenced by the additions to our plant and facilities during the war and the goods which we furnished to our allies. The debt incurred by the Government during the war represents the profit which accrued to certain portions of our population through the operation of our economic system. No government debt would have been necessary and no great price inflation would have resulted if we had drawn back into the

Federal Treasury through taxation all of the profits and savings accumulated during the war; in which case, it would not have been necessary to use government credit for the purpose of supplying our allies with the endless stream of goods which we furnished them and we now would not be concerned with the vexatious interallied debt problem.

Why was it that during the war when there was no depression we did not insist upon balancing the budget by sufficient taxation of the surplus income instead of using government credit to the extent of twenty seven billion dollars? Why was it that we heard nothing of the necessity of balancing the Federal budget in order to maintain the government credit when we had a deficit of nine billion dollars in 1918 and thirteen billion dollars in 1919? Why was it that there was no unemployment at that time and an insufficient amount of money as a medium of exchange? How was it that with one billion less gold then than we now have we were not concerned about our gold standard? How was it that during the period of prosperity after the war we were able, in spite of what is termed our extravagance, to balance a four billion dollar annual budget, to pay off ten billion of the government debt, to make four major reductions in our income tax rates (otherwise all of the government debt would have been paid), to extend ten billion dollars credit to foreign countries represented by our surplus production which we shipped abroad, and add approximately one hundred billion dollars by capital accumulation to our national wealth, represented by plants, equipment, buildings and construction of all kinds? In the light of this record, is it consistent for our political and financial leadership to demand at this time a balanced budget by the inauguration of a general sales tax, further reducing the buying power of our people? Is it necessary to conserve government credit to the point of providing a starvation existence for millions of our people in a land of super-abundance? Is the universal demand for government economy consistent at this time? Is the present lack of confidence due to an unbalanced budget?

What the public and the businessmen of this country are interested in is a revival of employment and purchasing power. This would automatically restore confidence and increase profits to a point where the budget would automatically be balanced in just the same manner as the individual, corporation, state and city budget would be balanced. We must correct the causes of the depression rather than deal with the effects of it, if we expect recovery with its attendant confidence and budget balancing. This can only be accomplished by government action tending to raise the price level of raw products and increasing employment, thus bringing about an increased demand for consumers' and capital goods.

Every effort has been used to bring this about by the Reconstruction Finance Corporation and the Federal Reserve Banks without result, demonstrating that extension of credit alone is not the solution. Credit is the secondary offensive when there is a basis of credit through the raising of the price level and an increase in the demand for goods requiring credit. Nor is the correction of our present difficulties to be found in a general scaling down of debts in an effort to bring them in relation to the present price levels. During the past three years there has been such a tremendous liquidation and scaling down of debts that extraordinary measures have had to be taken to prevent a general collapse of the credit structure. If such a policy is continued what assurance is there that the influences radiating from a marking down of the claims of creditors will not result in a further decline of prices? In other words, after we have reduced all debts through a basis of scaling down 25% to 50%, what reason have we to expect that prices will not have a further decline by like amount? And then again, the practical difficulties of bringing about such an adjustment on a broad scale seem to be insurmountable. The time element required would indefinitely prolong the depression; such a policy would necessitate the further liquidation of banks, insurance companies and all credit institutions, for if the obligations of public bodies, corporations and individuals were appreciably reduced the assets of such institutions would diminish correspondingly, forcing their liquidation on a large scale. Nothing would so hinder any possibility of recovery. Bank and insurance failures destroy confidence and spread disaster and fear throughout the economic world. The present volume of money would diminish with increased hoarding and decreased credit and velocity, making for further deflation and requiring increased government support without beneficial results until we would be forced from the gold standard in spite of our 40% of the world's gold and, at that point, an undesirable and possibly an uncontrolled inflation with all its attendant evils would likely result, and thus the very action designed to preserve the gold standard and reestablish confidence would destroy both.

In my opinion, we can bring about and support a price level which will reestablish employment and credit on a sound money basis if action is not too long delayed on the part of our government. Present low prices are not justified by the volume of our currency in circulation and bank deposits, the aggregate of the two making up our total volume of money. It is because of hoarding by both individuals and banks that there is an apparent shortage of money and consequently there is a great demand for the inflation of our currency, the remonetization of silver, or the reduction of the gold content of the dollar, with the idea that any one of the three methods would increase our volume of money and thus raise prices, relieving debtors and bringing about prosperity. None of those three, in my opinion, would accomplish the results desired unless a method would be provided for getting the increased supply of money to the ultimate consumer.

