GOVERNMENT OWNERSHIP OF THE TWELVE FEDERAL RESERVE BANKS

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY HOUSE OF REPRESENTATIVES

SEVENTY-FIFTH CONGRESS

THIRD SESSION

ON

H. R. 7230

A BILL PROVIDING FOR GOVERNMENT OWNERSHIP OF THE TWELVE FEDERAL RESERVE BANKS AND FOR OTHER PURPOSES

MARCH 2, 3, 4, 14, 15, 16, 17, 21, 22, 23, 24, 28, 31
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GOVERNMENT OWNERSHIP OF THE 12 FEDERAL RESERVE BANKS

WEDNESDAY, MARCH 2, 1938

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

The committee met to begin hearings on H. R. 7230 at 10:48 a. m., Hon. Henry B. Steagall (chairman) presiding.

Other mmembers of the committee present: Mr. Goldsborough, Mr. Reilley, Mr. Hancock, Mr. Williams, Mr. Spence, Mr. Meeks, Mr. Ford, Mr. Brown, Mr. Patman, Mr. McKeough, Mr. Transue, Mr. Wolcott, Mr. Gifford, Mr. Luce, Mr. Crawford, and Mr. Gamble.

The Chairman. The committee will come to order, please.

Pursuant to agreement made on Monday to take up H. R. 7230 this morning, Mr. Patman will begin the discussion; and, Mr. Patman, I am sure that the committee is very glad to hear you.

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

Mr. Patman. Thank you very much.

Mr. Chairman and gentlemen of the committee, at this point I desire to insert in the record a copy of the bill.

(The bill is as follows:)

[H. R. 7230, 75th Cong., 1st sess.]

A BILL Providing for Government ownership of the twelve Federal Reserve banks, and for other purposes.

Whereas a large number of Members of the House of Representatives believe that the twelve Federal Reserve banks should be owned and operated by the United States; and

Whereas an organization known as the Unofficial Steering Committee for the enactment of a law providing for Government ownership of said banks, and for other purposes, has been formed, composed of the following Members from the following States:

Alabama—Patrick; Arizona—Murdock; Arkansas—Cravens, Miller McClellan, Kitchens; California—McGroarty, Voohis, Kramer, Ford, Colden, Tolan, Scott, Sheppard, Izac; Colorado—Cummings, Martin; Connecticut—Kopplemann; Delaware—Allen; Florida—Caldwell, Green, Hendricks, Peterson; Georgia—Peterson.

Idaho—White; Illinois—Long, Sabath, Boyer, Kelly, Rigney, McKeough, Fries, Keller; Indiana—Schulte, Ludlow, Gray, Griswold, Crowe, Larrabee; Iowa—Eicher, Wearin, Harrington, Jacobsen; Kansas—Patterson, Houston; Louisiana—Brooks, Griffith, Fernandez, Mills; Massachusetts—Connery, Healey, Casey; Michigan—O'Brien, Hook, Sadowski, Luecke, Dingell, Transue, Lesinski; Minnesota—Ryan; Mississippi—Ford, Colmer, Rankin, Collins; Missouri—

Nelson, Shannon, Wood, Zimmerman; Montana—O'Connell, O'Connor; Nebraska—Luckey, Binderup; Nevada—Scrugham; New Jersey—Kenney, O'Neill, Wene; New York—Barry, Beiter, Gavagan, Sirovich; North Carolina—Weaver; Ohio—Aleshire, Dixon, Lamneck, Ashbrook, Kirwin, Kniffin, Harlan, McSweeney, Harter, Crosser, Bigelow, Fletcher, Sweeney, Fleger, Hunter, Secrest; Oklahoma—Nichols, Rogers, Disney, Boren, Johnson, Cartwright, Massingale, Hill, Ferguson; Oregon—Pierce, Honeyman; Pennsylvania—Crosby, Bradley, Stack, Allen, Daly, DeMuth, Gildea, Quinn, Dunn, Flannery, Moser, Dorsey, Eckert, Drew, Haines, Gray, Eberharter; Rhode Island—Forand, O'Connell.

South Carolina—Gasque; South Dakota—Hildebrandt; Tennessee—Chandler, Atkinson; Texas—Sanders, Jones, Thomas, Mansfield, McFarlane, Maverick, Patman; Utah—Murdock, Robinson; Virginia—Hamilton; Washington—Smith, Leavy, Wallgren, Hill, Coffee, Magnuson; West Virginia—Randolph, Ramsay; Wisconsin—O'Malley, Cannon; Wyoming—Greever.
and

Whereas said bill was prepared by the members of this group and said members are its coframers, coauthors, and cosponsors; and

Whereas said group instructed one of its members to introduce the bill: Therefore

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That it is hereby declared to be the policy of Congress to provide for Government ownership of the twelve Federal Reserve banks; to prevent injurious expansion and contraction of credit and currency; to stabilize and maintain a dollar of uniform purchasing power for the purpose of assuring the kind of dollar which a generation hence will have the same purchasing and debt-paying power; to permit all banks, the deposits of which are insured by the Federal Deposit Insurance Corporation, to receive all rights and privileges from the Federal Reserve System; and to encourage the sound local bank, recognizing the contribution that the local bank makes to the social and financial betterment of the local community.

Sec. 2. (a) The Secretary of the Treasury is authorized and directed to acquire and hold, on behalf of the United States, all shares of capital stock of the Federal Reserve banks held by member banks of the Federal Reserve System. Upon surrender by any such member bank of any such stock to the Secretary, he shall establish a credit for such bank in the Federal Reserve bank in an amount equal to its cash-paid subscription, with interest at the rate of one-half of 1 per centum per month from the date of the last dividend until the enactment of this act. If any member bank fails to surrender its stock prior to the effective date of this act, it shall not be entitled to exercise any privileges of membership in the Federal Reserve System, after a tender to such bank by the Secretary of the Treasury of an amount equal to the cash-paid subscription for such stock and interest as above provided; but, upon surrender of such stock and acceptance of the tender of refund in respect thereof, such bank shall be restored to the privileges of such membership.

(b) The assets, property, and records of the Federal Reserve banks shall be the property of the United States, but the transfer of shares of capital stock of the Federal Reserve banks to the Secretary shall not deprive any member bank of its rights and privileges under the Federal Reserve Act, as amended.

(c) After all necessary expenses have been paid or provided for, the net earnings of the Federal Reserve banks shall be covered into the Treasury as miscellaneous receipts.

Sec. 3. (a) The provisions of the Federal Reserve Act, as amended, relating to the subscription for stock of the Federal Reserve banks, shall not apply in respect of admission to and continuance of membership in the Federal Reserve System.

(b) Any State bank, the deposits of which are insured by the Federal Deposit Insurance Corporation, shall, under such reasonable rules and regulations as the Board of Governors of the Federal Reserve System shall prescribe, be entitled to all the rights and privileges under the Federal Reserve Act, as amended, if such bank carries its reserves with a Federal Feserve bank. Any such bank shall be permitted to withdraw at will from such affiliation upon written notice to the Board of Governors of the Federal Reserve System.

Sec. 4. Notwithstanding any other provision of law, the Board of Governors of the Federal Reserve System, upon the affirmative vote of not less than ten of its members, in order to prevent injurious credit expansion or contraction and to carry out its duty under subsection (a), may by regulation change the requirement as to reserves to be maintained against demand or time deposits, or both, by member or affiliated banks.

SEC. 5. The Board of Governors of the Federal Reserve System shall consist of fifteen members, including the Secretary of the Treasury, the Comptroller of the Currency, and the Chairman of the Board of Directors of the Federal Deposit Insurance Corporation, who shall have voting privileges and all other privileges of any member of said board, and twelve members appointed by the President of the United States, by and with the advice and consent of the Senate. Not more than one appointive member shall be selected from any one Federal Reserve district. The five additional appointive members provided for by this section shall be appointed with terms as follows: One to expire January 31, 1941; one to expire January 31, 1943; one to expire January 31, 1945; one to expire January 31, 1947; and one to expire January 31, 1949. The term of office of the member who was appointed for a term expiring January 31, 1938, is hereby extended until January 31, 1939. The term of office of each successor to any appointive member in office on the date of enactment of this act, or appointed as the first incumbent of a membership created by this act, shall be twelve years from the expiration of the terms of his predecessor. Whenever under existing law the concurrence of four or more of the members of the Board of Governors of the Federal Reserve System is required, such requirement of law shall be held to be complied with by the concurrence of eight members.

SEC. 6. Classes A, B, and C directors of each bank shall be appointed by the President, by and with the advice and consent of the Senate. No director of any class shall be an officer, director, employee, or stockholder of any bank. Each director of any Federal Reserve bank shall be a resident of the Federal Reserve district in which such bank is located. Each director shall be appointed for a term of nine years after the first appointment. The appointments shall be so arranged that the regular term of one director at each bank shall expire each year. It shall be unlawful for any director of a Federal Reserve bank or an official of the Board of Governors of the Federal Reserve banks to be employed by any bank within three years from the time of service as a director or official.

SEC. 7. The Federal Advisory Council, created by section 12 of the Federal Reserve Act, as amended, is hereby abolished.

SEC. 8. The Board of Governors of the Federal Reserve Board shall hereafter constitute the Federal Open Market Committee.

SEC. 9. All positions, except those of directors and officers, in the Federal Reserve banks are hereby included in the classified civil service. The incumbents of such positions shall acquire the same status under the classified civil service as though certified after examination by the Civil Service Commission if, at the expiration of the probationary period of six months, their services are certified to the Commission as being satisfactory. No officer, director, or employee of any Federal Reserve bank or Federal Reserve Board shall receive an annual salary in excess of $25,000.

SEC. 10. Examinations of member and affiliated banks of the Federal Reserve System by any Federal agency shall be made without charge or assessment for costs thereof against such banks.

SEC. 11. The Board of Governors of the Federal Reserve System is authorized to prescribe such rules and regulations as may be necessary to carry out the policies and provisions of this act.

SEC. 12. This act shall take effect on January 1, 1938.

SEC. 13. All laws or parts of laws in conflict herewith are hereby repealed.

SEC. 14. There is hereby authorized to be appropriated such sums are may be necessary to carry out the provisions of this act.

Mr. PATMAN. This bill, Mr. Chairman, is sponsored by 160 Democratic Members of the House. Other Members of the House have stated that they will vote for the bill. We believe that we have many more than a majority who will gladly vote for this bill if it comes to the floor of the House.

This bill was carefully prepared by these Members. We had many meetings, not one or two, not just a few, but a large number of the Members would meet to discuss the provisions of this bill. That went on for months. Finally the bill was agreed upon, and the names of the authors of the bill are stated in the bill.

The bill contains the following provisions:

1. Secretary of the Treasury shall purchase and hold for the United States all stock in the Federal Reserve banks.
2. Member banks shall continue to have same rights and privileges.
3. All net earnings after expenses to go to the Treasury.
4. All State banks, the deposits of which are insured by the Federal Deposit Insurance Corporation, shall be entitled to all privileges under the Federal Reserve Act, if reserves are carried with a Federal Reserve Bank, and such banks permitted to withdraw at will.
5. The Board of Governors is increased from 7 to 12 so as to have 1 from each district and to also include the Secretary of the Treasury, Comptroller of the Currency, and the Chairman of the Federal Deposit Insurance Corporation.
6. The Board permitted to change reserve requirements of banks to prevent undue expansion or contraction.
7. The 9 directors of each of the 12 banks to be appointed by the President and confirmed by the Senate.
8. All positions except directors and officers to be placed in civil service.
9. Examinations of banks to be made without charge.
10. No official of a Federal Reserve bank shall receive an annual salary in excess of $25,000.

October 20, 1937, the President of the United States made an address at the official opening of the Federal Reserve Building on Constitution Avenue. He stated:

> To this public body (Board of Governors of the Federal Reserve banks) Congress has entrusted broad powers which enable it to affect the volume and cost of money, thus exerting a powerful influence upon the expansion and contraction in the flow of money through the channels of agriculture, trade, and industry.

Since the Board of Governors have so much power, they should be charged with the responsibility of abusing power or failing to use it. I do not claim the former except the increase of reserve requirements, 100 percent in 1936 and 1937, but I do criticize them for the latter—not using the powers.

GOVERNMENT BOND MARKET PROTECTED

If the market price of Government bonds is affected in any way, the Board of Governors become very active. They seem to be trying to promote the general welfare of the Nation by protecting the price of Government securities. When the stock market caused investors to lose 5 billion dollars in 1 day, nothing was done; when retail sales took an awful slump, nothing was done. When bank clearings and carloadings took a nose dive at the same time, nothing was done. I insist if these powers are used to protect the general welfare as they have been used to protect the price of Government securities our country will be much better off.

MISTAKE OF BOARD

When the veterans were paid in June 1936 the country was given a great push back on the road to recovery and everything was going fine until billions of dollars of money were destroyed by the Federal Reserve Board doubling the reserve requirements of banks. This caused the country to take another slide downward, and it has not regained. Such action caused money to become dearer and all fixed charges, including debts, taxes, and interest became more burdensome on the people. Mr. Eccles, in fact, admitted to our committee, Banking and Currency, in February 1937 that the Board of Governors adopted the policy of making money dearer in order to help investors secure a better return on their investments, believing that capital would be attracted and velocity of money increased.

HALF OF NATIONAL DEBT HELD BY BANKS

The banks of the Nation hold about $18,000,000,000 of Government securities, almost one-half of the national debt. I understand the Comptroller of the Currency has ruled that all national banks may carry these Government securities at par and accrued interest although they are worth less than par. The Federal Deposit Insurance Corporation should make the same ruling. When the Government owns the Federal Reserve banks, these institutions should purchase from those who desire to sell all Government securities at 100 cents on the dollar. This will protect the security holders and will permit the Board of Governors to give some consideration to commodity prices, which greatly affect retail sales, bank clearings, and carloadings.

In further explanation of the bill, Mr. Chairman, I will state the objectives of the bill.

1. That the issuance of the Government credit and the Government currency is the function of the United States Government; that the Constitution requires that the Congress coin money and regulate its value.

2. That the money-issuing privilege should not be farmed out to private banks of the country or to any other class or group as it is today.

Mr. GOLDSBOROUGH. Is that right in the bill?

Mr. PATMAN. Yes, sir.

Mr. GOLDSBOROUGH. I did not notice that.

Mr. PATMAN. It is one of the objectives of the bill. I am not reading the language of the bill. I am reading the objectives of the bill.

LOCAL BANKS ENCOURAGED

3. Local banks, locally owned and owner-operated, should be encouraged instead of chain or branch banks. Our President, Franklin D. Roosevelt, made the following statement about the local bank:

> We must by law maintain the principle that banks are a definite benefit to the individual community. That is why a concentration of all banking resources and all banking control in one spot or in a few hands is contrary to sound public policy. We want strong and stable banks, and, at the same time, each community must be enabled to keep control of its money within its own borders.

Local people should be encouraged to own their local bank. If it is now a branch of an absentee-owned bank, the Reconstruction Finance Corporation should be encouraged to furnish a part of the money to assist the local citizens in acquiring the institution for the purpose of owning and operating it. Absentee ownership should be discouraged and local ownership should be encouraged by all governmental agencies.

I understand that under existing law, the R. F. C. has the power to furnish all or any part of the capital stock of a local bank. That being true, it should not be a great deal of trouble, if Congress should adopt the policy of encouraging local people to own their local banks, for the R. F. C. to furnish the needed capital for that purpose.

4. The local bank performs useful, helpful, and constructive service to the country. Our country needs small banks to deal with little business, small corporations, and individuals, the same as it needs large banks to deal with big business and big corporations.

5. The stock of the 12 Federal Reserve banks is now owned by 6,376 private banks. It is a corporation owned by private corporations. Not a penny of stock is owned by the Government or by an individual.

They are Federal banks in name only. The Government credit is used by these banks and such Government credit is denied to the other 8,687 banks which are smaller banks and do not belong to the System.

6. The $132,000,000 invested by the private banks in the stock of the 12 Federal Reserve banks is just as insignificant compared to the $200,000,000,000 and $30,000,000,000 worth of business done each year by these banks as $132 would be. The capital is too insignificant for the banks to claim ownership or control, yet by reason of this ownership of such a small amount of stock they have succeeded in controlling the major policies of the Federal Reserve System.

7. I think that the Federal Reserve bank should be taken over by the Government and operated in the interest of all the people. It would be just as reasonable to permit the two or three large radio chains to have control of the Federal Communications Commission as it is for the bankers to control the issuance of Government credit and currency. If that precedent is carried to its logical end, the Interstate Commerce Commission should be controlled by the railroad owners, who could fix freight rates for themselves; and the Federal Trade Commission should be controlled by the big business corporations it is supposed to restrain when they engage in unfair practices.

8. No corporation such as a Federal Reserve bank, which is owned by private corporations, should have the right to issue money upon the Nation's credit. The issuance of money is not so much a banking function as is the handling of the money after it is issued.

9. The small banks of the country that are not members of the Federal Reserve System should not be forced into this System, but terms so attractive should be offered to them that they will voluntarily become affiliated with a Federal Reserve bank, with the privilege of withdrawal at will.

10. Only one Federal agency should be permitted to examine banks, and without cost to the banks.

11. The Federal Reserve System should net the Government over $100,000,000 a year, properly operated for all the banks and carried out in accordance with the purposes of the 1913 act. These profits will increase as the Federal Reserve banks purchase Government bonds and as the interest on Government bonds owned by Federal Reserve banks goes into the Treasury. I am not so much interested

in these banks making profits as I am in the Government owning them and their rendering a real service to all the banks and the people of the country.

12. All employees, except officers and directors, should be under the civil service. Present employees, except officers and directors, should be blanketed into the civil service.

13. The Government has title to about $13,000,000,000 in gold. The title is clouded by the Federal Reserve banks holding gold certificates, aggregating more than $9,000,000,000 against this gold. Government ownership of these banks will remove that cloud from the Government's title.

14. Gradually and eventually the Federal Reserve banks may acquire all outstanding tax-exempt, interest-bearing Government securities and save the people approximately $1,000,000,000 a year in interest.

15. The stock arguments against this bill, all of which are unfounded, are these:

(1) That it threatens the dual banking system. This is untrue, as the dual banking system will be preserved instead of destroyed.

(2) That it is intended to enforce a unified banking system under the control of a Federal agency. This is not contemplated, as our proposal, if enacted, will not require any bank that is not a national bank to remain in the System and may withdraw at will.

(3) That it would serve as a possible entering wedge in the field of Government ownership of the entire banking system. This is not contemplated, as it is our view that all banks should be permitted to receive the benefits of this great system instead of a few banks and Government ownership of the entire banking system is not sought in this legislation or any other legislation pending in Congress.

Now, I have a statement here of the assets and liabilities of these Federal Reserve banks, which, of course, include the 25 branches.

The liabilities aggregate $12,524,693,000. Of that, $4,283,537,000 represents Federal Reserve notes in actual circulation.

Next are the deposits by member banks of $6,606,430,000. There is deposited by the Treasury $243,662,000, and $98,620,000 by foreign banks. Other deposits amount to $3,245,000, or total deposits of $378,-701,000. The capital paid in amounts to $132,000,000; the surplus under section 7, $130,836,000; and the surplus under section 13b, $27,190,000.

The reserve for contingencies amounts to $1,713,000, and all other liabilities $5,000,000.