Why resort to inflation of the sort referred to when prices can be increased and business revived on the basis of our present money system? We have nearly one and a half billion currency more in circulation at the present time than we had at the peak of 1929, and under our present money system we are able to increase this by several billion more without resorting to any of the three inflationary measures popularly advocated. There is sufficient money available in our present system to adequately adjust our present price structure. Our price structure depends more upon the velocity of money than it does upon the volume. The velocity is measured by the annual turn-over of bank deposits or what is termed bank debits, representing checks issued. Ninety per cent of our business is done by the bank check; currency, augmented by silver, normally is largely used as pocket money and represents 10%; gold is held in Reserve Banks to support our currency.

In 1929, the high level of prices was supported by a corresponding velocity of credit. The last Federal Reserve Bulletin gives an illuminating picture of this relationship as shown by figures of all member banks. From 1923 to 1925, the turn-over of deposits fluctuated from 26 to 32 times per year. From the autumn of 1925 to 1929 the turn-over rose to 45 times per year. In 1930, with deposits still increasing, the turn-over declined at the year-end to 26 times. During the last quarter of 1932 the turn-over dropped to 16 times per year. Note that from the high price-level of 1929 to the low level of the present, this turn-over has declined from 45 to 16, or 64%. While during the same period, the volume of money represented by total bank deposits and currency has declined approximately 22%. It is clear, therefore, that the velocity, rather than the quantity of money, supports the price-structure and that our problem today is not one of increasing the volume of money, but its velocity. Several factors today stand in the way of increasing our money velocity.

I repeat there is plenty of money today to bring about a restoration of prices, but the chief trouble is that it is in the wrong place; it is concentrated in the larger financial centers of the country, the creditor sections, leaving a great portion of the back country, or the debtor sections, drained dry and making it appear that there is a great shortage of money and that it is, therefore, necessary for the government to print more. This maldistribution of our money supply is the result of the relationship between debtor and creditor sections and the development of our industries into vast systems concentrated in the larger centers. During the period of the depression the creditor sections have acted on our system like a great suction pump, drawing a large portion of the available income and deposits in payment of interest, debts, insurance and dividends as well as in the transfer of balances by the larger corporations normally carried throughout the country. This makes for a shortage of funds in the agricultural areas and an excess of funds in the cities. During our period of prosperity funds were flowing from the creditor sections into the debtor sections in the extension of new credits and capital expansion as fast or faster than they were flowing out. There is no way of reviving the return flow through the operation of credit or investment until there is a basis for credit brought about through an increased price level and until there is an opportunity of profit through further investment of capital. The agricultural areas during the periods of prosperity did not share in their portion of the national income and this made for further concentration of money in the creditor sections, with too large a portion of our aggregate debts in the agricultural areas. This explains the reason for a greater financial collapse as shown by the bank failure record throughout the entire back country, represented largely in the agricultural areas.

The mal-adjustment referred to must be corrected before there can be the necessary velocity of money. I see no way of correcting this situation except through government action.

It is estimated that one-third of our population is dependent upon agriculture in its varied forms and it is recognized that prosperity is impossible without a revival of the purchasing power of our agricultural population. To bring about the restoration of business to the average of the post-war period I have to suggest five points as first-aid measures designed to bring about recovery. Action with reference to these should be taken immediately. They are as follows:

1. Make available as gift to the states on a per capita basis $500,000,000 to be used during the balance of this year in assisting to adequately take care of the destitute and unemployed, pending a revival in business which should result from the foregoing program.

2. Increase the amount of government funds two and a half billion dollars, and more if necessary, for self-liquidating projects and loans to cities, counties and states for public works on a liberal basis at a low rate of interest.

3. The adoption of the domestic allotment plan, or a similar plan, designed to regulate production and raise prices.

4. Refinancing farm mortgages on a long term basis at a low rate of interest.

5. A permanent settlement of the interallied debts on a sound economic basis, cancellation being preferable.

1. UNEMPLOYMENT RELIEF

Without going into any detail or figures, it is recognized by everyone that our most urgent and acute problem today is to immediately provide adequate relief to the millions of our people who are destitute and unemployed in every corner of our nation. It is national disgrace that such suffering should be permitted in this, the wealthiest country in the world. The present condition is not the fault of the unemployed, but that of our business, financial and political leadership. It is incomprehensible that the people of this country should very much longer stupidly continue to suffer the wastes, the bread lines, the suicides, and the despair, and be forced to die, steal, or accept a miserable pittance in the form of charity which they resent, and properly resent. We shall either adopt a plan which will meet this situation under capitalism, or a plan will be adopted for us which will operate without capitalism.

Private charity is almost entirely exhausted. It is impossible for most of our political subdivisions to provide additional funds through borrowing or taxation. Many of them are in default at the present time in meeting their obligations and are unable to provide funds necessary to pay the expense of their schools and local government. I am on the Governor's Executive Unemployment Relief Committee of my State and although I am sure the unemployed receive as much or more than in many sections of the country, available funds are entirely inadequate to meet the situation, which is daily becoming more difficult to control.

I advocate that the government make available, as the most urgent of all emergency measures, at least five hundred million dollars to be distributed to the states as required, as a gift and not as a loan, on a per capita basis in such amounts as will enable the relief organizations of each state to take care of the needs of the unemployed in a more adequate manner than has heretofore been possible. To do less would be to fail in the first duty of government, the protection of the lives and to provide immediate necessities of its citizens. This support of the unemployed by government should rapidly decrease as appropriate action is taken by the government to restore the proper functioning of our economic system.

2. FINANCING OF SELF-LIQUIDATING PROJECTS & PUBLIC WORKS

I quote from Dr. W. T. Foster:

> "This much, in fairness, we must say for the Russian plan. If anywhere in Russia they had as many

available trained carpenters and masons and bricklayers and engineers and architects and all the rest, and as much available steel and lumber and brick and all the other building materials as we have here, they would not sit around and stupidly hand out charity to the unemployed. They would use the surplus men and the surplus materials, and they would clean out these festering sores and make decent dwelling places for the people. Incidentally, there would be no unemployment. Now, what can be done under communism or socialism, can be done under capitalism in the United States, if we have sense enough to set up an adequate flow of currency and credit in the right channels."

We now see, after nearly four years of depression, that private capital will not go into public works or self-liquidating projects except through government and that if we leave our "rugged individual" to follow his own interest under these conditions he does precisely the wrong thing. Each corporation for its own protection discharges men, reduces payrolls, curtails its orders for raw materials, postpones construction of new plants and pays off bank loans, adding to the surplus of unusable funds. Every single thing it does to reduce the flow of money makes the situation worse for business as a whole. The production of wealth and the consumers ability to buy starts with the payroll and the individual producers of raw material, the agriculturist. Today we are losing close to two billions per month of national income due to unemployment, resulting in the inability of our people to purchase the goods necessary to sustain our production. Is there any program of economy and budget balancing on the part of our government as important as to stop this great loss and all the attendant human suffering, devastation, and destruction?

I believe that an essential part of the program to end the cycle of deflation is by the government supplying the credit for self-liquidating projects and loans to the state for public works. I have the following program to propose:

That the government make available one billion dollars to be added to the one and a half billion dollars already made available through the Reconstruction Finance Corporation for self-liquidating projects, making a total of two and one half billion dollars. A separate agency should be set up to take over this division from the Reconstruction Finance Corporation and administer these funds. Emergency speed, such as was resorted to during the time of war, is necessary for the success of this plan. The self-liquidating plan to date has been utterly ineffective due to the failure to get the funds out; this is largely due to limitations of the law and red-tape of administration. In order to obtain speed, I would recommend the appointment of a civilian non-political commission of not to exceed five representative leaders in each state, to serve without compensation, whose duty it would be to encourage development of public works and liquidating projects in their respective states as rapidly as possible. Loans should be made on a very liberal basis as to terms of payment and security. The interest rate should not exceed the amount which the government is required to pay for its funds, as the purpose is not to discourage the use of these funds and make a profit for the government.

The Federal Government, as well as the financial and business leadership of this country, should get back of this program with the same enthusiasm and patriotic zeal as was developed during the war. The entire public psychology must be changed through the propaganda of the press. Every city, county and state in the Union should be urged, as a patriotic duty, to avail itself of the government credit with which to construct such projects as they would normally require during the next five years, thus putting men to work instead of providing them with charity.

In order to speed up this program a limit of three months from the time of the appointment of the commission in each state should be given in which to file and complete applications; this period of time to be extended, if necessary, by the approval of the President of the United States.