Those are the liabilities. The assets will aggregate, of course, $12,-524,693,000, including certain certificates on hand and due from the United States Treasury of $4,618,838; and I want to invite the attention of the committee to the way the Federal Reserve gold certificates are carried in the daily statement of the United States Treasury. I have a statement here that was issued February 26, 1938. It shows that the Treasury has in gold on that date $12,774.329,595.76. Now, under liabilities, the first item under "Gold certificates," is "Outstanding (outside of Treasury), $2,897,035,629." The next item is "Gold certificate fund—Board of Governors, Federal Reserve System, $6,356,643,051.08."

Now, those two items are confusing. I investigated, and I learned that some of the Federal Reserve banks were not willing to accept the Treasury's credit, or the Federal Reserve credit of gold certificates on their books; they demanded the actual physical, tangible gold certificates delivered to them. In other words, they want something to show that they have title to part of that gold, and they were claiming that gold. So, where the certificates are actually issued, where they were actually printed by the Bureau of Engraving and Printing and delivered to the Federal Reserve banks, they are carried on the statement as "Outstanding (outside of Treasury), $2,897,035,629."

In addition to that, we have in gold in the Treasury, a gold reserve of $156,039,430.93, as a backing for the United States notes, which you are all familiar with. Then there is $1,800,000,000 in the exchange stabilization fund. Then, in the general fund, inactive, $1,200,560,560.93; and then we have some other small items, all aggregating $12,774,329,595.76.

I have referred to the gold certificates, and I want to say that the amount that I read is not exactly like the amount in the daily statement, because I am here reading from a statement that was gotten up for the end of 1936. The other statement is up to date.

This statement, as I said, discloses gold certificates of $8,851,880,000—those are the certificates on hand and due from the United States Treasury; other cash, $256,534,000; then the bills discounted, of course, only a small amount; bills bought in open market, a small amount; industrial advances, a small amount; United States Government securities aggregating $2,430,227,000; and in all, of course, $12,524,693,000.

Now, this bill will not require an appropriation of any kind, since there is sufficient money in one fund, $145,000,000, to pay for the stock of the Federal Reserve banks, that is, $132,000,000.

In connection with this bill, in suggesting the policy in the first part of the section, there was a typographical error and we failed to state all the purposes, and I will state now that it is my hope that the committee will consider inserting as a part of the policy of this bill, in event it is favorably reported, that the Federal Reserve Board, and the Treasury, and the executive agencies of this Government, shall be charged with the duty of adjusting the purchasing power of the dollar so as to attain within 12 months the 1926 price level of wholesale commodities, including farm products, believing that that is in the interest of the country today.

Now, I want to read some excerpts from what great men have said about our monetary system, not long ones, but short ones.

Mr. Edison said:

> We must either decrease our wants or increase our means.

And in enlarging on that, he stated, in effect, that the money must keep up with production, that one is just as necessary as the other.

Mr. Henry Ford has said that "the only way the Government can help us is to give us a money system that will easily convey wealth from producer to consumer," that it is the duty of the Government to furnish sufficient vehicles in the form of money to convey wealth from the producers to the consumers.

In the autobiography of Benjamin Franklin, there is a very interesting statement that Benjamin Franklin made in 1729 about money, and it is so interesting that I hope the committee will permit me to impose upon them to the extent that I may read this. I am quoting from Franklin:

About this time there was a cry among the people for more paper money, only fifteen thousand pounds being extant in the province, and that soon to be sunk. The wealthy inhabitants opposed any addition, being against all paper currency, from an apprehension that it would depreciate, as it had done in New England, to the prejudice of all creditors. We had discussed this point in our Junto where I was on the side of an addition, being persuaded that the first small sum struck in 1723 had done much good by increasing the trade, employment, and number of inhabitants in the province, since I now saw all the old houses inhabited, and many new one building; whereas I remembered well, that when I first walked about the streets of Philadelphia, eating my roll, I saw most of the houses in Walnut Street, between Second and Front Streets, with bills on their doors, "To be let"; and many likewise in Chestnut Street and other streets, which made me then think the inhabitants of the city were deserting it one after another.

Our debates possessed me so fully of the subject that I wrote and printed an anonymous pamphlet on it, entitled "The Nature and Necessity of a Paper Currency." It was well received by the common people in general; but the rich men disliked it, for it increased and strengthened the clamor for more money, and they happening to have no writers among them that were able to answer it, their opposition slackened, and the point was carried by a majority in the House. My friends there who conceived I had been of some service, thought fit to reward me by employing me in printing the money; a very profitable job and a great help to me. This was another advantage gained by my being able to write.

The utility of this currency became by time and experience so evident as never afterwards to be much disputed; so that it grew soon to fifty-five thousand pounds, and in 1739 to eighty thousand pounds, since which it arose during the war to upwards of three hundred and fifty thousand pounds, trade, building, and inhabitants all the while increasing, though I now think there are limits beyond which the quantity may be hurtful.

The President of the United States at that time, Thomas Jefferson, said:

I believe that banking institutions are more dangerous to our liberties than standing armies. Already they have raised up a money aristocracy that has the Government at defiance. The issuing power should be taken from the banks, and restored to the Government and to the people to whom it properly belongs.

Evidently Jefferson was referring to those abusing their trust. President Andrew Jackson said:

If Congress has the right under the Constitution to issue paper money it was given them to be used by themselves, not to be delegated to individuals or corporations.

President Lincoln said:

No duty is more imperative on the Government than the duty it owes the people of furnishing them with a sound and uniform currency and of regulating the circulation of the medium of exchange so that labor will be protected from a vicious currency and commerce will be facilitated by cheap and safe exchanges.

The Gold Act of January 30, 1934, provided, in section 2:

Upon the approval of this act the right, title, and interest to every claim of the Federal Reserve Board and of every Federal Reserve bank and of every Federal Reserve agent in and to any and all gold coin and gold bullion shall pass to and be hereby vested in the United States.

That is the Gold Act of 1935. Under this act the Secretary of the Treasury may issue regulations under which gold may be acquired and held, first for industrial, professional, and artistic use, and, second, by the Federal Reserve banks for the purpose of settling international balances, and, third, for such other purposes as in his judgment are not inconsistent with the purposes of this act.

Section 6 provides that—

Gold certificates owned by the Federal Reserve banks shall be redeemed at such times and in such amounts as, in the judgment of the Secretary of the Treasury, are necessary to maintain the equal purchasing power of every kind of currency of the United States.

The Government has certainly never intended it to be used as a vehicle to help the privately owned Federal Reserve banks to take all gold away from the people in order that they may appropriate it to their own use and benefit. As you gentlemen know, the people were compelled to turn in their gold to the Federal Reserve banks, and certainly they should not be permitted, the Federal Reserve banks, to take advantage of that and to acquire this gold.

On November 21, 1864, Abraham Lincoln wrote:

I see a crisis coming that unnerves me and causes me to tremble for the safety of my country. As a result of war corporations have been enthroned and an era of corruption in high places will follow, and the money power of the country will endeavor to prolong its reign until all wealth is concentrated in a few hands and the Republic is destroyed.

I mentioned that because in a few minutes I hope to be permitted to show the members of the committee some charts that have been carefully prepared by people who are interested in this question, on information furnished by myself and others.

Now I read again from what Lincoln said:

The available supply of gold and silver being wholly inadequate to permit the issuance of coins of intrinsic value or paper currency convertible into coin in the volume required to serve the needs of the people, some other basis for the issue of currency must be developed and some means other than that of convertibility into coin must be developed to prevent undue fluctuations in the value of paper currency or any other substitute for money of intrinsic value that may come into use.

We have almost 13 billion dollars in gold. The Government owns that gold. If we were to use that gold, and we can only use it effectively if we own the 12 Federal Reserve banks, that gold is sufficient, on a 40-percent gold base, to permit the issuance of money or credit aggregating 33 billions of dollars.

Now, if we were to do that quickly or suddenly, it would destroy our monetary system. It is not contemplated that it be done in that way, but it can be done gradually, and eventually the Government debt can be paid in that way, and then the American people will be saved the expense of almost a billion dollars a year in interest on Government securities.

Mr. Lincoln further said:

Government possessing the power to create and issue currency and credit as money and enjoying the right to withdraw both currency and credit from circulation by taxation and otherwise, need not and should not borrow capital at interest as the means of financing governmental work and public enterprise. The Government should create, issue, and circulate all the currency and credit needed to satisfy the spending power of government and the buying power of consumers. The privilege of creating and issuing money is not only the supreme prerogative of government, but it is the Government's greatest creative opportunity.

That is what Mr. Lincoln said.

I have had many discussions with Mr. Moulton, at the Brookings Institution, and one time, after I had talked to him, I went back to the office and sent him a speech that I had made on a question that is very similar to this one, and he answered it and presented the stock argument that is always made against the Government having anything to do with the issuance and distribution of credit. He said—and this is from Mr. H. G. Moulton, president of the Brookings Institution:

> The one great shortcoming in having money issued by the Government instead of by banks is the probability that political rather than economic considerations would govern the making of loans. When bankers make loans they have to pay attention to the prospect of getting the money back. They may make many mistakes, but on the whole the necessity of a careful scrutiny of the risks involved is wholesome. When the Government makes loans, on the other hand, there is not the same direct responsibility on the part of the lending agency to make sure that the loans are sound; and even if there were, political pressures are likely to exert a profound influence upon lending policy. This is the sort of question which cannot be answered on the basis of logic.

I do not believe that Mr. Moulton's criticism is borne out by the facts in recent years. That letter was written April 30, 1934. The F. D. I. C. has been rather successful in its operations. Of course, it is not exactly a banking institution. The R. F. C., I think, has been very successful. It is true that Congress charged the R. F. C. with the duty and responsibility of administering public funds for relief, and that had to be charged off; but its loans made to banks, railroads, insurance companies, generally have been sound loans, and the R. F. C. has made money for the Government instead of causing the Government to lose money.

ADVISORY COUNCIL SHOULD BE ABOLISHED

In addition to that, I have this answer to that criticism, and I bring it up because we had just as well face the fact that that is a criticism that we must meet and that we must answer. Under our present system with the Federal Reserve, which has charge of our monetary system, it is just like the Interstate Commerce Commission, as I suggested a while ago in one of these statements, being controlled by the railroad owners and these railroad owners fixing rates that will cause them to make a good profit and to pay big dividends, or just like the Federal Communications Commission being owned by the radio companies, and the Federal Trade Commission being conducted by the large business enterprises whose unfair practices the Federal Trade Commission is supposed to prohibit. Like it is now, it is true that much of the power has been taken away from the Federal Reserve Board—that is, the Board of Governors of the Federal Reserve Board—but not sufficient power has been taken away from them. As it is today we have that Board of seven members. I believe that there are two vacancies on the Board—I am sure there are—which have not been filled. Those people are charged with the duty of looking after the Government's interest, that is true, but they also have by their side at different times an advisory committee. Who composes that advisory committee? Twelve of the largest industrial, financial, and utility leaders in our Nation. Why are they sitting there? You say that they have no power, that they have no right to carry out their orders. That is very true, but at the same time they are a legally constituted advisory committee to that Board of Governors of the Federal Reserve banks, and they do have power and influence—they are bound to have.

What are they interested in? They are interested in high or dear money. Why? Because of dividends from their stocks in railroads and utility companies, and their United States bonds will be worth more if money is more valuable. Furthermore, the power of their banks is much greater if money is dear. Therefore they want dear money, they want high money, and as they accomplish their desires commodity prices and other things go in the opposite direction, as you know.

So this Federal Reserve Board should be composed of men not one of whom is a banker, not one of whom is interested in banking, not one of whom is expecting to go into the banking business as soon as his term of office expires.

DIRECTORS OF FEDERAL RESERVE BANKS SHOULD NOT BE BANKERS

In addition to that, concerning these directors, 9 of them, directing each of the 12 Federal Reserve banks, as it is today, 6 of those 9 are appointed by the private banks and 3 appointed by the Federal Reserve Board. Not a one of those directors should be a banker. It is not in the interest of this country for those who are selfishly interested and who will do as all of us would naturally do, for we would befriend an interest that we are interested in, because we see it from that viewpoint—not a one of those nine members should be a banker. Bankers should be taken off of the Board entirely and prohibited from being on it, just the same as we prohibit owners of railroads from being on the Interstate Commerce Commission.

So that is one reform, or change, that we should make—to take the bankers off of these local boards.

In addition to that, I will now state something about the earnings and expenses of these banks.

Mr. GIFFORD. Do you want to yield to a question?

Mr. PATMAN. I should be glad to yield for a brief question on the point I happen to be discussing at any time, but I would not like to be carried off of the subject entirely.

Mr. GIFFORD. We cannot always ask the question on the particular point that you are at the moment touching on.

Mr. PATMAN. I shall be glad to yield; yes, sir.

Mr. GIFFORD. You say that you would not have any bankers on this board?

Mr. GOLDSBOROUGH. I understood him to refer to the local board. Was that a slip of the tongue?

Mr. GIFFORD. He said that on the Federal Reserve Board there should not be a banker.

Mr. GOLDSBOROUGH. But he used the word "local boards."

Mr. PATMAN. I mean the local directors of certainly the 12 Federal Reserve banks. They have 9 directors at each of the 12 Federal Reserve banks, and, as to these 9 directors, I say that not one of them should be a banker.

Mr. GIFFORD. Suppose that one was appointed who had formerly been a banker, but who had divested himself of all of his interest in banks.

Mr. PATMAN. That, of course, would be up to the Chief Executive. There is no reason why a person like that should be denied a place if he is otherwise qualified.

Mr. GIFFORD. Would you think that he had been inoculated with a taint because of that fact?

Mr. PATMAN. I think that some of our fairest and best citizens are bankers, and I think that they are honest and conscientious. I think that the percentage of bad ones is just about as low in that profession as in any other.

Mr. GIFFORD. But, having divested himself temporarily of his holdings, you think that he might go back to his own profession?

Mr. PATMAN. Yes; that is true. I remember one Secretary of the Treasury who did not "divest" himself, as the gentleman will recall.

Mr. GIFFORD. When you put a man on the Securities and Exchange Commission, do you want a man on there who knows nothing about such matters, or do you want a man who does know?

Mr. PATMAN. That question came up one time, and I was discussing it with a man who I consider to be very high in this administration, and I told him that it occurred to me that the critics were getting some place because so many college professors were being appointed, and he said, "Well, they are wrong; in this utility work that they are doing over at the Securities and Exchange Commission, whom will we get to do this work? If we get someone who is connected with the utilities, we cannot always trust him, and if we get some fellow who does not know anything about it, he will be deceived, and about the only people we know of to get are people who have the information and the knowledge, who are not ignorant, who are not connected with the utilities, and the only class or group that we could think of would be the college professors," and I have noticed that when the gentleman's own party selected a leader to write new principle for the Republican Party, you selected a college professor to do that work.

Mr. GIFFORD. You recall Joseph Kennedy's selection on the Securities and Exchange Commission?

Mr. PATMAN. Yes, sir; I recall that.

Mr. GIFFORD. Would you consider that to be a fortunate selection?

Mr. PATMAN. That is, I think, clear off the subject, and I would be glad to discuss that with the gentleman some time, not on this bill, but right now I would like to stick to this bill. I think Mr. Kennedy is all right.

Mr. GIFFORD. But what I am getting at is that what you are trying to do, as I understand it, is to take away from the private banks the Federal Reserve Board because of their so-called interest, and to return it to the people?

Mr. PATMAN. That is right.

Mr. GIFFORD. Who are the people?

Mr. PATMAN. The people of this country, about 126 million of them, and they are represented by a Government here in Washington, and they have representatives here.

Mr. GIFFORD. 126 million people cannot go on the Board. How are the people's wishes going to be carried out? By whom?

Mr. PATMAN. By their representatives, as it is being done now. They must trust somebody.

Mr. GIFFORD. Their trustees will appoint a board?

Mr. PATMAN. They must trust someone; yes.

Mr. GIFFORD. So that when it is all done, there will be seven men who will have charge of and carry on the mechanics provided for in this bill?

Mr. PATMAN. Yes, sir.

Mr. GIFFORD. And you think that they should be selected in such a manner?

Mr. PATMAN. No, we increase it to 15 in our proposal, 1 from each Federal Reserve district, and the Secretary of the Treasury, the Comptroller of the Currency, and the Chairman of the Federal Deposit Insurance Corporation.

Mr. GIFFORD. And you think that they could find 15 men who did not know anything about banking who could do this job?

Mr. PATMAN. Yes, sir; I think that it could be done.

Mr. LUCE. Purely in order that I may understand your argument, would you point out to me where within the four corners of the bill there are changes in the powers and duties of the Board?

Mr. PATMAN. Yes, I should be glad to point that out. I attempted to point it out a few minutes ago when I said I wanted the committee to insert a mandate that the 1926 price level should be followed.

Mr. LUCE. I have read the bill, but I wish the gentleman will tell me where that is.

Mr. PATMAN. In the first section, I think, the gentleman will find something like that.

Mr. LUCE. Will you point it out to me?

Mr. PATMAN. Will the gentleman let me proceed in regular order?

Mr. LUCE. But I told the chairman that I would be unable to be here tomorrow.

Mr. PATMAN. Will the gentleman read the first section of the bill?

Mr. LUCE. I have read it.

Mr. PATMAN. I notice that the last part of it says "and to encourage the sound local bank, recognizing the contribution that the local bank makes to the social and financial betterment of the local community," and, up above that "To stabilize and maintain a dollar of uniform purchasing power."

Mr. LUCE. Is there any change in the legal powers?

Mr. PATMAN. No; I do not recall any changes now, except the changes that I suggested a while ago.

Mr. FORD. I would like to ask one question.

You pointed out that the Federal Reserve Board at the present time, or the System, owns 8 billion dollars worth of gold certificates.

Mr. PATMAN. More than that, really. That is, they claim it.

Mr. FORD. Whatever it is, do I understand, then—and I have read the bill—that the purchase of the gold in the Federal Reserve by the Government would give the Government an ownership of that 8 billion dollars, including all other assets?

Mr. PATMAN. Absolutely, but, of course, we would owe the member banks.

Mr. FORD. And it would also entail the taking over of their liabilities?

Mr. PATMAN. That is right. The Federal Reserve liabilities.

Now, in regard to the earnings and expenses of Federal Reserve banks, last year, 1937—and I am reading from the Federal Reserve Bulletin for February 1938, at page 125—the earnings amounted, in all, for the 12 Federal Reserve banks and branches, to $41,233,135. Of these earnings, less than $2,000,000, or just about $2,000,000, they earned in this manner: Industrial advances, $1,000,000; discounting bills, $212,000; purchasing bills, $24,000; commitments to make industrial advancements, $189,000, and on United States Government securities they received, of their $41,000,000 of earnings, $39,025,000. I claim that that is not fair. It is not right. There are 12 institutions purchasing Government obligations with nothing more than Government credit. You cannot claim that it is anything more. If you claim it is reserves of member banks, you destroy the reserves or make them do double duty. These purchases are made on the credit of the United States, and then the Nation continues to pay them interest upon those obligations.

Now, I want to read to you an editorial——

Mr. GIFFORD. And on the open-market operations.

Mr. PATMAN.' Yes, sir. I want to read a short excerpts from an editorial of April 8, 1937, in the American Banker.

If anyone—

The heading is, "Paying for Federal Reserve Bank Free Service," and it reads:

If anyone had told the congressional committees which struggled with the design of the Federal Reserve System at Washington nearly 25 years ago that a time would come when the monetary program of the Reserve banks would be dominated by the necessity of meeting the expenses of the free-par clearing services which they have fostered, they would probably have been laughed out of hearing.

If anyone had predicted then that the Federal Reserve banks would now have invested $2,400,000,000 in United States Government securities, they would have been called crazy.

It was never contemplated, and they have had to resort to this in order to pay their running expenses. Their expenses are very heavy. They have officials receiving $50,000 a year on down. They fix their own salaries, and they must in some way have earnings to pay those salaries. They do not want to come to Congress; Congress would not approve anything like that. Their duties are principally clerical or ministerial now. What do they do? What does a president of the Federal Reserve bank in New York have to do? They are not doing any banking business. They are just holders of United States Government bonds; that is all that they are doing, and they are dominated by the Board here; at least they are supervised by the Board.

I have the report for 1934, and the salaries have not been changed. In New York at that time the Chairman and the Federal Reserve agent each received $50,000 a year. Under the present set-up, I understand that the Governor is president of the Board, and he receives $50,000 a year, and there are all kinds of $35,000, $25,000, and $30,000 salaries in the United States paid to these officials. So in some way they must raise that money.

If the 12 Federal Reserve banks were owned by the United States Government, then these people, as employees of the United States Government, would seek an appropriation just like all other Department heads seek an appropriation, and we would have some right to see how the Government's money is being used. They are using the Government's money all right, and they are spending it as they please, but they are not accountable to Congress or to anyone else.

They have in addition to high salaries a very liberal and generous retirement system for all of their employees, more liberal and generous than any other retirement system that I know of if it is connected with any governmental department or is provided for in the

Social Security Law, and that money is paid by the people of the United States.

Now, why should they be privileged to do that? There is no reason why they should.

Mr. McKEOUGH. May I interrupt?

Mr. PATMAN. Yes, sir.

Mr. McKEOUGH. Have you accumulated the earnings of the Federal Reserve banks since their inception?

Mr. PATMAN. It is about a billion dollars, and, of that amount, one-hundred-and-forty-and-some-odd million dollars has been paid into the Treasury as a franchise tax.

I am glad that you mentioned that, because——

Mr. McKEOUGH. That is on the basis of the existing $130,000,000 outstanding stock?

Mr. PATMAN. It fluctuates according to the banks in the system. It varies from $130,000,000 to $145,000,000, but, of course, that stock would not support the Federal Reserve System. That stock is nothing more than an opportunity to the banks to invest a certain amount of their money in Federal Reserve stock and receive 6 percent on it. Of course, they can only receive about 2.3 percent on Government securities now, long-term, but they receive 6 percent on that stock and it gives them a right to say that they, the private banks of this country, own the Federal Reserve System. They can say that now, but they should not be allowed to say it, and if Mr. Eccles, of the Federal Reserve Board, should attempt to do anything contrary to their policy, of course these 12 advisors sitting there, that legally constituted advisory group, can always bring that out and say, "Now, we own this Federal Reserve System. The Government does not own it. You are operating it for us," and they have a string or lien upon the entire system in that way.

Mr. McKEOUGH. You recall that they asked us to pay some 3 million dollars to take care of that undistributed——

Mr. PATMAN. Yes.

Mr. McKEOUGH. Bank note, with phraseology on it that is not apropos now.

Mr. PATMAN. Yes; I have heard of one having the gall of a government mule, and that is what I would say they had—they had all of the gall of a government mule to send to Congress and ask Congress to pay for the money being destroyed, and they finally wiggled out of it; they did not insist on it when it was exposed.

Mr. REILLY. A question for information.

Would it be possible for Congress to amend the present Federal Reserve Act so as to limit salaries of the Federal Reserve bank officials?

Mr. PATMAN. Yes, sir; I think so.

Mr. GOLDSBOROUGH. I presume that in the course of your discussion some of your witnesses will undertake to advise the committee as to how the powers of Congress over the Federal Reserve System will be enhanced should the stock be owned by the Federal Government.

Mr. PATMAN. Well, of course, Congress has the power now to pass any legislation affecting the Federal Reserve System that Congress desires to pass, but at the same time, whatever legislation we pass, we would have these bankers owning the System, and we have this advisory group, from the biggest banks in the country, advising the board how to carry out their policies, and I think that is one of the reasons why we have not gotten any place with it.

The CHAIRMAN. Let me ask you there what Mr. Goldsborough asked and what I have always desired information about, and that is what effect the ownership of stock in the 12 Federal Reserve banks would have upon the exercising of proper governmental control over the operations and property of those banks.

Mr. PATMAN. We have a right to control them now by law, by mandate—no question about it—but why have the bankers owning the System, if it is a governmental function, for, if it is a governmental function, the Government should operate these banks and control them, and why permit 6,000 private bankers to say:

> We own that System; we are telling you, the members of the Board, that it is our System that you are dealing with; we bought it and paid for it. The Government does not own a dollar's worth of stock, and no individual does.

So they have a string or lien on it by reason of that fact.

The CHAIRMAN. In theory, is not the ownership of the stock of the 12 Federal Reserve banks in exactly the same category as the ownership of the stock in any individual national bank chartered by the Federal Government?

Mr. PATMAN. Well, you can say that, but that is a privilege, the banks owning all of the stock, and they own all of it.

The CHAIRMAN. And isn't this true, too, because it seems to me that there is a practical situation that is involved here, that if we pass a law under which the Federal Government should become the owner of the stock of the 12 Federal Reserve banks—and as to the details of that, there has been no discussion, but assuming that the details can be worked out, without any change in the control of the System, would we not be just exactly where we are now?

Mr. PATMAN. No; we would not. I do not agree with you, Mr. Chairman. I respectfully disagree, and the reason is this——

The CHAIRMAN. If I may say so, I have this view, that the welfare of the country economically is dependent at least to a great extent upon the policies under which the Federal Reserve System is operated in the United States. I am fully sold on the view that wise monetary control is the heart of the successful conduct of trade and commerce and of the economic life of this country. I think that I have a very definite state of mind at that point, but I have never yet seen where the mere ownership of the stock of the 12 Federal Reserve banks would of itself effect a substantial change in the service of the System to the trade and commerce of the country.

Mr. PATMAN. The gentleman's phrase "of itself," I think substantially changes his argument. I think that if you carry your argument to its logical end, you would find yourself contending that private interests should own preferred stock in the battleships. Why should not private interests own preferred stock in battleships, if that is true?

The CHAIRMAN. Since we have a slight difference of view on that matter, let me ask you, on the other hand, why should not the Government own the stock of the various national banks in the United States that have been chartered by the Government, because, after all, their operations come closer to trade and commerce than do the operations of the Federal Reserve System itself?

Mr. PATMAN. Oh, no; the gentleman is entirely mistaken, according to my view. The Federal Reserve bank is more in line, in what it does, with a function of the Treasury, and the governmental institution should be the one to issue the Government's credit and moneys, and I think the gentleman could just as logically contend that the banks should own the Treasury of the United States. So, you see, our Federal Reserve boards are more parallel and comparable with the Treasury than they are with the private banks. The banks lend money, they are banks of discount, they receive deposits and make loans, but the Federal Reserve banks are not intended to deal with individuals at all—were never intended to deal with private corporations except banks. They have an entirely different function to perform.

The CHAIRMAN. I still have some grounds for my previous conviction that there should be a diffusion of power and authority in the Nation, that that is a desirable condition, rather than to have the drift into which we have fallen toward federalization and centralization.

Mr. PATMAN. Granted.

The CHAIRMAN. I think that that applies peculiarly to banks, and, so far as I am concerned, I should have been happv always if we had not come upon the necessity for establishing the Federal Reserve System originally, but I do think that conditions had come to the point that that was a very necessary and wise step, but, for my part, I do not wish to go one step further in federalization than we find necessity for, and if we can control the Federal Reserve System and its operation so as to make it serve individual banks, State and National, very well. The State banks, as a matter of fact, have in one respect an advantage over the national banks, because the national banks under the Federal Reserve Act, were required, under their charters, of necessity to become a member of the Federal Reserve System, but the State banks have the advantage in that they may join or not join, as their managers may think best. Of course, you and I are in accord in our views on that point; you and I are agreed that these independent community banks in the country are desirable and wholesome and should be maintained, supported, and preserved in all their full vigor and usefulness, as far as it is possible to do it.

Mr. PATMAN. In answer to that——

The CHAIRMAN. I am taking more of your time than I should.

Mr. PATMAN. In answer to that, while we diffuse this power that you were talking about, let us not give it to those who are selfishly interested, regardless of the business, occupation, or profession that happens to be invoked. Would the gentleman contend for a moment that railroad owners should have anything to do with fixing freight rates? I know that he would not do that. Yet he is taking the side of the banks—and I say that respectfully—he is taking the side that they should have considerable power in dealing with money, the same power that they have now.

The CHAIRMAN. I have not said that.

Mr. PATMAN. I thought you said that it was all right to diffuse this power.

The CHAIRMAN. I do not for a moment hold the view that private bankers should be permitted to control the monetary policy of this

Nation. I am in accord with your view, which I think is the view of everyone here, that the control of money is a governmental function.

Mr. PATMAN. Let me use these charts right here——

Mr. CRAWFORD. May I ask a question?

Mr. GIFFORD. Don't get to the charts just yet.

I regard this bill as perhaps preliminary legislation. If it were passed, and the Federal Reserve System were then under Federal ownership, then you could mandate the Board of Governors in connection with the 100-percent reserves.

Mr. PATMAN. Not mandate them.

Mr. GIFFORD. And then go on and mandate them to mop up the debt so that we would not pay interest. Is this preliminary legislation?

Mr. PATMAN. Well, as I view it, the social-security fund will eventually absorb the national debt. It is absorbed, quite a bit of it, each year now. It is going to take 45 or 55 years. If we should take over the 12 Federal Reserve banks, we could let these banks buy all of the Government bonds that were offered for sale at par and accrued interest, and save the Government that interest, and then protect the banks, as I suggested, by permitting them to carry these bonds or securities at par or accrued interest on their books, and that would permit the Federal Reserve Board to take their eyes off of the Government security market only, and to look at the commodity prices, and to look at the carloadings and the bank clearings.

Mr. GIFFORD. Is this preliminary?

Mr. PATMAN. Preliminary? No; this is one of the objectives.

Mr. GIFFORD. You favor the 100-percent reserve?

Mr. PATMAN. No; I am not advocating the 100-percent reserve, and I would not like to discuss it now.

Mr. GIFFORD. Those who do favor it favor your bill, do they not?

Mr. PATMAN. Probably they would, but that is not a reason why even the gentleman should not favor it if he is opposed to the 100-percent reserves.

Mr. GIFFORD. And others, having certain schemes of their own, are backing up the gentleman's bill, are they not?

Mr. PATMAN. Our distinguished chairman, a gentleman whom we all love, introduced an 8-billion-dollar bill yesterday, and, having that in mind, while I used to be called an inflationist, I suspect that I will soon be accused of being a reactionary.

Mr. GIFFORD. If this bill were passed, it would make it easier for all of these other Members who have bills to get theirs acted upon, would it not?

Mr. PATMAN. They have no connection at all with this.

Mr. GIFFORD. They all support your bill, thinking that.

Mr. PATMAN. You cannot say that all of them support it. I have not made any canvass on that, but that is nothing against the bill if they do support it.

Mr. GIFFORD. The committee must recognize the fact that some of these people are in favor of your bill because its passage will make it easier for other things to follow.

Mr. PATMAN. Let us stay on this one thing, and if other people want to do different things, we will have to take them up when they are presented.

The CHAIRMAN. Mr. Crawford has a question.

Mr. CRAWFORD. Mr. Patman, going back to this ownership of stocks, have you in your research found why the stock went to the member banks originally instead of being held by the Government?

Mr. PATMAN. The original law permitted the Government to purchase a part of the stock, and if I am not mistaken, it permitted individuals to purchase it, but for some reason, and I am not familiar with the reason, the banks only purchased the stock, and, of course, if they had only purchased $1 worth, that would be sufficient, because they are doing business on the Government's credit, using as their backlog their only reserves and expecting them to do double duty.

Mr. CRAWFORD. Have you found anything in your research which would give you a lead as to where you might ascertain exactly why private banks and not the Government bought the stock of the Reserve banks?

Mr. PATMAN. Oh, yes. It can be found in the Congressional Record easily; no question about that, and I also know, in connection with the location of these banks, that the Secretary of the Treasury at that time, Mr. McAdoo, and maybe two other people, were privileged to select the sites, and I know that, for instance, in the case of New Orleans, several other cities wanted to be the Federal Reserve bank center, and Minneapolis and Cleveland the same way. They could not give it to all, and they gave it to some, and said to others, "We will give you branches later on," and I think that that contributed to the establishment of the 25 branches of the Federal Reserve System. Pittsburgh, Pa., got one that way.

In 1921 we had in this Nation more than 30,000 banks. Of course, many of those banks were small, but they are the ones that serve the communities and the people. At one time 90 percent of all of the earnings of the banks came from commercial loans. That was true of the big banks as well. But now a very small percentage of their earnings come from the commercial loans. Therefore, in encouraging the small bank we are encouraging the real banking business to help the people of this Nation.

Mr. TRANSUE. I have a question right there. You say that approximately 90 percent of the earnings of the banks were from commercial loans?

Mr. PATMAN. That is right.

Mr. TRANSUE. Have the banks stopped lending in a commercial way? Is that the reason, or what is the reason?

Mr. PATMAN. They have a good reason for it, and if I were a banker I would consider it. I would be charged with the duty not to look after the Government, but to look after my stockholders and my depositors, and as it is now the banks hold more than 18 billion dollars worth of Government securities. That gives them a considerable return, and this committee, including myself and every Member of the House should assume some responsibility for this, that we have placed the banks in a position where they are not so eager for loans. In 1935, when the Banking Act was passed, there was a provision in it that hereafter it shall be unlawful—imagine making it a crime—for a bank to pay interest on demand deposits. That has saved the banks $250,000,000 a year. In addition to that, there was a provision that the interest rates on time deposits would be fixed by either the Comptroller of the Currency or the Federal Reserve Board—I forget which—in connection with the national banks, and by the Federal

Deposit Insurance Corporation in connection with those insured by the F. D. I. C. which are not in the Federal Reserve System. That resulted in interest on time deposits being slashed, until they are saving about $250,000,000 on that, I think, but they are saving enough money on those two provisions to pay all of their help, including clerical expense—their office help, their officials, their directors—all of their expenses can be paid by those savings, and then, in addition to that, they are drawing interest on the Government bonds, and any time they want money, they can take them to the Federal Reserve bank and get their money just like that, instantly, and pay 1½ percent interest, and if the bond draws 3 percent, they collect 3 percent from the Government.

So there is not as much inducement for the banks to go out and get commercial loans as they did before, and we have contributed to that situation.

Mr. McKeough. Isn't that an instance of Government interference with private business?

Mr. Patman. Yes; I think it is, but the people who are always screaming about these things did not scream about that, and it was perfectly all right, because there was no objection from any of these people. I did not even hear from my good friend from Massachusetts.

Mr. Gifford. You have mentioned your good friend, so I will ask this:

If you buy the stock of the Federal Reserve banks, with about 12,000 people in them, they will all be poltical employees, will they not?

Mr. Patman. No. We will put them all under the civil service except the officers and the directors. In fact, it will not be political so far as appointments are concerned at all.

Mr. Gifford. Can the civil service determine the ability of a person in the banking business?

Mr. Patman. I am not talking about the officers and directors, but about those under them, and I would be willing to stagger it so that no one President could appoint a majority of them.

The Chairman. May I parenthesize right there?

Mr. Patman. Yes, sir.

The Chairman. Some years ago a committee of Congress visited the land banks, and there was considerable discussion about the policies of Federal Reserve management, and I facetiously made the suggestion that it would not be long when it would be insisted that bank officials and employees out in the country should all be under the civil-service standards set by the Federal Government. It was intended to be facetious, and was so regarded, but it was not many years until the fact developed that in high circles it was seriously considered that all officers of banks in the country ought to be subjected to civil-service tests, and if you followed it to that point you could not begin a community bank in Texas or Alabama under the old system, under which our people once prospered.

Mr. Patman. I think that is beside the point.

The Chairman. I said I wanted to parenthesize.

Mr. Patman. There are certain things that the Government should control. The Constitution says that it is the duty of Congress to coin money and regulate the value of it. Let us do so.

The CHAIRMAN. But you were talking about applying civil-service rules to the officials of the banks.

Mr. PATMAN. Oh, no. I hope that the gentleman does not leave the impression that I am advocating that the officials of the National or State banks be under civil service. I am talking about the 12 Federal Reserve banks.

There are certain things that the Government should do. One of them is about its national defense. We know that the Government should control, operate, and own battleships. We know that Government, States, or political subdivisions thereof, should own our highways and bridges. We know that some political subdivision, State, county, or school district, should control our schools. There are certain functions that the Government should perform. I am not in favor of Government ownership of private business. I am opposed to it. I am in favor of private profit, to encourage people to go into business, and I am in favor of the Government staying out of business so that local individuals or others may engage in it, but when it is in the Government's interest and in the interest of the people to do something that the Constitution provides the Government shall do, that is a different matter.

I well remember, Mr. Chairman, when you were the author of a bill that considerably interfered with private business from the bankers' standpoint, when you presented a bill to insure the deposits in banks. People screamed out all over this nation that you were interfering with their business, that it would be a failure, and so forth. That bill had the opposition of and criticisms from those who are opposed to the Government owning the Federal Reserve today.

The CHAIRMAN. Of course, the purpose of that bill was to protect the deposits of the public, so that we could have a continuance of the dual system of independent community banking in the United States operated in the old way by the citizens of the communities who were the officers of those banks.

Mr. PATMAN. But it was called Government interference, just like the regulation of the interest rate on deposits.

The CHAIRMAN. The gentleman will permit me to say that I am also in some slight sense at least responsible for the Banking Act of 1935, in which we placed control of the Federal Reserve System in the hands of officials responsible to the Government as distinguished from private bankers, and in which we liberalized that law in numerous ways and conferred full power upon the Federal Reserve Board to liberalize the policies of the Federal Reserve System and to exercise its control so as to meet the necessities of trade and commerce.

Mr. PATMAN. I concede that a step was made in that direction; but Mr. Chairman, you know as well as I do that the Federal Reserve Board—and I like Mr. Eccles and all of the members of the Board whom I have had the pleasure of meeting and associating with; there is not a personal difference between us, but I have failed to notice any activity on their part except when the Government bond market was involved. They are charged with the duty of protecting commodity prices just as much as they are charged with protecting the price of Government bonds.

The CHAIRMAN. Since I have said so much in connection with the gentleman's discussion let me say that I do not endorse all of the acts and policies of the Federal Reserve Board, as they well understand from expressions that I have respectfully made to them, and I have never approved of their policy in raising the reserve requirements, the effect of which I think has been ably stated by the gentleman.

Mr. PATMAN. Let me finish——

The CHAIRMAN. I do not approve that now; and if I were permitted to say what their policy should be, I think that they might exercise their powers more helpfully than they have.

Mr. PATMAN. Well, I think that it is our duty as representatives of the people to let these people know those things, but I do not know of any other forum where we can make our wishes known. I doubt that we would be very welcome if we were to go before the Board and express our views; so here is the place for us to express them.

When the Government bond market takes the least slide, they get right into action to protect them; they have done that every time. But when commodity prices and retail sales and everything else just take a tail spin they have paid no attention to it. The stock market one time last year, according to the newspapers, went down $5,000,000,000 in the value of all securities in 1 day. Of course, I realize that some people claim that it does not affect the country. I claim that it does. I have heard prominent men in the House say that the stock market never did give anyone a job, so why pay any attention to it. But I believe that when that market goes down $5,000,000,000 in 1 day, American citizens are worth $5,000,000,000 less than they were before, and it will affect their purchasing power and certainly affect us, whether we own stocks or not.