This plan would have the advantage of securing for each state and community public and self-liquidating works which will be necessary in the immediate future at an unprecedentedly low interest rate and construction cost, while at the same time providing emergency employment and stimulating business generally at a time when such expenditures render the greatest service to our entire people.

This program can be financed in one of two ways -- either through a government bond issue, or through the issuance of currency by the Treasury which would be put into circulation through the Federal Reserve Banks in payment of the projects proposed. This currency should be retired as fast as the income of the Federal Treasury permits. The Treasury, of course, would hold in lieu of this currency the obligations of the various states, counties, cities and private corporations using these funds. I do not believe this currency could be kept in circulation, for with the restoration of confidence the present outstanding currency would likely be reduced by at least one and one-half billion dollars, the estimated amount now in hoarding. This new currency issue, plus the one and one-half billion dollars of hoarded currency, which is largely Federal Reserve notes, would automatically find its way into the banks and from there into the Federal

Reserve Banks where the Federal Reserve currency unnecessary for circulation would be retired and the new, or Treasury, currency would be held until the Treasury Department is able to retire it out of the payments received from borrowers or from other sources. It would likely be necessary to pay to the Federal Reserve Banks such portion of interest collected by the Treasury on the money loaned as would enable the Federal Reserve Banks to carry the non-interest bearing currency, otherwise it may result in an operating loss to the Federal Reserve Bank.

The latter plan would have the advantage of protecting the bond market from the pressure of new government bond offerings at a time when it is desirable to preserve that market for the necessary government financing required to meet its present operating deficit and provide for unemployment relief until the beneficial effects of the proposed emergency measures are realized.

As an alternate to the proposed self-liquidating public works program that would more quickly meet the emergency, I offer for consideration, without recommendation, the suggestion of Mr. J. M. Daiger, appearing in the February issue of Harper's magazine under the title of "Confidence, Credit and Cash". Quoting from his article, he says -

> "We should be prepared to pay a political price for prompt action in order to restore cash, credit, and confidence in our banks. The suggestion is that we offer an inducement that banking politics could not successfully resist; namely, that the Federal Government pay the 'trifling price' of all the bank failures, State and National, of this last thirteen-year epidemic -- pay to the depositors of the chartered banks that failed the net amount of the deposits they lost, and thus restore this money to active circulation. The total amount of deposits involved in the failures was approximately five billions

> of dollars. The recovery by depositors has been, or will be, probably half this sum. Most of this they have already received, either through the receivers of the closed banks, or through advances from other banks, or, more recently, through the Reconstruction Finance Corporation. We should require, then, a bond issue of approximately two and a half billion dollars to cover the net losses."

This plan could be financed by an issue of currency as above suggested as an alternative to a bond issue, any loss to the Federal Reserve Banks while holding this currency to be made up by the Treasury Department.

The plan of Mr. Daiger referred to I would amend to cover only those losses covered by bank failures during the depression, i. e., during the years 1930, 1931, 1932 and the necessary part of 1933, until this legislation is effective, which would substantially reduce the cost to the government. If such a plan is adopted, the liquidation of all assets, including claims against officers, directors and stockholders, of closed banks should be turned over to the Comptroller of the Currency for liquidation through a special department set up for this purpose.

The plan would have the merit of being politically popular. It would very quickly get a large sum of money out into circulation and into the hands of those people and communities which are, generally speaking, the greater sufferers from the effects of bank failures. It would completely establish confidence, bring money out of hoarding, tend to raise prices and thus start the necessary flow of credit. All this in turn would greatly increase the value of the assets taken over from the closed banks and facilitate their liquidation, thus reducing the loss in such a venture.

A bank deposit guarantee law would likely have to be incorporated in such a bill, and such a law would have to be made to cover all banks for the reason that if any were excluded because of inability to meet certain requirements they would have to close. The stronger banks of the country, which would not need the benefit of such a law but which get the benefit of the wealth production from the country as a whole, should be required to share their proportionate cost, thus tending to equalize the burden of loss due to bank failures over the entire financial structure. Each bank should be assessed a necessary percentage of its deposits to provide and maintain an adequate fund to meet losses to depositors. In order not to put a premium on bad banking practice, rules and regulations required for the continuation of the benefits of the fund should be gradually promulgated and enforced over the next few years as business recovers, so that in time a strong banking structure would be developed as a bulwark in future depressions. If banks failed to meet the requirements of eligibility after six months notice they would be suspended, which would mean their liquidation and the fund being drawn on to prevent any loss to depositors. In this connection it is my opinion that the banking structure would be greatly strengthened with the passage of the Glass Bill providing for branch banking, thus reducing the cost on the banking structure of maintaining the deposit guarantee fund.