RESERVE REQUIREMENTS RAISED A MISTAKE

Now, these reserve requirements were, I believe, 7, 10, and 13 percent, 7 percent in the reserve country banks, so that they only had to have $7,000 in reserves in order to be able to cover deposits amounting to $100,000. In the central banks, with $10,000 in reserves, they could lend $100,000, which is accepted as deposits, and in the control cities, Chicago and New York, with $13,000 in reserves they could make loans amounting to $100,000, which are accepted as deposits, but when the Federal Reserve Board doubled these requirements, they said to the country banks, "You have to have twice as much behind your deposits as you had before," and I claim that that was highly deflationary. This was done in 1936 shortly after the veterans' money was distributed and caused a depression. The soldier money was causing prosperity.

In addition to that, the gold was sterilized, and deflationary talks were made, which caused us to go into this depression, just like Major Angas has said that words can bring us out of it.

Mr. FORD. I just want to clear for the record one statement. You say that the prohibiting of all interest on demand deposits, and the cutting of the rate on all time deposits, saved the bankers $430,000,000.

Mr. PATMAN. At least that. I think nearer $500,000,000.

Mr. FORD. Was that the purpose for which Congress authorized that, or was it not this purpose—and let us get the record clear—was it not represented to Congress that it was the bidding for deposits on the part of banks and paying more for those deposits than they could afford to pay that brought about the failure of hundreds and thousands of banks in the United States that caused us to take that action?

Mr. PATMAN. I suspect that entered into it, but we could have placed a limit on it.

Mr. FORD. But that was the objective at the time.

Mr. PATMAN. I am not going to admit that I was only offering to help the banks by voting them $500,000,000 in profits.

The CHAIRMAN. Of course, I do not want to keep on intruding, but, as a matter of fact, everybody understands that the reason for enlarging the power of the Federal Reserve Board and of the Federal Deposit Insurance Corporation so as to control the interest on time deposits was to prevent bidding by banks in a weakened condition against sound banks in order to secure those time deposits, and, as a matter of fact, I have always deplored the situation that permitted a bank to go out into a community and borrow from individual citizens money in the guise of deposits when the same banker could not have gone to a man across the table and obtained that loan in the regular way.

Now, the House is in session, and we will resume the hearing tomorrow morning.

(Thereupon, at 12:15 p. m., an adjournment was taken until Thursday morning, March 3, 1938, at 10:30 o'clock.)

OWNERSHIP AND CONTROL OF WEALTH

INTRODUCTION

The national wealth of the United States of America is estimated at approximately 320 billion dollars, and the population of this country at 128 million as at the end of 1935. This vast amount of wealth and the large number of people whose economic existence is affected by its ownership and control have made this subject one of increasing importance to every individual.

The importance of this subject is further emphasized by the increase that has taken place in our population, national wealth, and per capita wealth since 1900, shown as follows:

Year	Population (thousands)	National wealth (billions)	Per capita wealth
1900	76,129	$88.5	$1,163
1904	82,601	107.1	1,297
1912	95,097	186.3	1,959
1922	109,872	320.0	2,912
1929	121,526	385.0	3,168
1935	127,521	320.0	2,509

This study has been made to ascertain if there is a concentration of the ownership of wealth in a few groups, how the control of this wealth is exercised and to determine any trends relating to the concentration and control of wealth. This study, due to the magnitude of the subject can deal only with the major phases of ownership and control of wealth.

Almost 40 percent of our national wealth is owned by nonfinancial corporations, the remainder is represented by the wealth owned by financial corporations and by agricultural land and improvements, residential real estate, personal property, including automobiles, and the large volume of Government property. To ascertain if there exists a concentration of wealth we have, in this study, dealt with the wealth in the hands of corporations, and the resources of financial corporations and institutions. While that part of the wealth represented by agricultural land and equipment, residential real estate, etc., is not directly covered in this study, much of this wealth is indirectly influenced by the major corporate units dealt with in this study.

REFERENCE MATERIAL

In connection with the study, the following material has been reviewed and is listed here for reference in the event any additional information may be desired:

1. The Modern Corporation and Private Property, Berle and Means.
2. The Internal Debts of the United States, Evans Clark.
3. Concentration in American Industry, Harry W. Laidler.
4. Statistical Abstract of the United States, 1935.
5. Lords of Creation, Frederick Lewis Allen.
6. Moody's Manual of Banks, Insurance, Real Estate Investment Trusts, 1930, 1936.
7. Moody's Manual of Steam Railroads, 1930, 1936.
8. Moody's Manual of Public Utilities, 1930, 1936.
9. Poor's Industrial Manual, 1930, 1936.
10. Poor's Register of Directors, 1937.
11. National Income of the United States, 1929, 1935.
12. National Wealth and Income, Federal Trade Commission, 1926.
13. The New Freedom, Woodrow Wilson.
14. Weeds of Wall Street, Wickwire.
15. Other People's Money, Brandeis.

Several of the above books have bibliographies listing addititonal reference material on this subject.

DIVISIONS OF STUDY

After a review of the material and data available relating to the concentration and control of wealth, it was decided to treat the study in three major divisions as follows:

A. The concentration of corporate wealth in major corporations.

B. The concentration of banking resources in the largest commercial banks.

C. The interlocking control of the major corporations, financial institutions, and largest commercial banks.

These are discussed in the order listed. A summary is included for each division, the final summary covering the entire study. The previous general and introductory material is included in this first division.

Certain graphic charts which have been prepared illustrate the conclusions reached. These are included for the most part in the final summary.

NATIONAL AND CORPORATE WEALTH

In a study dealing with the concentration of wealth, it is first necessary to have some estimate as to our national wealth for use as a yardstick, and since we propose to study corporate wealth, estimates must be secured as to this division of our national wealth. For the purposes of our study, we have dealt with the corporate wealth of the nonfinancial corporations. Needless to say, estimates of wealth may be controversial. These have been prepared primarily for comparative purposes in order to estimate general relationships. These estimates are shown on the graphic charts attached as exhibits, as follows:

Exhibit No. 1.—Estimate of national wealth (1913–36).

Exhibit No. 2.—Estimate of corporate wealth, nonfinancial corporations (1918–36).

Exhibit No. 3.—Estimate of national income (1913–36).

As indicated by the above exhibits, the recent estimates as to national and corporate wealth were obtained by taking the trend indicated by the national income and applying it to the last available estimates.

From these exhibits the following amounts are used in this study as of the approximate date of December 31, 1935:

National wealth	$320,000,000,000
Corporate wealth (nonfinancial)	120,000,000,000

CONCENTRATION OF CORPORATE WEALTH

For the year 1934, 528,882 corporations filed income-tax returns. Of this number, approximately 300,000 are nonfinancial corporations. This first division of the study deals with the concentration and control of the assets of the major nonfinancial corporations. As estimated, the total wealth of nonfinancial corporations is approximately 120 billion dollars.

A review of the available data indicated that sufficient information relating to the concentration of nonfinancial corporate wealth could be obtained by the study of less than 200 nonfinancial corporations out of a total of approximately 300,000.

In "The Modern Corporation and Private Property" (Berle and Means) it is estimated that 200 of the largest nonbanking corporations, as of January 1, 1930, had assets of $81,077,000,000, and that approximately one-half of the assets of the nonfinancial corporations of the country had been concentrated under the control of these 200 corporations out of a total number in excess of 300,000.

In dealing with the subject of concentration of assets it must be pointed out that the influence of these huge corporations extends beyond the assets under their control, since the smaller corporations which sell to or buy from the larger corporations are likely to be influenced by them to a great extent. Therefore, it would be fair to assume that if the 200 large corporations control one-half of the assets of nonfinancial corporations much more than one-half is indirectly controlled by these same corporations. This concentration is more significant when it is recalled that approximately 2,000 individuals who are the active officers and directors of these 200 corporations, out of a total population of 127,500,000, are in a position to control and direct more than one-half of industry.

As an illustration to show the extent to which concentration has progressed, the following estimates are significant. These indicate the total assets of the 200 largest corporations at various dates:

Year	Total assets (billions)	Percent increase
1909	$26.0	
1919	43.7	68
1929	81.1	85

In the book previously mentioned, from which the above information was taken, it is indicated that from the period 1909 to 1928 the annual rate of growth of the 200 largest corporations was 50 percent faster than all corporations, or two and one-half times as fast as smaller corporations. During the period of 1924–28 it appears that the larger corporations were growing three times as fast as smaller corporations.

The data on the above 200 nonfinancial was tabulated as of January 1, 1930. No tabulated information of this nature has been available as of a recent date. In order to show the degree of concentration of assets as of a recent date and to furnish specific data relating to the major corporations a tabulation has been prepared of the 175 major nonfinancial corporations showing their assets as of January 1, 1930, and December 31, 1935. In order to obtain comparable data, the number of corporations was reduced from 200 to 175, since several corporations included in the 1930 tabulation were reorganized or merged.

In the information shown on the following pages and in the final tabulation in the third part of this study there are, in a few instances, slight variations in the amounts reported for 1930 when compared with the figures used by Berle and Means. In each case the amount was checked against the manuals and where the variation was slight the amount reported by the manual was used. If a wide variation was indicated, the figure used by Berle and Means was taken, since in some cases certain subsidiaries may have been consolidated for the purpose of the study, which are not ordinarily included in published statements. The amounts for 1935 have been obtained from the manuals and placed on a comparable basis for the purposes of this study. The main purpose of these tabulations has been to ascertain if there is a concentration of wealth.

The 175 largest nonbanking corporations in the United States

	Gross assets on or about Dec. 31, 1929	Gross assets on or about Dec. 31, 1935
AMUSEMENTS	*Millions*	*Millions*
Eastman Kodak Co.	$163.4	$168.3
Loew's, Inc.	124.2	129.2
Paramount Public Corporation	236.7	118.9
Radio Corporation of America	158.6	102.5
Warner Brothers Pictures, Inc.	167.1	168.5
Subtotal	850.0	687.4
CHEMICALS		
Petroleum		
Atlantic Refining Co.	167.2	163.0
Continental Oil Co.	198.0	91.7
Gulf Oil Corporation	430.9	430.2
Ohio Oil Co.	110.6	139.7
Phillips Petroleum Co.	145.3	174.4
Pure Oil Co.	215.4	157.2
Richfield Oil Co. of California	131.9	52.6
Shell Union Oil Corporation	486.4	358.0
Standard Oil Co. of California	604.7	579.5
Standard Oil Co. of Indiana	[1] 825.0	693.5
Standard Oil Co. of New Jersey	1,767.3	1,894.9
Socony Vacuum Oil Co.	[2] 914.1	789.7
Texas Corporation	609.8	473.7
Tide Water Association Oil Co.	251.4	182.8
Union Oil Associates	[1] 240.0	151.6
Other chemicals, soap, etc.		
Allied Chemical & Dye Corporation	277.2	217.5
Corn Products Refining Co.	126.7	50.3
Du Pont de Nemours & Co.	541.9	666.7
Koppers Co.	143.8	177.3
Procter & Gamble Co.	109.4	127.0
Union Carbide & Carbon Corporation	306.6	336.5
Subtotal	8,603.6	7,907.8
COAL		
Consolidation Coal	94.0	34.8
Glen Alden Coal Co.	[1] 300.0	151.3
Philadelphia & Reading Coal & Iron Corporation	129.0	92.9
Pittsburgh Coal Co.	171.5	142.2
Subtotal	694.5	421.2
FOOD PRODUCTS, DRUGS, TOBACCO, ETC.		
Dairy products		
Borden Co.	174.0	120.1
National Dairy Products Corporation	179.9	192.0
Fruit		
United Fruit Co.	226.0	184.9
Meat		
Armour & Co.	452.3	317.1
Swift & Co.	351.2	321.3
Wilson & Co.	98.0	79.1
Sugar		
American Sugar Refining Co.	157.1	117.6
Tobacco		
American Tobacco Co.	265.4	271.6
Liggett & Meyers Tobacco Co.	150.3	170.5
Lorillard (P.) Co.	110.0	58.9
Reynolds Tobacco Co.	163.1	153.9
Others		
National Biscuit Co.	133.2	124.5
Subtotal	2,460.5	2,111.5
GLASS		
Pittsburgh Plate Glass Co.	101.6	109.6

[1] Estimated.
[2] Combined assets of predecessors.

The 175 largest nonbanking corporations in the United States—Continued

	Gross assets on or about Dec. 31, 1929	Gross asset on or about Dec. 31, 1935
LEATHER	*Millions*	*Millions*
International Shoe Co	$111.3	$83.1
LUMBER		
Long-Bell Lumber Corporation	116.1	67.5
MERCANTILE		
Great Atlantic & Pacific Tea Co	132.7	184.2
Kresge Co	109.5	118.5
Macy, R. H. & Co	[1] 97.0	90.5
Marxhall Field & Co	142.7	97.0
Montgomery Ward & Co	187.5	168.6
Sears, Roebuck & Co	251.8	234.0
Woolworth & Co	165.4	192.2
Subtotal	1,086.6	1,085.0
METAL PRODUCTS		
Automobiles		
Chrysler Corporation	209.7	193.5
Ford Motor Co	761.0	681.5
General Motors Corporation	[1] 1,400.0	1,414.0
Studebaker Corporation	134.2	30.2
Electrical equipment		
General Electric Co	491.6	398.1
Westinghouse Electric & Manufacturing Co	253.9	194.4
Machinery		
Deere & Co	84.7	79.6
International Harvester Co	384.0	365.2
United Shoe Machinery Corporation	94.1	96.3
Others		
American Can Co	191.3	209.0
American Car & Foundry Co	119.5	95.1
American Locomotive Co	106.2	54.2
American Radiator & Standard Sanitary Corporation	199.4	159.1
Baldwin Locomotive Works	98.8	69.6
Crane Co	115.9	95.1
Subtotal	4,644.3	4,134.9
METALS		
Aluminum		
Aluminum Co. of America	234.7	222.9
Copper and lead		
American Smelting & Refining Co	241.0	173.7
Anaconda Copper Mining Co	680.6	581.5
Kennecott Copper Corporation	337.8	323.5
National Lead Co	108.4	104.0
Phelps Dodge Corporation	124.7	185.1
Iron and steel		
American Rolling Mill Co	104.3	42.7
Bethlehem Steel Corporation	801.6	673.0
Cliffs Corporation	98.0	102.2
Crucible Steel Co. of America	124.3	109.1
Inland Steel Co	103.2	118.3
Jones & Laughlin Steel Corporation	222.0	184.9
National Steel Corporation	120.8	180.5
Republic Iron & Steel Co	331.7	297.4
United States Steel Corporation	2,286.1	1,822.4
Wheeling Steel Corporation	127.9	113.0
Youngstown Sheet & Tube Co	235.7	207.4
Subtotal	6,282.8	5,441.6
PAPER		
Crown Zellerbach Corporation	117.7	101.3
International Paper & Power Co.[3]	767.1	828.2
Minnesota & Ontario Paper Co	90.3	78.2
Subtotal	975.1	1,007.7

[1] Estimated.
[3] Includes utility properties.

The 175 largest nonbanking corporations in the United States—Continued

	Gross assets on or about Dec. 31, 1929	Gross assets on or about Dec. 31, 1935
PUBLIC UTILITIES		
Communications	*Millions*	*Millions*
American Telephone & Telegraph	$4,228.4	$4,901.5
International Telephone & Telegraph Corporation	535.2	513.7
Western Union Telegraph Co	359.2	382.7
Electricity and gas		
American Water Works & Electric Co	408.3	434.6
Associated Gas & Electric Co	900.4	1,016.7
New England Gas & Electric Association	108.7	108.5
Cities Service Co	989.6	1,250.3
Consolidated Edison Co. of New York	1,171.5	1,376.9
Consolidated Gas, Electric Light & Power Co. of Baltimore	135.9	160.1
Detroit Edison Co	296.1	327.1
Duke Power Co	212.1	213.5
Edison Electric Illuminating Co. of Boston	156.3	181.8
Electric Bond & Share Co	1,002.6	551.9
American Gas & Electric Co	431.0	467.6
American Power & Light Co	754.1	795.9
Electric Power & Light Corporation	[4] 489.7	683.8
National Power & Light Co	[4] 575.3	586.5
Commonwealth Edison Co	[1] 440.0	448.3
Peoples Gas, Light & Coke Co	192.1	211.3
Public Service Co. of Northern Illinois	190.0	226.0
Koppers Co. group:		
Brooklyn Union Gas Co	123.7	121.8
Eastern Gas & Fuel Association	167.1	227.9
Lone Star Gas Corporation	127.7	158.5
North American Co	908.7	891.3
North American Light & Power Co	320.1	328.7
Pacific Gas & Electric Co	454.0	725.8
Pacific Lighting Corporation	240.5	261.0
Southern California Edison Co., Ltd	340.6	393.8
Stone & Webster, Inc	474.3	397.5
United Corporation group:		
Columbia Gas & Electric Corporation	671.2	703.9
Commonwealth & Southern Corporation	1,133.7	1,173.8
Niagara Hudson Power Corporation	756.9	648.0
Public Service Corporation, N. J	634.6	694.0
United Gas Improvement Co	802.0	802.0
United Light & Power Co	557.3	597.3
Utilities Power & Light Corp	401.8	404.7
Subtotal	22,040.7	23,368.7
RAILROADS		
Alleghany Corporation:		
Erie Railroad Co	601.3	620.6
Kansas City Southern Ry. Co	149.4	137.9
New York, Chicago & St. L. R. R. Co	291.1	286.9
Wheeling & Lake Erie Ry. Co	109.8	105.1
Atchison, Topeka & Santa Fe Ry	1,135.4	1,272.2
Atlantic Coast Line R. R. Co	390.4	368.2
Baltimore & Ohio R. R. Co	1,040.8	1,199.6
Chicago & Alton R. R. Co	172.4	85.1
Western Maryland Ry. Co	175.1	171.7
Chicago & Eastern Illinois Ry. Co	101.5	83.8
Chicago, Great Western R. R. Co	149.9	145.7
Chicago, Milwaukee, St. Paul & Pacific R. R. Co	787.0	741.0
Chicago, & North Western Ry. Co	741.6	672.2
Chicago, Rock Island & Pacific Ry. Co	512.0	529.5
Chicago Union Station Co	96.8	88.9
Delaware & Hudson Co	110.7	113.4
Delaware, Lackawanna & Western R. R. Co	223.6	215.3
Denver & Rio Grande Western R. R. Co	227.5	243.1
Florida West Coast Ry. Co	130.6	133.4
Great Northern Ry. Co	851.1	856.6
Northern Pacific Ry. Co	813.9	834.9
Chicago, Burlington & Quincy R. R. Co	712.0	667.8
Spokane, Portland & Seattle Ry	172.7	156.1
Missouri-Kansas-Texas R. R. Co	320.2	261.3
New York Central R. R. Co	2,250.0	2,249.4
New York, New Haven & Hartford R. R. Co	600.7	587.9
Boston & Maine R. R. Co	278.8	320.0
Pennsylvania R. R. Co	2,600.0	2,724.3
Lehigh Valley R. R. Co	251.2	243.1
Norfolk & Western Ry. Co	542.3	529.7
Wabash Ry. Co	350.3	344.3

[1] Estimated.
[4] 1930.

The 175 largest nonbanking corporations in the United States—Continued

	Gross assets on or about Dec. 31, 1929	Gross assets on or about Dec. 31, 1935
RAILROADS—continued	*Millions*	*Millions*
St. Louis-San Francisco Ry. Co	$473.8	$462.1
St. Louis Southwestern Ry. Co	146.7	139.4
Seaboard Air Line Ry. Co	295.8	291.9
Southern Pacific Co	1,175.9	1,211.7
Southern Ry. Co	680.2	624.2
Union Pacific R. R. Co	1,108.0	1,172.6
Illinois Central R. R. Co	722.3	716.6
Virginian R. R. Co	160.5	165.4
Western Pacific R. R. Corporation	171.8	166.9
Subtotal	21,926.1	21,939.8
REAL ESTATE		
U. S. Realty & Improvement Co	128.4	29.4
RUBBER		
B. F. Goodrich Co	163.6	124.0
Firestone Tire & Rubber Co	161.6	139.2
Goodyear Tire & Rubber Co	243.2	192.3
United States Rubber Co	307.8	159.3
	876.2	614.8
TEXTILES		
American Woolen Co	113.9	71.0
TRACTION		
Boston Elevated Ry. Co	121.1	127.5
Brooklyn & Manhattan Transit Co	288.5	335.8
Chicago Railways Co	118.9	123.9
Hudson Manhattan R. R. Co	139.7	135.5
Interborough Rapid Transit Co	458.6	557.0
Philadelphia Rapid Transit Co	105.7	98.2
Third Ave. Railway Co	95.1	87.4
Subtotal	1,327.6	1,465.3
TRANSPORTATION		
Pullman, Inc	281.5	276.2
Total	72,620.8	70,822.5

The relationships of the total assets of the previously listed companies to the national and corporate wealth is indicated by the following tabulation:

Relationship of assets of 175 major nonbanking corporations to corporate and national wealth

	Jan. 1, 1930	Dec. 31, 1936
	Millions	*Millions*
Assets of 175 major nonfinancial corporations	$72,620.8	$70,822.5
Wealth of nonfinancial corporations	$135,000	$120,000
Percent 175 corporations	53.8	58.7
National wealth	$385,000	$320,000
Percent 175 corporations	18.9	22.1

From the above it is apparent that there is a decided concentration of assets in the hands of 175 major nonfinancial corporations, and there is no indication that the trend toward further concentration will not continue.

The relationship of the companies listed to our everyday living is sometimes difficult to comprehend. Figures alone do not tell the complete story.

PEOPLE COMPELLED TO PATRONIZE LARGE CONCERNS

These great companies represented in the previous list form the very framework of American industry. The individual must come in contact with them constantly. He may own an interest in one or more of them. He may be employed by one of them. At least, he is continually accepting their services. If he travels any distance, he is almost certain to ride on one of the great railroad systems whose engines have been constructed by the American Locomotive Co. or the Baldwin Locomotive Works. The car in which he rides was probably made by the American Car & Foundry Co. or one of its subsidiaries, unless he is enjoying the services of the Pullman Co. The rails were supplied by one of the major steel companies. If he travels by automobile, probably the car was manufactured by General Motors, Chrysler, or Ford, and his tires supplied by Firestone, Goodrich, Goodyear, or United States Rubber Co. Even if the individual stays in his own home in comparative isolation and privacy, his electricity and gas are probably furnish by one of the major public utility systems, the aluminum in his kitchen utensils by the Aluminum Co. of America, his electric refrigerator by General Motors, General Electric, or Westinghouse, and the chances are the Crane Co. has supplied his plumbing fixtures, and the American Radiator & Standard Sanitary Corporation his heating equipment. He usually buys some of his groceries from the Great Atlantic & Pacific Tea Co., a company that in 1930 expected to sell one-eighth of all the groceries in this country. The cans which contain his food may have been made by the American Can Co. or Continental Can Co. His sugar was refined by one of the major companies, such as American Sugar Refining Co.; his meat was probably prepared by Swift, Armour, or Wilson; and his crackers put up by the National Biscuit Co. The newspaper he reads may be printed on International Paper Co. paper, and the radio he uses will almost of necessity be made under the license of the Radio Corporation of America. If he goes to a movie he probably will see a Paramount, Fox, or Warner Bros. picture taken on Eastman Kodak film, in a theater controlled by one of these producing groups. If he smokes cigarettes he will usually find himself smoking one of the many brands put out by one of the big four tobacco companies.

In studying the growth of the corporate system and the concentration of wealth in corporations there are other phases that may be considered.

SILENT PROCESS

The concentration of wealth in a few corporations is a silent process. Generally, little public attention is focused in the gradual acquisition of one corporation by another, and the objectives that individuals may have in building and expanding these major corporations are not realized until the results have been accomplished. It is the essence of evolutions of the more silent sort that they are not recognized until they are far advanced. This was the case with the so-called industrial revolution and is the case with the corporate revolution through which we are at present passing.

Frequently in these major corporations ownership is so widely scattered that working control can be maintained with but a minority interest. Separation of ownership and control becomes almost complete, and not even a substantial minority interest exists, as in the American Telephone & Telegraph Co. In the case of both minority control and management control the separation of ownership from control has taken place, and a large body of security holders has been created who exercise virtually no control over the wealth which they or their predecessors in interest have contributed to the enterpris.

The corporate system further commands attention because its development is progressive as its features become more marked and as new areas come, one by one, under its sway. Economic power in terms of control over physical assets is apparently responding to a centripetal force tending more and more to concentrate in the hands of a few corporate managements. As the same time, beneficial ownership is centrifugal, tending to divide and subdivide, to separate into smaller units. In other words, ownership continually becomes more dispersed—the control and power formerly joined to it, increasingly concentrated.

SUMMARY

Summarizing this section dealing with concentration of assets in nonbanking corporations, the following conclusions may be drawn:

1. There exists a decided concentration of nonfinancial corporate wealth in the major corporations.
2. The assets of the 175 companies out of a total of 300,000 represent approximately one-fifth of the national wealth and one-half of nonfinancial corporate wealth.
3. The control exercised by the 175 corporations extends beyond the assets owned due to the number of smaller corporations and others who buy from and sell to them.

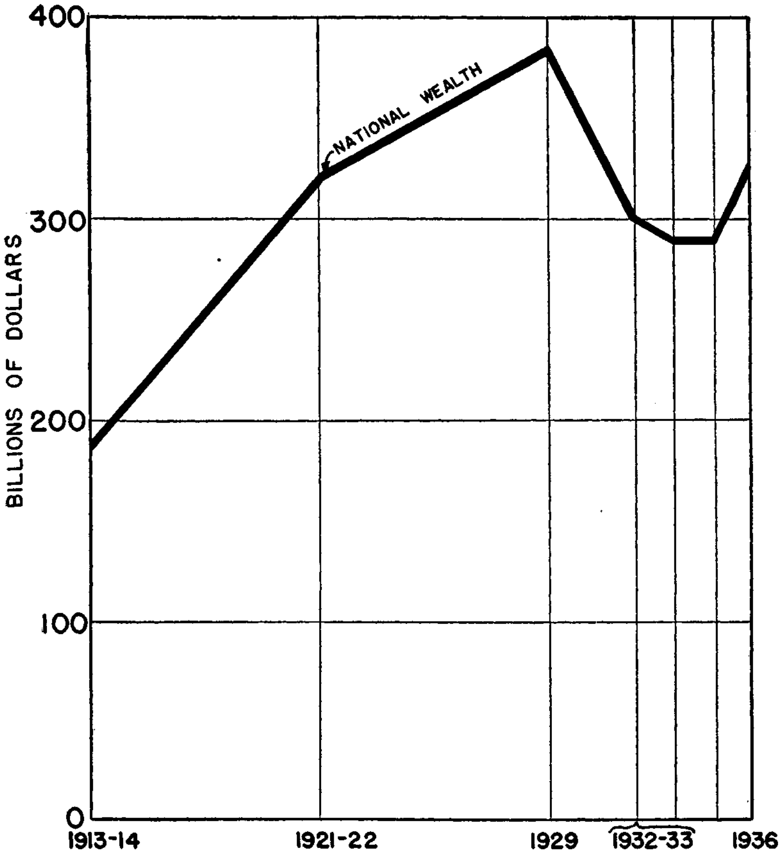
4. The trend continues toward further concentration in this field.

5. The control of this wealth is in the hands of less than 2,000 active directors and officers.

6. The assets of the 175 major corporations extend into every State in the Union and directly affect the economic welfare of every section of this country.

7. The attached exhibits and charts present graphically the important points covered in this part of the study.

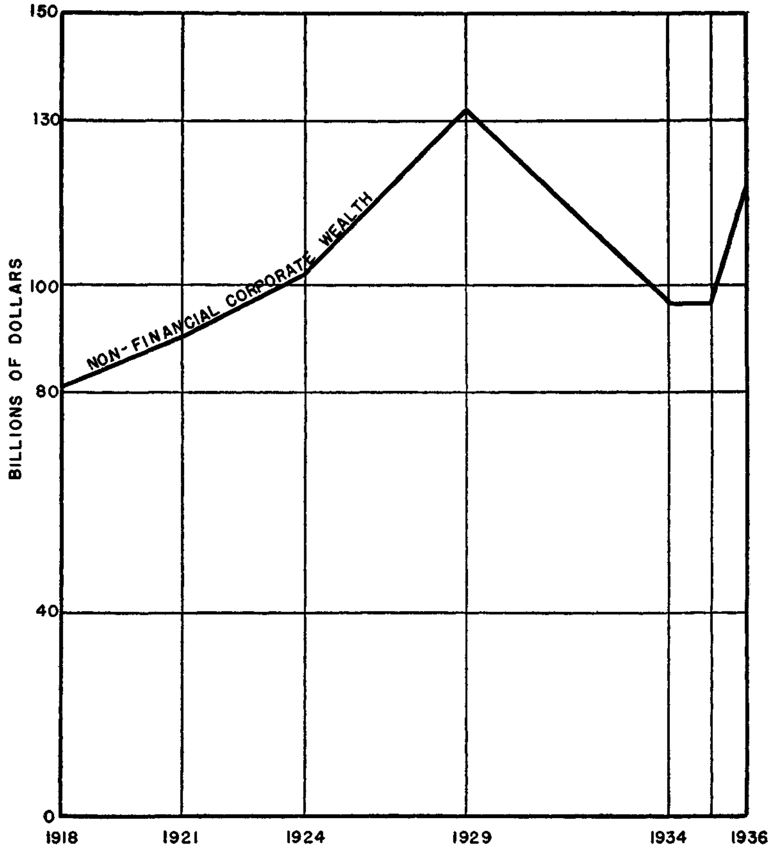
EXHIBIT NO. 1.—ESTIMATE OF NATIONAL WEALTH



[1913–33, "The Internal Debt of the United States." (Clark.) 1934.—Estimate suggested by United States Census Bureau. 1935.—No information available—1934 estimate assumed. 1936.—No information available—1934 estimate increased by 19 percent following trend of national income]

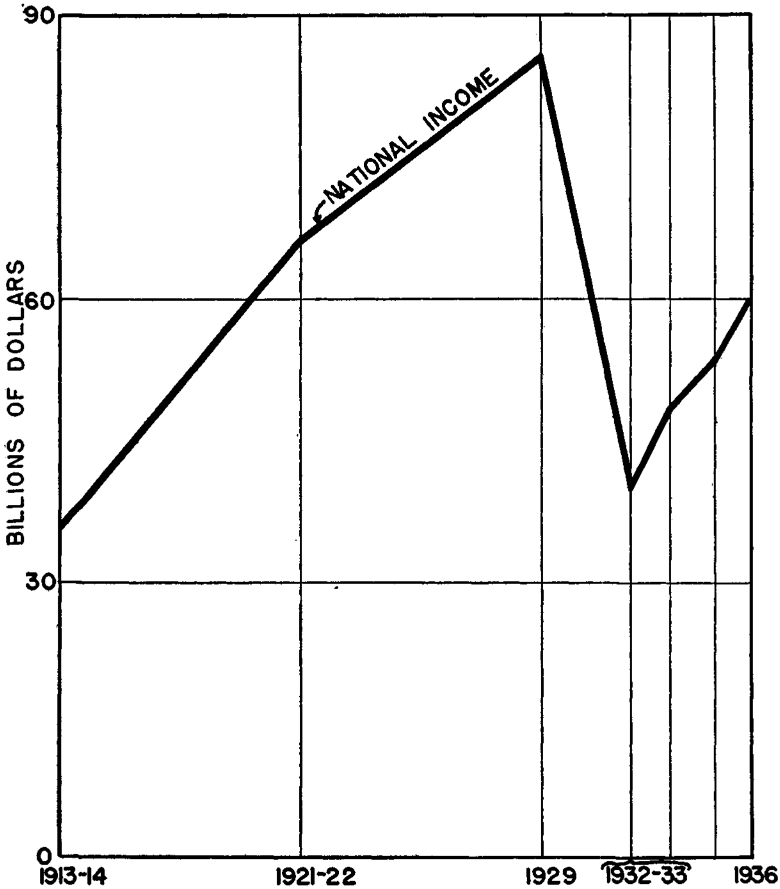
EXHIBIT NO. 2.—ESTIMATE OF CORPORATE WEALTH

[Nonfinancial corporations]



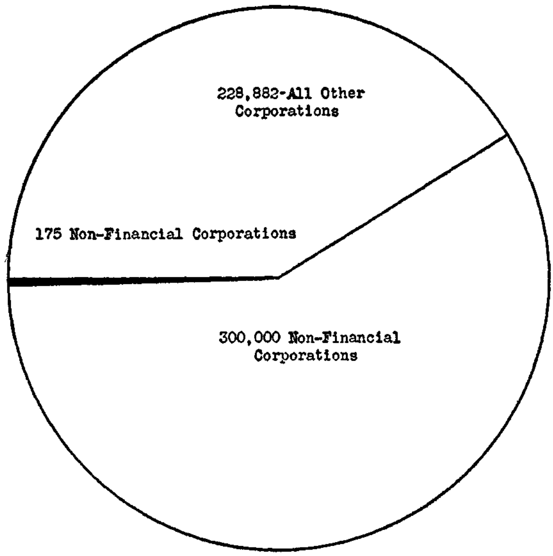
[To 1929.—From "The modern corporation and private property." From 1929 to 1936.—Same ratio of change as national wealth]

EXHIBIT No. 3.—ESTIMATE OF NATIONAL INCOME



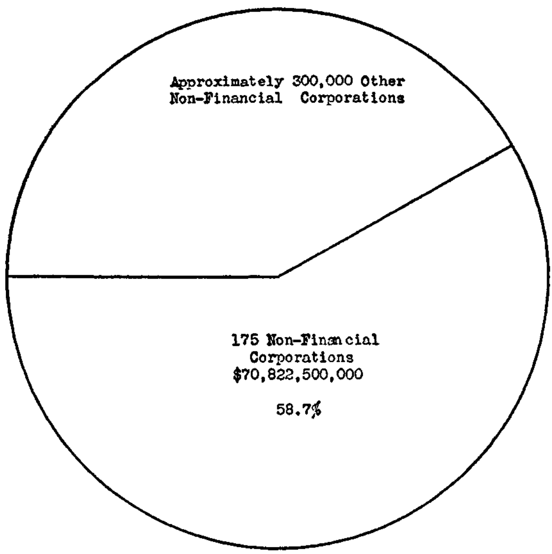
[1913–33.—From "The Internal Debts of the United States" (Clark). 1934–36.—Estimate from United States Census Bureau]

PART I, No. 1—RELATIONSHIP OF NONFINANCIAL AND ALL OTHER CORPORATIONS TO TOTAL CORPORATIONS



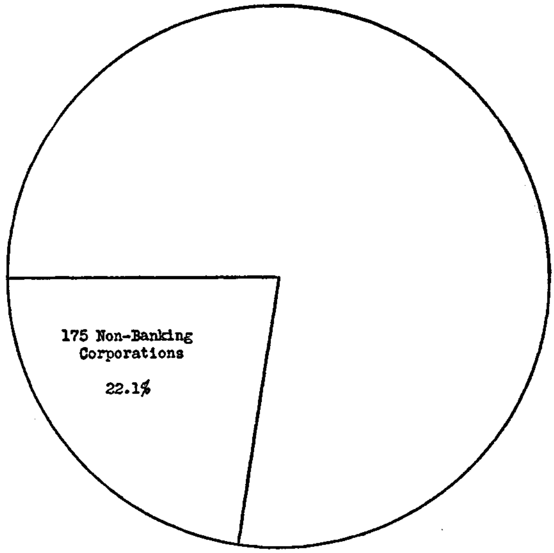
[Estimated for 1934. Based on Federal income-tax returns—year 1934]

PART I, No. 2.—RELATIONSHIP OF ASSETS OF 175 MAJOR NONFINANCIAL CORPORATIONS TO TOTAL WEALTH OF NONFINANCIAL CORPORATIONS



[Estimates for year 1935. Sources: The Modern Corporation and Private Property; Moody's and Poor's Manuals for 1936]

PART I, No. 3.—RELATIONSHIP OF ASSETS OF 175 MAJOR NONBANKING CORPORATIONS TO NATIONAL WEALTH



[Estimated for year 1935. Sources: Internal Debts of the United States; Bureau of the Census estimates; Moody's and Poor's Manuals for the year 1936]

CONCENTRATION OF BANKING RESOURCES IN LEADING COMMERCIAL BANKS

As of June 30, 1936, there were 15,988 State and National banks with total resources in the amount of $67,525,335,000. Through the control exercised by these banks over the credit facilities of the country their importance in our economic life cannot be overemphasized.

In the first division of this study the concentration of assets in the hands of 175 major nonfinancial corporations was shown. Here it was indicated that a very decided concentration of wealth exists since 175 corporations out of a total of about 300,000 control more than one-half of nonfinancial corporate wealth.

The purpose of this division of the study is to ascertain the extent to which the 67 billions of banking resources of this country are concentrated in the hands of leading banks.

Moody's Manual for Banks for 1937 reports the resources of each of the larger banks. From a review of this tabulation it is apparent that there is a decided concentration of banking resources in the larger commercial banks. From this list the 24 largest banks were selected, each reporting resources in excess of $350,000,000. In the study of corporations the tabulation was prepared showing assets as of January 1, 1930, and December 31, 1936. A similar tabulation was prepared for the banks, as shown below, showing the resources of each bank and totals as of December 31, 1929, and December 31, 1936, and the number of officers and directors as of December 31, 1936.