An important advantage of the banking legislation proposed, besides preventing hoarding and the mal-distribution of deposits with the larger banks, would be the elimination of the cost of surety bonds now required to secure various forms of public funds and the release of government bonds, municipal securities and land bank bonds, which are now used to secure Postal Savings and government funds. The release of these securities would be helpful to many banks, Postal Savings would disappear and these funds would return to the banks where they are most needed to support the financial requirements of the various communities. The Postal Savings have been increasing at an astonishing rate, this increase being largely in the sections of the country having the greatest banking difficulties, which in most cases are those sections least able to lose deposits to the Postal Savings system.

3. ALLOTMENT PLAN

The allotment plan, at least for the present, should be confined to our three major crops -- wheat, cotton and hogs. Its purpose would be to raise the prices of these products by the amount of the tariff, which at present is ineffective due to the exportable surplus, the domestic price being, therefore, determined by the world price. To accomplish this, government control, regulation and sponsorship is necessary. However, the operation of the plan should be de-centralized as much as possible, working through the state farm organizations which in turn would work through the county farm organizations, thus placing the responsibility of the success of the plan as much as possible on the local units, which are better able to control the determined reduction in acreage and production. This plan in no way would put a financial burden on the government except the comparatively small cost required for a proper central regulation and control,

The increase in prices brought about by this plan would, of course, be paid for by the consumers, but in this respect it would be no different than the effect of the tariff on the prices of those manufactured and agricultural products where the tariff is now effective in maintaining a domestic price higher than the world price. In other words, the domestic allotment plan, in its operation, might be termed an inverted tariff. If the domestic price level is going to be maintained by a tariff on some of our agricultural products and most of our manufactured products, then the prices of our major agricultural products must be raised to a domestic level by making a tariff effective through an allotment or similar plan; otherwise, the balance and equilibrium necessary to the operation of our economic system can not be maintained and the whole price structure will be kept out of adjustment as a result.

Objection is raised to the allotment plan on the ground that it will increase the cost of those products covered by it to the consumer, whose purchasing power is already close to the vanishing point. It will not only do that, but it will tend to increase the price structure generally, if it accomplishes the results desired.

An increase in the price of cotton will cause some increase in the price of wool, silk and rayon; an increase in the price of hogs will tend to increase the price of all other meat products; and likewise, an increase in the price of wheat will tend to increase the price of other grain products, as all competitive products are influenced by the price of the product which is the cheapest. The effect of raising agricultural prices generally will bring about an increased purchasing power to those engaged in agriculture, which would serve to increase the demand for all kinds of manufactured products, thus increasing employment, wages, and general income to a far greater degree than the increased cost of the agricultural products consumed. Dairy and poultry products, fruits, rice, vegetables, and all other agricultural products, which it would be impractical to cover by the allotment plan, would increase in price with the increase in consumption brought about through the improved buying power of our entire agricultural, as well as our industrial population.

The cost of manufactured goods at present is slightly above the four-year pre-war average, while the cost of all agricultural products is approximately one-half of the four-year pre-war average. The domestic allotment plan would tend to bring these two important economic factors in balance.

The allotment plan may be a long way from a perfect solution of the farm problem, but something must be tried. Our progress up to date in every field is the result of experimentation, trial and error. The allotment plan may need to be changed or modified from time to time, but that can be done as experience determines. I believe that some form of the allotment plan is necessary as a permanent measure as long as a tariff policy is in effect in this country. The allotment plan is no more artificial than the tariff, the money system and all the regulatory operations of the government. Our whole economic system, in the same sense, is artificial and must of necessity continue so unless we revert to a primitive society.