List of banks in the United States with resources in excess of $350,000,000 in the order of their size at Dec. 31, 1936

	Officers	Directors	Resources Dec. 31, 1929 (thousands)	Resources Dec. 31, 1936 (thousands)
1. Chase National Bank (N. Y.)	63	25	$1,714,829	$2,562,182
2. Guaranty Trust Co. (N. Y.)	42	23	2,017,119	2,086,979
3. National City Bank (N. Y.)	36	19	2,206,241	1,904,800
4. Bank of America National Trust & Savings Association	20	25	1,055,113	1,430,337
5. Continental Illinois National Bank & Trust Co	29	21	1,176,603	1,232,513
6. Bankers Trust Co. (N. Y.)	34	20	817,977	1,079,173
7. First National Bank of Chicago	45	25	365,559	991,280
8. Central Hanover Bank & Trust Co. (N. Y.)	34	23	769,259	979,309
9. First National Bank of Boston	28	25	703,347	756,202
10. Manufacturers Trust Co. (N. Y.)	29	25	508,226	748,564
11. Irving Trust Co. (N. Y.)	27	23	865,980	728,677
12. Chemical Bank & Trust Co. (N. Y.)	32	20	423,172	686,676
13. Security First National Bank (Los Angeles)	54	25	610,683	649,173
14. First National Bank of the City of New York	9	10	568,425	648,019
15. Bank of the Manhattan Co	30	14	506,939	570,538
16. J. P. Morgan & Co.-Drexel & Co	[1] 19	19	[2]	550,338
17. Philadelphia National Bank	13	24	358,423	497,392
18. New York Trust Co	15	19	401,665	444,556
19. National Bank of Detroit	15	14	[3]	442,803
20. Union Trust Co. of Pittsburgh	10	14	217,786	386,913
21. Mellon National Bank (Pittsburgh)	7	23	192,501	380,895
22. Cleveland Trust Co	38	25	316,508	380,070
23. Corn Exchange Bank Trust Co. (N. Y.)	16	15	298,483	360,262
24. Northern Trust Co. (Chicago)	33	8	69,395	355,701
Total	678	484	16,164,233	20,853,352
Comparable figures 21 banks [4]			16,094,838	19,504,510
Total resources, all banks			72,038,566	67,525,335
Percent of total resources in 21 large banks			22.34	28.88

[1] Partners.
[2] No report made public.
[3] Organized Mar. 24, 1933.
[4] Eliminating J. P. Morgan & Co., National Bank of Detroit, and Northern Trust Co., Chicago.

The relationship of these banks to all banks and banking resources as of June 30, 1936, is shown as follows:

Relation of 24 largest commercial banks to all commercial banks

Class of banks	Number of banks	Total resources (thousands)	Percent of total
1. Resources exceeding 350 million	24	$20,853,352	30.88
2. All other banks	15,964	46,672,983	69.12
3. Total	15,988	67,525,335	100.00

From the above summary it is shown that over 30 percent of all commercial banking resources is in the hands of 24 banks out of a total of 15,988, or less than sixteen-hundredth of 1 percent of all banks. Reference to the previous tabulation indicates there was a trend toward increased concentration of banking resources for the period 1930–36.

As in the case of corporations, the banking control exercised by these banks extends beyond the resources in their own hands since many of the smaller banks have banking relationships with the larger banks and are subject to their control in many ways.

These 24 banks are controlled by 484 directors, but from a practical standpoint, as in the case with boards of directors of other corporations, many directors are not generally active in the affairs of the banks.

The above number is also reduced due to duplications resulting from interlocking directorates. Therefore it may be assumed that the actual control of these banking resources is concentrated in the hands of a relatively few men.

The relationships among the 24 leading banks were studied and it was found that further concentration exists in this group, as evidenced by interlocking directorates. The attached chart indicates the relationships existing among these banks through the individuals listed who are directors of more than one of the major banks. From this chart it will be noted that further concentration of control exists through the groupings shown.

In order to show the trend of banks and banking resources from 1919 through 1936, the statistical table on the next page was prepared. This table shows that from the peak year of 1921 the number of banks decreased one-half while banking resources increased from $49,721,000 to $67,525,000, and that the resources of the average bank increased from $1,612,000 to $4,223,000. This is shown graphically in the attached chart.

From the preceding data it is apparent that (1) there is a concentration of banking resources in the 24 leading commercial banks, (2) that there is a further community of interest as indicated by the interlocking directorates in the leading banks, (3) that there is a well-established trend toward fewer and larger banks, and (4) that the trend is more rapid and consistent with banks than with nonfinancial corporations.

The possible effect on our economic system of this concentration of the control of credit has, from time to time, engaged the study of many men prominent in the affairs of our Nation, and the following excerpts are taken from various writings and reports.

Number of banks and total resources by years from 1919 to 1936

Year	Total number of banks			Total banking resources (millions)			Average resources per bank (thousands)
	State	National	Total	State	National	Total	
1919	21,028	7,785	28,813	25,966	20,800	46,766	1,623
1920	21,923	8,030	29,953	29,191	22,197	51,388	1,716
1921	22,705	8,143	30,848	29,443	20,308	49,721	1,612
1922	22,302	8,197	30,499	28,809	19,815	48,624	1,594
1923	22,084	8,229	30,313	32,081	21,613	53,694	1,771
1924	21,350	8,115	29,465	33,641	22,063	55,704	1,891
1925	21,122	8,016	29,138	36,679	23,832	60,511	2,077
1926	20,289	8,000	28,289	39,106	24,894	64,000	2,262
1927	19,597	7,828	27,425	40,047	25,699	65,746	2,397
1928	18,965	7,734	26,699	41,866	27,574	69,440	2,601
1929	18,357	7,575	25,932	43,645	29,022	72,667	2,802
1930	17,298	7,316	24,614	44,690	27,348	72,038	2,927
1931	15,865	6,935	22,800	42,686	28,126	70,812	3,106
1932	13,882	6,373	20,255	38,468	24,662	63,130	3,117
1933	11,513	5,887	17,400	31,727	22,302	54,029	3,105
1934	10,903	5,422	16,325	32,621	23,902	56,523	3,462
1935	10,742	5,431	16,173	34,372	26,061	60,433	3,737
1936	10,614	5,374	15,988	33,822	29,703	67,525	4,223

In 1909 Woodrow Wilson in his New Freedom maintained that as a result of the concentration of the credit system in the hands of the few we had become "the most highly controlled and dominated government in the civilized world." This subject was commented on from time to time by men prominent in public affairs and as a result of these comments, and the general situation existing, Congress appointed the Jujo Investigating Committee in 1912 with Samuel Untermeyer as counsel. After extended investigation this committee issued its report analyzing the financial control of the Nation as the committee then saw it. It directed attention to the First National Bank of New York, National City Bank of New York, Lee Higginson & Co., of Boston, Kidder-Peabody & Co., and Kuhn, Loeb & Co. as the most active agents in bringing about concentration of credit control.

According to this committee, the internationally known banking firm of J. P. Morgan & Co. was head and shoulders above the other giants of finance. Following the investigation, the committee issued charts showing that the firm members of Morgan & Co. and its allied banks held at the time of the hearings:

1. One hundred and eighteen directorships in 34 banks and trust companies, having total resources of $2,679,000,000 and total deposits of $1,983,000,000.

2. Thirty directorships in 10 insurance companies having total assets of $2,293,000,000.

3. One hundred and five directorships in 32 transportation systems having a capitalization of $11,784,000,000; total mileage of 150,200.

4. Sixty-three directorships in 23 producing and trading corporations having a total capitalization of $3,339,000,000.

5. Twenty-five directorships in 12 public utility corporations having a total capitalization of $2,150,000,000.

The committee's report and recommendations created a stir, but of the specific recommendations enacted, the restraint of interlocking directorates was the most important. As a result, on January 1, 1914, Morgan & Co. announced their retirement from a number of directorates. As a result of this investigation the previous work of the National Monetary Commission formed a basis for the Federal Reserve Act, passed in 1914. Some of the proponents of the Federal Reserve Systems at that time wanted one central bank. Because, however, of the fear of centralization, 12 Federal reserve banks were thought to be best and these were created. Each of these banks has most of the attributes of a central bank. Such a decentralized system, it was thought, would tend to divest the money trust in Wall Street of much of its power. Experience has shown however, that the Federal Reserve System has not arrested the movement toward concentration of credit control.[1]

This view was also expressed in 1930 by Congressman McFadden, chairman of the Committee on Banking and Currency, who said: "We find that the concentration of Nation-wide banking assets under the control of these big banks (possibly in New York and Chicago) or their affiliates has become so important as to overshadow the entire Federal Reserve System of operations. One naturally begins to wonder whether or not some of these larger banks or groups may not entirely dominate the election of officers and directors of many of the Federal Reserve banks and so be a factor in the determination of changes in the Federal Reserve policies which are made from time to time by the Federal Reserve Board."

From the date of the Pujo investigation until 1930 concentration continued. So at the beginning of 1930, 250 banks held resources of $33,400,000,000 out of total bank resources in this Nation of $72,000,000,000. Thus, 1 percent of the banks of the country directly controlled more than 46 percent of the total national resources. (Testimony of John W. Pole, Comptroller of the Currency.)

At the beginning of 1930, 24 New York banks, or less than one-tenth of 1 percent of the total, had combined resources of about $10,800,000,000, or 15 percent of the total resources of the banks of the Nation, while their capitalization of nearly $700,000,000 is almost comparable in total to that of 20,000 country banks situated in towns of 10,000 population or less. (Graif B. Hazlewood, president, American Banking Association.)

Concentration recently had been greatly advanced through the rapid consolidation of the key banks in the country, through the development of chain and branch banking, investment trusts, industrial activities of private banks and other means. The unit bank is fast fading from the scene and America bids fair sooner or later to follow the example of Canada, England, and other countries in the concentration of all banking power in the comparatively few gigantic central banking institutions. (Joseph Lawrence, Banking Concentration in the United States, 1931).

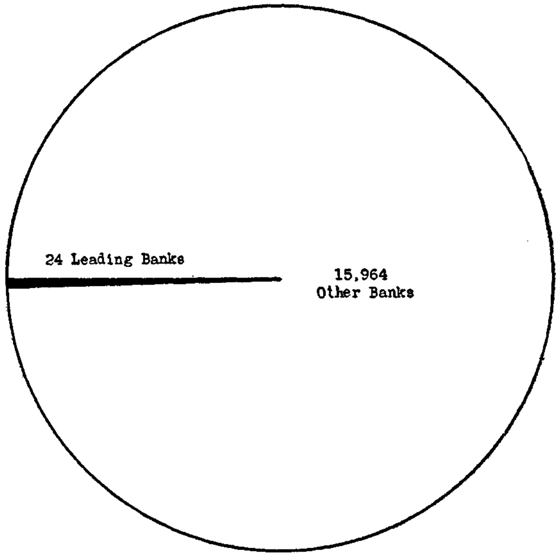
SUMMARY

This section of the study may be summarized as follows:

(1) Twenty-four leading banks control approximately one-third of all banking resources.

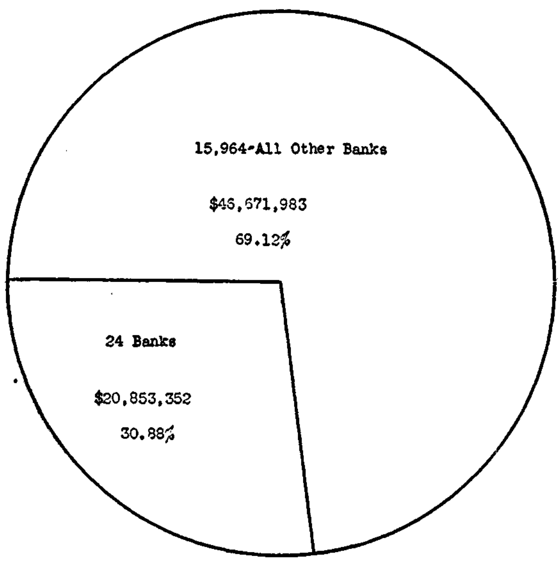
[1] Concentration of control in American industry.

PART II, No. 1.—RELATIONSHIP OF 24 LEADING BANKS TO TOTAL NUMBER OF BANKS



[As at December 31, 1936. Moody's Manual of Banks, Etc., 1937]

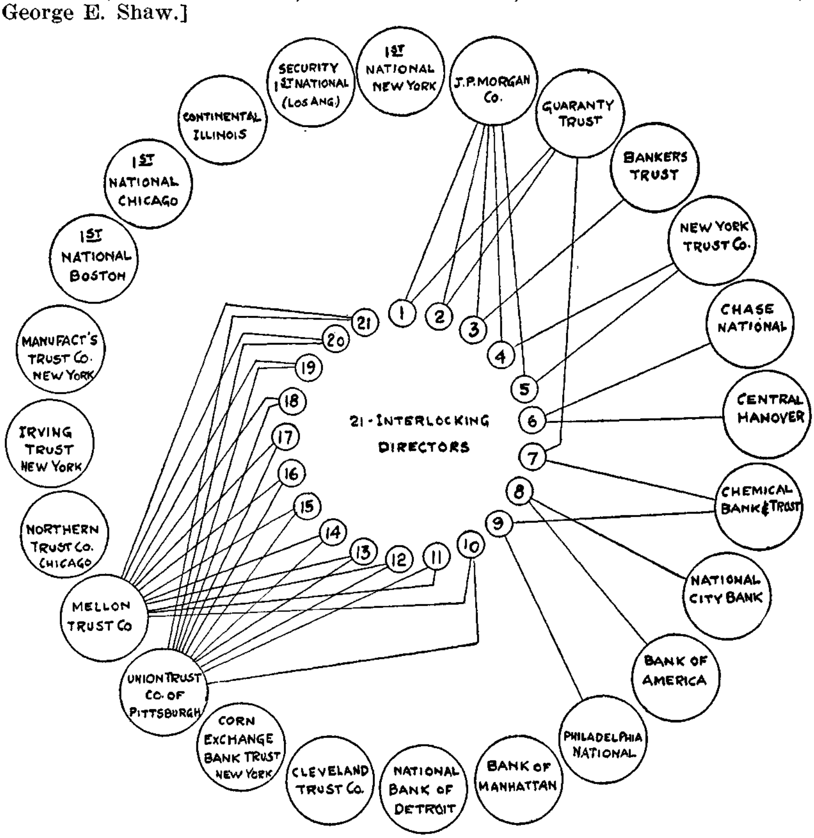
PART II, No. 2.—RESOURCES OF 24 LARGEST COMMERCIAL BANKS TO ALL COMMERCIAL BANKS



[As at December 31, 1936. Moody's Manual of Banks, Etc., 1937]

CONCENTRATION OF BANKING CONTROL AS SHOWN BY INTERLOCKING DIRECTORATES

[*Interlocking directorates.*—1. Thomas W. Lamont, 2. George Whitney, 3. S. Parker Gilbert, 4. Arthur M. Anderson, 5. Harry P. Davison, 6. Cornelius Vanderbilt, 7. Robert W. Goelet, 8. A. P. Giannini, 9. A. J. County, 10. Arthur V. Davis, 11. Charles Frick, 12. Roy A. Hunt, 13. Benjamin F. Jones, III, 14. James H. Lockhart, 15. John M. Lockhart, 16. Richard K. Mellon, 17. William L. Mellon, 18. Paul Mellon, 19. David A. Reed, 20. William C. Robinson, 21. George E. Shaw.]



[As at December 31, 1936. Moody's Manual of Banks, 1937; Poor's Register of Directors, 1937]

(2) The control of the 24 banks is in the hand of 484 directors, many of whom are not normally active in the affairs of the banks.

(3) There is a community of interest between certain groups of the leading banks as evidenced by interlocking directorates.

(4) In the period from 1930 to 1936 there was an increased concentration of banking resources in the major banks.

(5) During the period from 1921 to 1936 the total number of commercial banks decreased from 30,848 to 15,988, while resources increased from $49,721,000 to $67,525,000. The resources of the average bank increased from $1,612,000 to $4,223,000 during this period.

(6) The attached charts present graphically the major points of this section of the study.

THE CONCENTRATION OF CONTROL OF WEALTH IN LEADING BANKS

This last division of the study has been for the purpose of ascertaining if there is an interlocking of control between the largest banks and the major corporations, savings banks, insurance companies, and others, indicating a further concentration of the control of a large and important part of our national wealth.

Since banks exercise so much control over the credit facilities of the country, the importance of any existing interlocking control and community of interest between banks and large corporations, financial institutions, and others is readily apparent.

In this study, the two following divisions of the subject have been covered:

A. Concentration of corporate wealth in major corporations.

B. Concentration of banking resources in largest commercial banks.

In the first division it was shown that there now exists a very definite concentration of the nonfinancial corporate wealth in the hands of the largest corporations, 175 of them controlling directly more than half of the nonfinancial corporate wealth of the Nation, and about one-fifth of the national wealth, and it was indicated that the control exercised by these corporations extends beyond the assets owned by them. In the second division of this study, it was shown that 24 banks of a total of 15,988 control more than 30 percent of the banking resources of the country, indicating a very definite concentration of banking resources. In the case of banks it was also indicated that the control exercised by these banks extends beyond their own resources. In both cases it was apparent that the trend toward larger units and further concenetration of wealth and banking resources has continued up to a recent date, and that there is no indication that this trend will not continue, and with it there is reason to believe that there will be a wider separation of ownership and control.

Insurance companies and savings banks were not studied in any detail since it was apparent from a preliminary review that there is a very definite concentration of resources in the large insurance companies and savings banks.

The control of corporate wealth may be exercised through—(1) majority ownership, (2) dominant minority interest, (3) management.

In most cases control is represented by dominant members of the boards of directors. This study deals with the control, or potential control, exercised through interlocking directorates between the leading banks and others.

In order to ascertain interlocking directorates, the directors of the 24 leading banks were listed. The directorships held by these individuals in major corporations and financial institutions were secured from Poor's Directory of Directors and the major connections tabulated. A complete list would include many hundreds of corporations, both large and small.

For the purpose of this study 100 of the major corporations, savings banks, and insurance companies having interlocking directors were selected as being representative of the various fields of industry and finance. This tabulation is shown as attached exhibit No. 1. Reference to this tabulation furnishes the names of the companies, the total number of their directors, the number of interlocking directorates between them and the 24 largest banks and their assets as of January 1, 1930, and December 31, 1935.

These companies were then classified by groups and tabulated in order to show the assets or resources of companies by industries, etc., and the relative proportion of interlocking directorates of each group. This summary is shown as follows:

Summary by industries of 100 corporations having interlocking directorates with 24 largest banks

Name of industry	Directors	Bank connections	Number of companies	Assets (millions)	
				Jan. 1, 1930	Dec. 31, 1935
Automobiles and tires	87	19	5	$2,164.3	$2,012.5
Amusements	65	10	5	856.0	573.0
Chemicals and oils	89	15	6	2,194.5	2,171.9
Electric equipment	36	19	2	745.5	592.5
Foods and mercantiles	194	36	14	1,944.8	1,631.4
Steels	70	16	5	3,649.8	2,930.4
General industrials	202	47	15	1,956.5	1,830.4
Financial corporations	258	64	13	10,375.5	14,119.3
Metals	121	27	7	1,909.1	1,801.3
Public utilities	119	35	9	8,441.9	8,555.8
Railroads and transportation	218	82	15	14,091.5	14,389.4
Telephone and telegraph	84	33	4	5,255.1	5,924.1
Total	1,543	403	100	53,584.5	56,532.0

From the previous tabulation it is apparent that there is a definite community of interest between banks and the major corporate units of the country, since in practically every major unit of industry and finance there is a relationship existing through interlocking directors. The full extent of the relationship and community of interest is not completely revealed by interlocking directors alone. Officers of a company may often be representatives of banks and not appear on a list of the board of directors of either. By this means, a very active control may be exercised. Also, officers or employees of banks who are not directors may appear either as a director or officer of a company and thereby be in a position to exercise some control over industry. Control may be exercised through other relationships which, if known, would only emphasize the conclusions reached from this study. With the concentration of wealth in major corporations and financial institutions and of banking resources in leading banks, and these groups closely allied through interlocking directorates, it is not difficult to understand the control that a comparatively small group of men may exercise over the wealth and economic life of this country.