4. REFINANCING FARM MORTGAGES

The allotment plan, to be effective, should be followed immediately by a refunding of farm mortgages on an immense scale and on a long term basis at a low rate of interest. The seriousness of the farm mortgage problem is evidenced by the farm strike in all parts of the country, the moratoriums being forcibly granted and the legislation designed to relieve debtors being proposed in every agricultural state. As a means of meeting this problem, I have the following to suggest:

Enlarge the scope and size of the Federal Land Banks so as to enable them to take over mortgages up to an amount of five billion dollars (this amount can later be increased if conditions warrant). I understand that at present the total farm mortgage debt of the United States is somewhere between eight billion dollars and nine billion dollars; of this amount approximately one and a half billion dollars is now held by the Federal Land Banks, one-half billion dollars by the Joint Stock Land Banks, one and three-fourths billion dollars by the insurance companies, and the balance by private mortgage companies, banks and individuals.

The present mortgages held by the Land Banks should be refunded on an amortized basis over a period of forty years. An annual payment of 5% of the principal amount of the refunded mortgage would allow 3% for interest, 7/10 of 1% for expenses and losses, and would retire the mortgage in forty years. In order to accomplish this, existing Federal Land Bank bonds, which now bear an interest rate of from 4% to 5%, should be refunded on a basis of a 3% bond and, as a consideration of the reduced interest rate, these bonds should be guaranteed by the Federal government and should be made eligible on a Bills Payable basis at the Federal Reserve Banks.

Mortgages held outside of the Federal Land Banks by other agencies should be taken over in exchange for Federal Land Bank bonds as above described. In taking over these mortgages, all delinquent interest should be waived up to and including the time when this proposed legislation could be made operative, which I would suggest be July 1st, 1933. It would also be necessary for the present mortgage holders to write down the principal amount of their mortgages in those cases where the amount is excessive based upon a normal agricultural commodity price structure, or where it is on marginal land which can not be operated profitably. In the latter case the loan should not be taken over at all, but such property should be leased by some agency of the Federal government and taken out of production.

Present prices of agricultural commodities should not be a basis for refunding farm mortgages because on such a basis the entire scheme would fail to give either the desired relief to the farmers or those holding the mortgages. The aggregate discount taken on existing mortgages must be limited, otherwise financial institutions now holding them could not absorb the loss without disaster and consequently would not make the exchange for Federal Land Bank bonds, in which case the agricultural borrowers would not receive the necessary relief and the entire plan would fail to accomplish the results desired.

In the proposed refunding operation by the Federal Land Bank, all delinquent taxes and delinquent principal payments should be included in the principal amount of the refunded mortgage, the first payment to be made in the fall of 1934. This is very necessary in order that the agricultural interests may have the benefits from the proceeds of their 1933 production with which to purchase the vast amount of consumers goods of all kinds which they so desperately need. With the increase in prices through the effects of the allotment plan, this buying power would be a tremendous factor in reviving every type of industry and would go a long way toward restoring business in general and increasing employment in every field.

Farm mortgages at present are possibly the most undesirable and frozen of all loans, and frozen loans are preventing the necessary expansion of credit. The plan I have proposed will very effectively and immediately make liquid billions of dollars of assets for which there is no market today, while at the same time it will bring about a reduction of at least one-third of the average annual payments now required to be made by farm mortgage debtors without requiring any financing or loss by the Federal Government, thus bringing about the necessary relief in the farm mortgage field. This plan has the advantage, as a result of the government guarantee of the Federal Land Bank bonds, of diverting surplus funds carried in the great creditor sections into the indirect financing of farm mortgages where it is impossible even at a high rate of interest, which farmers can not pay, to attract those funds directly.

The combination of the allotment plan and the farm mortgage refinancing plan will provide, in an effective manner, a sound farm relief program, thus saving our entire agricultural industry from what otherwise would likely be a general collapse, and at the same time greatly expanding the purchasing power of our entire agricultural population, thus helping to bring about a revival of industry.

5. INTER-ALLIED AND FOREIGN DEBTS

No program designed to bring this country out of the depression can be considered apart from the relations of this country to the rest of the world unless a policy of complete isolation is adopted and an embargo put on gold exports and our domestic economy adjusted to meet such a condition.

Our international problems are far more difficult and will be slower to work out because of our inability to control the action of other nations. These problems can be met only through international conferences over a period of time. The most important of these problems and the one which must be settled before any progress can be made in the meeting of our domestic or other foreign problems is the problem of inter-allied debts.

There is a great demand on the part of the public and most of the press of this country that these debts be paid. It seems to me that our political leaders have lacked the courage to face this problem in a realistic manner. This has greatly contributed to prolonging the depression. The public, generally speaking, is not fully informed as to the impossibility of our foreign debtors complying with these demands, which can only be complied with at the expense of our own people.

It is elementary that debts between nations can ultimately be paid only in goods, gold, or services, or a combination of the three. We already have over 40% of the gold supply of the world and as a result most of the former gold standard countries have been forced to leave that standard and currency inflation has been the result. This has greatly reduced the cost of producing foreign goods in terms of our dollar and has made it almost impossible for foreign countries to buy American goods because of the high price of our dollar measured in the depreciated value of their money. This naturally has resulted in debtors trying to meet their obligations by producing and selling more than they buy, thus enabling them to have a favorable balance of trade necessary to meet their obligations to us. If this country is to receive payment of foreign debts, it must buy and consume more than it produces, thus creating a trade balance favorable to our debtors. In order to prevent this and reduce the pressure of foreign goods on the American market a high tariff wall has been built and we now hear demands on all sides for a further increase in this tariff due to the effects of depreciated currencies on our price structure. It is, therefore, evident that this pressure on our markets by goods from foreign countries would be greatly reduced if the burden of debt were lifted from our foreign debtors, thus allowing our prices, as well as their own, to rise.

We must either choose between accepting sufficient foreign goods to pay the foreign debts owing to this country, or cancel the debts. This is not a moral problem, but a mathematical one. Foreign debtors, no doubt, would be delighted to pay their debts to this country if we would make it possible for them to do so by reducing our tariff and accepting the goods which they have to offer.

No one would be as greatly benefited by the cancellation of these foreign debts owing to our government as American agriculture and American labor. A comparatively small portion of our population would make up this loss to the Treasury through the payment of income and inheritance tax which would be made productive by the revival of business.

Cancellation, or a settlement of the debts on a basis which would practically amount to cancellation, in exchange for a stabilization of the currency of the debtors, together with certain trade concessions and an agreement to reduce armaments would be a small price for this country to pay as compared with the great benefits which the entire world, including ourselves, would derive therefrom. Without a stabilization of foreign currencies it will be difficult, if not impossible, in my opinion, to substantially raise the price level in this country as long as we stay on a gold basis. Our debtors will default and we will likely be forced to abandon gold and depreciate our currency in relation to that of other countries in order to raise our price level in this country and to meet foreign competition unless we are instrumental in inducing foreign countries to stabilize their currencies on a gold basis, or gold and silver basis if action is taken internationally to remonetize silver. We could, as an alternative, further raise our tariff wall, put an embargo on gold and live entirely within ourselves.

The program which I have proposed is largely of an emergency nature designed to bring rapid economic recovery. However, when recovery is restored, I believe that in order to avoid future disastrous depressions and sustain a balanced prosperity, it will be necessary during the next few years for the government to assume a greater control and regulation of our entire economic system. There must be a more equitable distribution of wealth production in order to keep purchasing power in a more even balance with production. If this is to be accomplished there should be a unification of our banking system under the supervision of the Federal Reserve Bank in order to more effectively control our entire money and credit system; a high income and inheritance tax is essential in order to control capital accumulations (this division of taxes should be left solely to the central government -- the real property and sales tax left to the states); there should be national child labor, minimum wage, unemployment insurance and old age pension laws (such laws left up to the states only create confusion and can not meet the situation nationally unless similar and uniform laws are passed by all states at the same time, which is improbable); all new capital issues offered to the public and all foreign financing should receive the approval of the Federal government; this control should also extend to all means of transportation and communication so as to insure their operation in the public interest. A national planning board, similar to the Industries Board during the war, is necessary to the proper coordination of public and private activities of the economic world.

Such measures as I have proposed may frighten those of our people who possess wealth. However, they should feel reassured in reflecting upon the following quotation from one of our leading economists:

> "It is utterly impossible, as this country has demonstrated again and again, for the rich to save as much as they have been trying to save, and save anything that is worth saving. They can save idle factories and useless railroad coaches; they can save empty office buildings and closed banks; they can save paper evidences of foreign loans; but as a class they can not save anything that is worth saving, above and beyond the amount that is made profitable by the increase of consumer buying. It is for the interests of the well-to-do -- to protect them from the results of their own folly -- that we should take from them a sufficient amount of their surplus to enable consumers to consume and business to operate at a profit. This is not "soaking the rich": it is saving the rich. Incidentally, it is the only way to assure them the serenity and security which they do not have at the present moment."