From the data reviewed, a list of 100 of the prominent men of the country who are the interlocking directors has been prepared. This list covers directors of the 24 leading banks who are directors of one or more of the 100 companies or financial institutions and are a typical cross section of the men who are in a position to control a large portion of our national wealth. The extent and magnitude of this control and the part that these men play in the economic welfare of the people of this country is difficult to fully comprehend. A list of these 100 men, with their banking directorships, is as follows:

Name	*Bank*
Winthrop W. Aldrich	Chase National Bank.
Arthur M. Anderson	New York Trust Co. J. P. Morgan & Co.
A. Watson Armour	Northern Trust Co. (Chicago).
Sewell L. Avery	Do.
M. H. Aylesworth	Irving Trust Co.
George F. Baker	First National Bank of New York.
Newton D. Baker	Cleveland Trust Co.
Steven Baker	Bank of the Manhattan Co.
Francis D. Bartow	J. P. Morgan & Co.
Sosthenes Behn	National City Bank.
Edward E. Brown	First National Bank (Chicago).
Francis H. Brownell	Chase National Bank.
Mortimer N. Buckner	New York Trust Co.
Ralph Budd	First National Bank (Chicago).
Newcomb Carlton	Chase National Bank.
Thomas L. Chadbourne	Manufacturers Trust Co.
Edward H. Clark	Irving Trust Co.
Henry J. Cochran	Bankers Trust Co.

Name	*Bank*
Frank D. Comerford	First National Bank (Boston).
Albert J. County	Chemical Bank & Trust Co. Philadelphia National Bank.
David A. Crawford	Continental Illinois National Bank & Trust Co.
Harry W. Croft	Mellon National Bank.
Walter J. Cummings	Continental Illinois National Bank & Trust Co.
Bertram Cutler	Chase National Bank.
Arthur V. Davis	Mellon National Bank. Union Trust Co. (Pittsburgh).
Francis B. Davis, Jr	New York Trust Co.
John W. Davis	Guaranty Trust Co.
George W. Davison	Central Hanover Bank & Trust Co.
Henry P. Davison	J. P. Morgan & Co. New York Trust Co.
Henry W. deForest	Guaranty Trust Co.
Carl A. deGersdorf	Chemical Bank & Trust Co.
William Dexter	First National Bank (Boston).
Franklin D'Olier	Chase National Bank.
Lawrence A. Downs	Continental Illinois National Bank & Trust Co.
Edward A. Duffield	Guaranty Trust Co.
Frederick H. Ecker	Chase National Bank.
Frederick J. Fisher	National Bank of Detroit.
Leon Fraser	First National Bank (New York).
Walter E. Frew	Corn Exchange Bank Trust Co. (New York)
George Peabody Gardner	First National Bank (Boston).
Artemus L. Gates	New York Trust Co.
Paolino Gerli	Manufacturers Trust Co.
Amadeo P. Giannini	Bank of American National Trust & Savings Association. National City Bank.
Harvey Dow Gibson	Manufacturers Trust Co.
Walter S. Gifford	First National Bank (New York City).
S. Parker Gilbert	J. P. Morgan & Co. Bankers Trust Co.
Eugene G. Grace	Guaranty Trust Co.
Joseph P. Grace	National City Bank.
Edward B. Greene	Cleveland Trust Co.
William Steele Gray, Jr	Central Hanover Bank & Trust Co.
Robert W. Goelet	Chemical Bank & Trust Co. Guaranty Trust Co.
James G. Harbord	Bankers Trust Co.
William A. Harriman	Guaranty Trust Co.
John A. Hartford	Do.
David F. Houston	Do.
Percy H. Johnston	Chemical Bank & Trust Co.
J. L. Johnston	Manufacturers Trust Co.
Thomas W. Lamont	J. P. Morgan & Co. Guaranty Trust Co.
Halfdan Lee	First National Bank (Boston).
Russell C. Leffingwell	J. P. Morgan & Co.
E. Eugene Loomis	New York Trust Co.
Lenore F. Loree	Chase National Bank.
Alvan Macauley	National Bank of Detroit.
Thomas N. McCarter	Chase National Bank.
Harold F. McCormick	First National Bank (Chicago).
Donald R. McLennan	Continental Illinois National Bank & Trust Co.
George McNeir	Bank of the Manhattan Co.
J. P. Morgan	J. P. Morgan & Co.
Richard K. Mellon	Mellon National Bank. Union Trust Co. (Pittsburgh).
William L. Mellon	Mellon National Bank. Union Trust Co. (Pittsburgh).

Name	*Bank*
Thomas I. Parkinson	Chase National Bank.
James H. Perkins	National City Bank.
Thomas N. Perkins	First National Bank (Boston).
J. Howard Pew	Philadelphia National Bank.
William C. Potter	Guaranty Trust Co.
Herbert L. Pratt	Bankers Trust Co.
Seward Prosser	Do.
John J. Raskob	Do.
Jackson E. Reynolds	First National Bank (New York City).
Andrew W. Robertson	Chase National Bank.
Henry M. Robinson	Security First National Bank (Los Angeles).
Alfred P. Sloan	National Bank of Detroit.
Matthew S. Sloan	Irving Trust Co.
Solomon A. Smith	Northern Trust Co. (Chicago).
Robert C. Stanley	Chase National Bank.
Philip Stockton	First National Bank (Boston).
Silas H. Strawn	First National Bank (Chicago).
Gerard Swope	National City Bank.
Myron C. Taylor	First National Bank (New York City).
George N. Tidd	Irving Trust Co.
A. A. Tilney	Bankers Trust Co.
Cornelius Vanderbilt	Central Hanover Bank & Trust Co. Chase National Bank.
Harold S. Vanderbilt	First National Bank (New York City).
Samuel M. Vauclain	Philadelphia National Bank.
James P. Warburg	Bank of the Manhattan Co.
Samuel A. Welldon	First National Bank (New York City).
George Whitney	J. P. Morgan & Co. Guaranty Trust Co.
Richard Whitney	Corn Exchange Bank & Trust Co.
John P. Wilson	First National Bank (Chicago).
William Woodward	Central Hanover Bank & Trust Co.

The concentration of wealth in large corporate units and the ultimate control of this wealth by a few individuals have merited for some time the interest and study of men prominent in the affairs of the Nation. The following statements by Woodrow Wilson indicate the general tenor of a great mass of material on this subject, a portion of which may be obtained from the reference material listed in the first division of the study.

"It is true that while most men are thus submerged in the corporation, a few, a very few, are exalted to a part which, as individuals, they could never have warranted. To the great organizations of which they are the heads, a few are able to play a part unprecedented by anything in history in the control of the business operations of the country, and in the determination of the happiness of great numbers of people."

"American industry is not free, as it once was free; American enterprise is not free; the man with only a little capital is finding it harder to get into the field, more and more impossible to compete with the big fellow. No man can deny that the lines of endeavor have more and more narrowed and stiffened. No man who knows anything about the development of industry in this country can have failed to observe that the larger kinds of credit are more and more difficult to obtain unless you obtain them upon the terms of uniting your efforts with those who already control the industries of the country."

"The dominating danger in this land is not the existence of the great individual combinations—that is dangerous enough in all consciousness—but the combination of the combinations—of the railroads, the manufacturing enterprises, the great mining projects, the big enterprises of the development of natural water power in the country, banded together in the personnel of a series of boards of directors into a 'community of interest' more formidable than any conceivable single combination that dare appear in the open."

"The great monopoly in this country is the monopoly of big credits. So long as that exists our old variety of freedom and individual energy of development are out of the question. A great industrial nation is controlled by its system of credit. Our system of credit is practically concentrated. The growth of the Nation, therefore, and all our activities are in the hands of a few men who, even if their action be honest and intended for the public interest, are necessarily concentrated upon the great undertakings in which their own money is involved and who necessarily by the very reason of their own limitations chill and check and destroy genuine economic freedom. This is the greatest question of all, and to this statesmen must address themselves with a determination to serve a long future and the true liberties of men."

SUMMARY

From the study of interlocking control between banks and industry the following conclusions may be reached:

(1) There exists a definite community of interest and interlocking control between banks and industry.

(2) Of a total of 1,543 directorships in the 100 major corporations there are 403 connections with the 24 banks through interlocking directorates.

(3) Of a total of 488 directorships in the 24 leading banks there are 403 connections with the 100 corporations through the interlocking directorates.

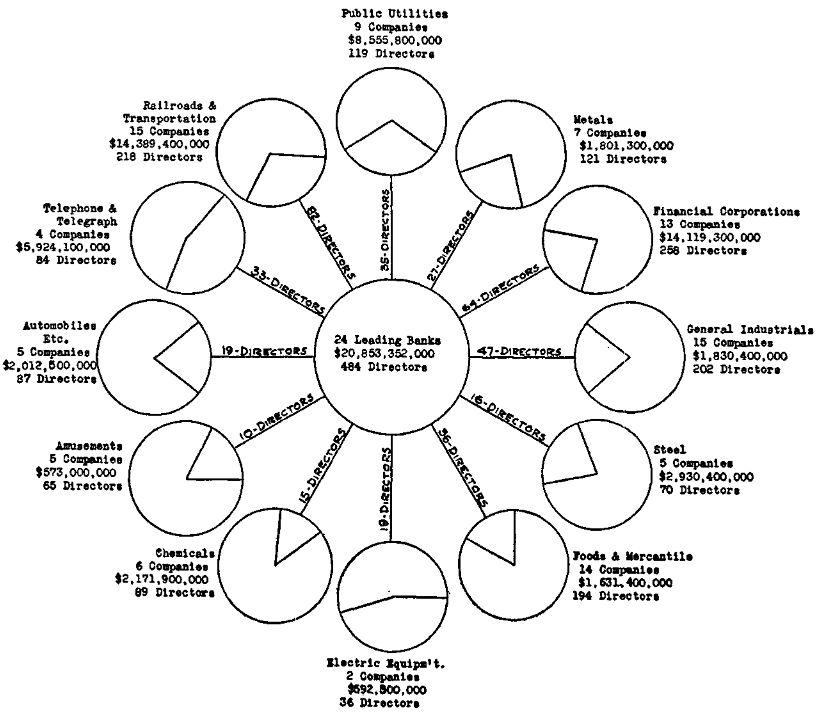
(4) Of the 403 interlocking directorships between the 100 corporations and 24 banks, 230 are held by directors of 7 banks and 103 by directors of 2 banks.

(5) The 100 major corporate units having interlocking directorates represent concentration of wealth in their respective fields.

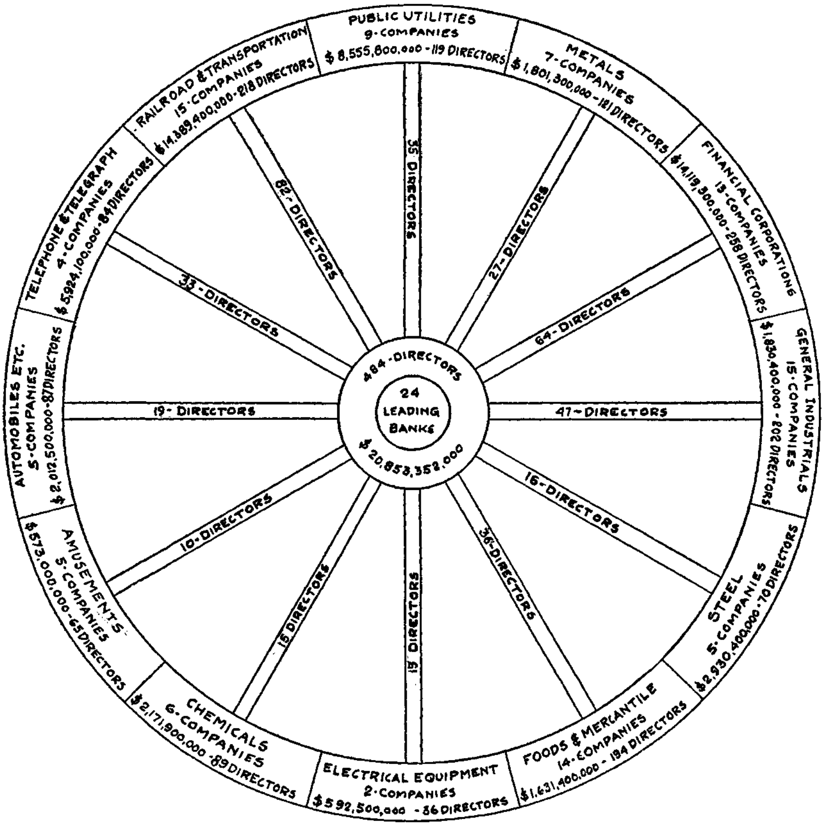
(6) Interlocking control is represented by the men holding the 403 interlocking directorates. One hundred men of this group represent the more important interlocking directorates and the potential control of a large part of our national wealth.

(7) The attached charts illustrate the relationship existing between the 24 leading banks and 100 major corporations. In the large chart each connection between the banks and companies is shown.

PART III, No. 1.—CHART SHOWING INTERLOCKING DIRECTORS BETWEEN 100 CORPORATIONS AND 24 LEADING BANKS



[Moody's and Poor's Manuals]



Year 1935

[Year 1935 Banking Resources 1936]

WHEEL OF WEALTH.—SUMMARY CHART SHOWING INTERLOCKING DIRECTORS BETWEEN 100 CORPORATIONS AND 24 LEADING BANKS

[Sources: Moody's and Poor's Manuals; Poor's Register of Directors]

GOVERNMENT OWNERSHIP OF THE 12 FEDERAL RESERVE BANKS

THURSDAY, MARCH 3, 1938

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

Hearings were resumed on H. R. 7320 at 11:03 a. m., Hon. Henry B. Steagall (chairman) presiding.

Other members of the subcommittee present: Mr. Reilly, Mr. Hancock, Mr. Williams, Mr. Spence, Mr. Meeks, Mr. Ford, Mr. Brown, Mr. Patman, Mr. McKeough, Mr. Transue, Mr. McGranery, Mr. Gifford, and Mr. Crawford.

The Chairman. All right, gentlemen.

Mr. Patman, you may proceed.

STATEMENT OF HON. WRIGHT PATMAN—Resumed

Mr. Patman. With your permission, Mr. Chairman, I will read a short statement in answer to the questions that you asked me yesterday just before we finished. I would like to read this statement without interruption.

The 12 Federal Reserve banks exercise almost exclusively a governmental function in holding the reserves required by the statute law, in protecting such reserves, in furnishing member banks with Federal Reserve notes or currency money, and in clearing interstate checks and drafts for member banks.

They are not banks of deposit and discount; they are not established primarily for the purpose of making money for the stockholders.

It is the duty of Congress to regulate the value of money, and if this constitutional mandate is carried out, Government officials must be in the driver's seat and protected from interference by the banks.

Member banks are banks of deposit and discount which deal with the public exclusively, and there is no occasion whatever for the Government taking them over and no one is advocating it.

The Government should have an agency completely and entirely its own, not influenced or directed by any authority except that of the Government for the purpose of regulating the value of money.

The Government should not pay the banks 6 percent on $132,000,000. It is not needed and the amount, 6 percent, is excessive. One good reason why the Government should own these 12 Federal Reserve banks is for the purpose of receiving the earnings of the system which should belong exclusively to the Government without any claim on the part of the member banks.

WILL TAKING OVER ADD TO THE POWERS OF THE GOVERNMENT?

Yes; because all directors and officers of these 12 Federal Reserve banks will be selected by the Government.

The open-market committee now consists of five appointees of privately owned banks out of 12 who have the power to veto the present five members on the Reserve Board and to profoundly influence the Reserve Board even if it should be owned.

The Federal Advisory Council would be dispensed with.

The CHAIRMAN. I wish to be pardoned for taking a moment or two of your time, and I will try to restrain myself after this; but, expressing my own view of the matter, I do not regard the matter of the profits made by the Federal Reserve System as of transcendent importance. I think that there are so many considerations that go so far beyond that——

Mr. PATMAN. I am not insisting on it.

The CHAIRMAN (continuing). That it is comparatively unimportant, but I think that this should be said for the record, that the statement that the banks do not need the earnings that they receive from their small portion of the capital of the Federal Reserve banks seems to me not to be justified. I think that if you will reflect for a moment upon the experiences of recent years, you will agree with me that many of the banks stood in dire need of additional earnings; certainly those that failed needed the additional earnings, and while I understand that the contribution to the capital of the Federal Reserve banks under the system now obtaining is not in a true sense a subscription to capital—I do not know exactly how to characterize it; it is more in the nature of an investment, like an investment in a Government bond where your return is definite and limited, but where you do not share in the profits of the system as ordinarily is the rule in the case of investments in the capital of a banking institution, yet I have never doubted, and I dislike to say these things, because it is in the nature of criticism of the management of the Federal Reserve banks, and I know that the Federal Reserve System accomplished a great deal for a long time; I have always believed in it; I thought it was a great forward step and a great legislative achievement, and I think so yet, but undoubtedly the limited returns upon the investments of the member banks, and the denial of the right to collect for services rendered by member banks in the collection of checks, which I have always thought and still think is a legitimate function of banking, and other practical hardships visited upon member banks, had most disastrous effects upon many of the small banks of the country which were required under the Federal Reserve Act to become members of the Federal Reserve System. Many of them would have continued their former relationships with their other banks and gotten accommodations in time of need and would not have joined the Federal Reserve System, but they were forced to come in under penalty of forfeiture of their charter upon refusal.

It turned ou that the Federal Reserve System made unexpected profits. Undoubtedly those profits have been at times profligately disposed of in unnecessary operating expenses and seemingly in some instances unwarranted expenditures, but I think the coutry would have been a lot better off if member banks of the Federal Reserve System had been permitted to reap their share of those profits. I have no doubt that we have had numerous bank failures resulting from the exactions of the Federal Reserve, its restricted policy in the extension of accommodations to its members, and among the hardships was this limited return on investment.

Now, pardon me for saying what I have, and I will not interrupt you any more. Go right ahead.

Mr. PATMAN. It is all right, Mr. Chairman.

Of course, that is a question of compensating banks in some way on account of losses for par clearances. That is the point that the Chairman is making.

The CHAIRMAN. It was a general situation, and I have said this in this committee before, that when a bank becomes a member of the Federal Reserve System, and I am talking more of the smaller banks that are subject to the vicissitudes of trade and commerce, such as we have in your section of the country and mine, and we know that when a bank of that kind joined the Federal Reserve System, they lost their connections with other banking institutions, for in time of accentuated demands for cash they could not go to an outside bank and obtain accommodations; they were met with the suggestion, "You go to the Federal Reserve."

I happen to have had some observations along this line to support what I am saying, and they have made me feel very deeply about it. There were in my district quite a number of banks—I can name eight of them right now—that were forced to close their doors in 1929, 1930, and during that time, where the members of the Federal Reserve System denied them accommodations to tide them over their difficulties, accommodations that they were entitled to under every commonsense rule of banking, that is, if it had been a business transaction between one bank and another, without any thought of the great purposes of the Federal Reserve System, they would have been entitled to their accommodation. I say, I can name eight of those banks in a moment that were forced to close their doors and pay their deposits in full under force, sacrificing their assets, and any man who knows the alphabet of that situation knows that no bank should have been forced to do that, but let me say that, in my humble judgment, our only difficulty with the Federal Reserve System, serious difficulty—and there are other things that should be done, that I would like to do and have attempted to do, but the great problem is the administration of the Federal Reserve System.

You can pass all of the laws that you can from now until Christmas, and we will not have an automatic currency system in this country. We will be obliged to have some sort of control, and when we get through we will, after all, be more or less in the hands of those who administer the system, and that is the way with most of the laws passed by Congress. Their efficacy in the final show-down depends upon administration.

Mr. PATMAN. I thoroughly agree with you. We want the right kind of administrators.

The CHAIRMAN. Now, I beg your pardon for taking so much time.

Mr. REILLY. Is it not a fact that your criticism of the administration is because of the difference in the banking views that you hold and those held by the members of the Federal Reserve Board?

The CHAIRMAN. Sometimes that is true, but the instances to which I referred in my own district were because of the action of the governor of that bank down there, who has passed away. Personally I liked him, but he should never have allowed a bank in his district to close its doors because of a lack of temporary accommodations, when its assets were such that they could realize enough to pay the deposits under forced liquidation. I mean it was bad judgment and bad administration. I do not mean that there was any corruption or anything like that. These bankers are just as good as we are, but they just make mistakes. They do not know everything just because they have money.

Mr. GIFFORD. I suggest that you keep in mind that under this bill the Federal Reserve will be run by the people.

Mr. PATMAN. By the representatives of the people and not by the representatives of the banks?

Mr. GIFFORD. Yes.

Mr. PATMAN. And we have never given the Federal Reserve Board a mandate, but we hope to here, and if they violate it, something can be done about it.

Now, I think that it is material that we discuss the banks that we are here concerned with——

Mr. GIFFORD. But I want you to keep in mind that fact, that Mr. Eccles was appointed by the representative of the people. How will you change that?

Mr. PATMAN. We have given him no mandate. We have expressed our views and given him our suggestions, but he has no mandate from Congress, and it is for Congress to give him a mandate.

Mr. GIFFORD. In the recitation that you have in the first part of your bill—and that is all that it is—there is scarcely anything now. What would you call a mandate?

Mr. PATMAN. Well, then, help us put more punch, more power, and more strength into it. We will work with the gentleman.

The CHAIRMAN. I want to say this about Governor Eccles, in order to be fair, that I think that he is a man of great ability, of the highest purposes and of the highest patriotism.

Mr. PATMAN. No one questions that.

The CHAIRMAN. And a splendid citizen. But I do not agree with him in all of his views.

Mr. PATMAN. On June 30, last, according to the Federal Reserve Bulletin for February 1938, we had in this country, in all, 15,527 banks. Of that number, 6,357 only are members of the Federal Reserve Banking System. Of that number, 6,357, 1,064 of them are State banks, and the other 5,293 are national banks, under the law compelled to belong to the System.

A study of the assets of these banks is very interesting. The deposits of all banks, in millions of dollars, on June 30, last year, were——

Mr. WILLIAMS. Are you talking about assets or liabilities?

Mr. PATMAN. The deposits in these banks.

Mr. WILLIAMS. The deposits are liabilities.

Mr. PATMAN. Yes, sir; but I am referring now specifically to deposits in these banks, which amounted to 53 billions. Of the 53 billions, 35 billions were deposits of the member banks, and the other approximately 18 billion in deposits were in the nonmember banks.

Now, of the deposits in nonmember banks—and I hope that you notice this—10 billions were in mutual savings banks. There are 564 mutual savings banks in the country. So 10 billion dollars of those deposits were in mutual savings banks, and in the State banks, not members, 8,605 of them, they had 7 billion in deposits, or, to be exact, $7,635,000,000.

That information I think is very interesting in the light of what has happened in recent years. Now, I have——

Mr. Reilly. What are you reading from?

Mr. Patman. I am reading from the Federal Reserve Bulletin for February 1938, on page 13.

Mr. Williams. If these nonmember banks were all members, how much would they have to maintain in deposits?

Mr. Patman. It would not be great, 6 percent. Of course, 3 percent only is paid in for stock in the Federal Reserve banks of their districts.

Mr. Williams. Six percent?

Mr. Patman. Six percent is what they would have to subscribe to, but actually——

Mr. Williams. How much would they have to keep in reserves?

Mr. Patman. Three percent.

Mr. Williams. Oh, no; I am talking about the reserves they would have to maintain in the banks if they were members.

Mr. Patman. If they were to become members, they would have to carry their reserves, whatever they are; it used to be an average of 12 percent, but now 6 percent.

Mr. Williams. If there is any purpose in that observation at all, the question is, how would that change the situation?

Mr. Patman. I am not discussing it from that point of view at all. The point that I was making is that these small banks, that reach out into the Nation, that really do the banking business for the people out at the crossroads— and there are lots of them—have small deposits.

Mr. Williams. I thought that you were making the point that they do not maintain sufficient deposits in amount with the Federal Reserve——

Mr. Patman (interposing). No; I did not have that in mind, but I was leading up to this chart here, which shows that the trend during the last 15 years has been toward larger banks all the time, the smaller ones going out and the larger ones getting larger.

This chart starts with 1919, and shows to 1931. We had more than 30,000 banks then, and of course the trend has been downward; the number of banks now is below 16,000. In a period of 12 years, approximately 15,000 banks failed in this country.

Now, bearing out the point that I was attempting to lead up to, the average resources in millions of dollars of the banks have been going up all of the time, so the trend has been to push the little bank out of the picture entirely, and to make the big banks still bigger banks. The total resources in billions went up, then went down, and are going up again.

That leads me to another observation, too, the size of the banks.

Mr. Crawford. Will Mr. Patman yield on that point that you just covered?

Mr. Patman. Yes, sir.

Mr. Crawford. Is it not also true that there are a number of forces that are at work right now, this very day, which tend to eliminate more and more of these smaller banks?

Mr. Patman. Well, I hope that there is no force like that at work, unless it is a bank so small that it is not profitable, that it is not to the interest of the community to operate it. I can conceive of such a situation as that, but, for the information of the gentleman, my information is that a bank's expenses amount to about 2 percent of the resources of that bank. Whether it is a small bank or whether it is the biggest bank in the Nation, the average is about 2 percent, and the study that was made by the American Banker discloses that the smaller banks, and especially the medium-sized bank, have earnings that are better than in the big ones. This American Banker, for August 4, 1937, shows the banks having deposits first under $100,000, and then from $100,000 to $250,000, and then from $250,000 to $500,000, and it is the medium-sized bank that earns the most money.

So, if you take the deposits of all of the banks to be 53 billion dollars, and you take 2 percent of that, you will discover that it is a billion dollars, approximately, and if you will determine how much the banks' expenses were last year, you will find out that they were about a billion dollars. You can take the Chase National Bank, and you can figure 2 percent of their resources and then find out what their expenses are, and you can take a bank with $100,000 in resources, or less, and the expenses are usually 2 percent, regardless of the size of the institution.

When it gets up beyond the average-sized bank, of course they then become uneconomic as compared with the average-sized bank.

Mr. Crawford. Let us take this specific case now, because I have been studying balance sheets and operating statements of individual banks, and not the general average. Get right down to the brass tacks of the thing.

When the Federal Deposit Insurance Corporation put in the needed minimum requirement from the standpoint of minimum standard, that in itself will undoubtedly close a great many small banks in this country, because they will not be able to qualify on the basis of that minimum standard. Their cost for insurance will go up, and their net earnings will go down. That is one factor that is operating right now.

Another is cheap money, and Government-loaning agencies which draw higher-priced loans away from the country banks. I am speaking about banks in towns of 500, 1,000, 1,500, and 2,000 people.

So, I believe that if you will study the balance sheets and operating statements of those banks, you will find that many of them are headed for closing within the next 24 months, in spite of all that should be done.

Mr. Patman. I think that suggestion should have the attentiton of this committee, that banks will be closed that should not be closed.

In regard to wealth being concentrated in the hands of a few, it is my contention that a few men in this Nation, and a very few, controlling a few banks, control a majority of the wealth of this Nation.

That is a startling statement. It is astounding to many. I hope that you will take the time to look at this statement that I placed in front of each one of you, a copy of the Congressional Record in which I inserted the information that I would like to discuss, and that is about these 24 banks.

This information does not represent haphazard statements made by individuals. It represents much work, work that required many people several months' time to compile. After it was compiled it was carefully checked in Government departments, and I do not think anyone would object if I were to say that Mr. Landis, when he was chairman of the Securities and Exchange Commission, personally had this work checked in the Securities and Exchange Commission, and there is no doubt about its being true and correct—that is, the information.

It was so startling to many people and to myself that I would not put it in the Record for a while, because I felt that there was something about it that I did not understand, but after checking into it more I was convinced there could not be a doubt about it, and it was placed in the Congressional Record June 15, 1937.

This shows, on page 1, that the per capita wealth, national wealth, has gone up. It also shows the reference material consulted in the preparation of this information, and, commencing on page 2, you will find the 175 corporations that were studied named. These 175 corporations in 1930 represented 53 percent of the corporate wealth of the entire Nation—52 percent in 1930. In 1936 these same 175 corporations represented 58 percent of the corporate wealth of this Nation; and on pages 3 and 4 you will find that in 1930 these corporations, only 175 of them, represented 18.9 percent of the entire wealth of the entire Nation. By 1936 they had increased until they represented more than 22 percent of the entire wealth of the entire Nation.

It is not in this statement, but it is true that there is one corporation that owns enough of the wealth of this Nation to control it. If we had 199 other corporations of the same size, those 200 corporations would own the entire wealth of this country.

Now, these corporations are controlled and dominated, I say, if not wholly, largely by directors in 24 banks. Those 24 banks have 30.88 percent of all the banking resources of all of the banks in this Nation. It is almost unbelievable to one who has not checked it, but those 24 banks have resources aggregating almost one-third the resources of more than 15,000 banks in the Nation.

Of these 24 banks, 13 of them are in New York City. There are 2 in California, 3 in Illinois, 1 in Massachusetts, 3 in Pennsylvania, 1 in Michigan, and 1 in Ohio. These banks have 670 officers. They have 484 directors. Those 484 directors interlock and are directors of these 175 corporations that own more than one-half of the corporate wealth of the Nation.

Now, this [illustrating on chart] represents the hub, the 24 leading banks, 484 directors, more than $20,000,000,000 in assets. These [indicating] represent the spokes. If you will notice, the spoke part leads out to steel, five companies, $2,930,000,000. Sixteen of those directors are on the steel companies' boards, 16 of the 70.

Here [illustrating] are the food and mercantile, 14 directors, and 36 directors out of 194 are directors in these 24 banks. Here we have the electrical equipment; there are 19 of the 36 directors, and those 24 banks have a majority on the boards of all of those companies.

So these 24 banks, being controlled by a few men who are also directors of the 175 nonfinancial corporations that own more than half of the corporate wealth of the Nation, I say, have the greatest influence over this country of any group of men.

I have another chart——

Mr. Reilly. Your statement is very interesting, but do you charge the Federal Reserve System as being responsible for this consolidation of wealth?

Mr. PATMAN. No; I am not bringing that charge, but——

Mr. REILLY. Then why——

Mr. PATMAN. Wait a minute. You asked me a question. It is a fair one, and it should be answered.

I do say that if you give a large bank the use of the services and facilities of the Federal Reserve System, and you deny the use of those facilities and services to the smaller banks of the country, you are placing the smaller banks of the country at a disadvantage, and you are giving the larger banks of the country an advantage, and by reason of having it, they will destroy the small banks as they have done, and they will become larger as they have become, with more power and more influence.

Mr. REILLY. Is there any reason why the small banks, if they so decide, cannot take advantage of the Federal Reserve System?

OPEN-MARKET COMMITTEE SHOULD BE CHANGED

Mr. PATMAN. Well, they have been afraid to, and I do not blame them, because I think the big banks have largely dominated and controlled the Federal Reserve System. Take today the Open Market Committee, the most important committee in America. The banks have five representatives on it, and the Government has only five representatives on it at this time. They are there. They are sitting there to control, you might say, the economic affairs of this entire Nation, but they are not charged with doing it in the people's interest. They are doing it, those five, in the interest of their own banks, of their own depositors and stockholders. I am not criticizing them. They are carrying out their duty and their obligation to the people that they owe a duty and obligation to, but let us take them off of the Board and place on the Board only people who are charged with the duty of promoting the general welfare, although it might conflict with the bankers' welfare.

Mr. REILLY. Assuming that your bill should become a law, what would you do or advise to be done to destroy this concentration of wealth?

DISTRIBUTE PRIVILEGES AND OPPORTUNITIES

Mr. PATMAN. I would not advise any destruction of wealth. I am not an advocate of distributing wealth. I am an advocate of distributing privileges and opportunities.

Whenever you give the Bank of America in California the privilege of going into your little towns in California and placing a bank there, first they will go to the owners of the existing bank and offer to buy them out. They are happy, they are contented, and the people are satisfied with their services, and they may be making good money, and they may refuse to sell. They are told "If you will sell, we will give you a big price, a bonus and everything else, but if you do not we will get a charter of some kind and we will start a bank in opposition to you."

Most of them will sell out. Those that do not will be crushed, because this little bank does not have the benefit of the services and facilities of the Federal Reserve System that the Bank of America will have, and they will use the Nation's credit to destroy that local operator of a local unit bank, and I claim that is not fair. It is not right that we should permit that to be done. We should encourage local institutions against absentee ownership, and the only way to do it is to give all banks, the smaller ones as well as the larger ones, the benefit of the services and facilities of this great system that is backed by the Nation's credit.

Mr. REILLY. How would that service that you refer to, that the big bank is getting, enable them to keep on doing the things that you say they are doing?

Mr. PATMAN. This little bank will not be in a position to compete. They cannot make loans and get their loans discounted through the Federal Reserve, but the big bank can.

The CHAIRMAN. I think that everybody who is at all concerned about my views knows that I am a believer in State banks, in community banks, and independent banks, and anything that can be done to promote the development of that kind of a bank to serve the local community in the best possible manner I am for. I believe in that as much as I believe in anything in the world. But is it a disadvantage to a State bank of that kind to be left free to join the Federal Reserve System if it so desires and finds it advantageous, or to stay out if it prefers to do so? It is the one thing that the State banks enjoy that the national banks do not, that freedom of action with reference to joining the Federal Reserve System.

Mr. PATMAN. They have been afraid of the System, as the gentleman knows, and this bill, if enacted, will give them the privilege, without any investments of any kind, of going into the System, of keeping their reserves upon deposit in a Federal Reserve bank, and of withdrawing them at will, with no "ifs, ands, and buts" about it.

The CHAIRMAN. I am not objecting to that feature of the bill at all; but how would it improve the condition of those banks?

Mr. PATMAN. I think they would come in. They would not be afraid of the System. Now they are.

Mr. MCGRANERY. How many of these companies——

Mr. PATMAN (continuing). Because it has been largely dominated by the larger banks, and the smaller banks do not want to be in the position of being crushed.

Mr. MCGRANERY. How many of these companies that you referred to are in bankruptcy, under section 77 (B)?

Mr. PATMAN. I do not know.

Mr. MCGRANERY. I have been running over this list. There are about a dozen. There is the Philadelphia Rapid Transit Co., the Baldwin Locomotive Works, the Baltimore & Ohio Railroad——

Mr. PATMAN. You are referring to the bankruptcy statute passed 2 or 3 years ago, section 77 (B)?

Mr. MCGRANERY. Yes, sir. What I was trying to do is to find out what percentage of these directors that you referred to were actually named by the court in the case of these companies that are bankrupt.

Mr. PATMAN. It would be interesting to know.

Mr. MCGRANERY. I think you will find that there are quite a number.

Mr. GIFFORD. Right there, might I ask this, Mr. Patman: In those corporations that you referred to, do you include railroads?

Mr. PATMAN. Yes, sir; they are included.

Mr. GIFFORD. And you include life-insurance companies?

Mr. PATMAN. Yes, sir; life-insurance companies.

Mr. GIFFORD. And the New England Telephone Co.?

Mr. PATMAN. Well, the American Telephone & Telegraph Co., I imagine, owns the New England Telephone Co.

Mr. GIFFORD. And those are the corporations that control so much wealth?

Mr. PATMAN. Yes, sir.

Mr. GIFFORD. And you say that their officials are only interested in their corporations. Are not those corporations composed of the people who own them, constituting a vast number of ordinary individuals?

Mr. PATMAN. It would surprise you, my dear sir, to know that all of the officials of the American Telephone & Telegraph, who incidentally vote themselves high salaries—all of them put together own two shares out of every thousand of stock in the American Telephone & Telegraph Co. They own an insignificant amount. It is the control that is so bad, and not necessarily the ownership.

Mr. GIFFORD. But the owners of those concerns are people.

Mr. PATMAN. Yes; they are people, and here is the way they operate: A blank power of attorney is sent to you to sign, if you are a stockholder, and you will not have room to place the name of anybody else on there—it is a closely written card—except the ones that they name, that they want you to give your proxy to, and we know it is the kind of an election that we would not condone in electing Congressmen, Senators, or the President of the United States.

Mr. GIFFORD. I would not, if I were you, talk too much about big salaries, for your Uncle Sam takes most of them.

But what I am interested in is that the people that you are trying to do something against are the people who, through thrift, put their savings into these corporations, like the railroads and the insurance companies, and then you say——

Mr. PATMAN. I am not trying to do anything against them. I just do not want to have these officers who are controlling the affairs of these little stockholders do anything to the rest of them.

Mr. GIFFORD. But, to listen to what you have to say, one would think that there were corporations with only about 25 people in them, to look out after them, but, as a matter of fact, it is an aggregation of a tremendous number of people, and they are looking after them as honestly as your Federal Reserve is looked after under Mr. Eccles.

Mr. PATMAN. Does the gentleman really think that a very large number conducts the affairs of these corporations?

Mr. GIFFORD. Have you read the reorganization bill in the Senate?

Mr. PATMAN. You read the report on the American Telephone & Telegraph Co. made by Dr. Splawn.

Mr. GIFFORD. What I am trying to keep in your mind is the fact that there may be some private individuals who have really the welfare at heart of a certain class of people who have indulged in thrift, in savings, and who are honestly looking out after that class of people.

The CHAIRMAN. Before you leave that, I want to observe that it seems that the mere ownership of stock in these large insurance corporations and other companies seems not to control the policies under which the companies are administered. I believe you said that the officials hold only 2 percent of the stock?

Mr. PATMAN. No; only two shares out of a thousand. That is two-tenths of 1 percent.

The CHAIRMAN. So I have always wondered whether the mere ownership of the stock of the Federal Reserve banks would necessarily bring about the happy results that you desire.

Mr. PATMAN. I do not think that Uncle Sam would send out any of these post cards with such fine print and with names on it to give proxies to, so that nobody can put another name in there.

Mr. McKEOUGH. May I make this observation?

That chart you had there a minute ago showed that there were 484 directors in the 24 leading banks, and the total of the directors from the various groups of corporations listed in your statement was 175. That is a total of 403, as I calculated it.

Mr. PATMAN. A total of 403?

Mr. McKEOUGH. Four hundred and three out of four hundred and eighty-four, if the addition is correct.

Mr. PATMAN. I do not know. This shows the percentage of the boards that is taken up by the bankers.

Mr. McKEOUGH. I got 83 percent out of the 484.

Mr. PATMAN. I had not determined that.

Mr. McKEOUGH. In other words, if that is correct—and I assume that your research is in fact in keeping with the situation—obviously 83 percent of that control is a sizable majority.

Mr. PATMAN. Yes, sir.

Mr. McKEOUGH. There is not much room for that to be whittled down to less than 50 if it were a 50–50 picture that you are seeking to bring about; and that brings me to this, if you will permit this observation, that it points to this counclusion—that the response to the Government owning the stock in the 12 Federal Reserve banks is pretty much developed on the premise that the Government now controls the picture, and the ownership of the stock in no way would add to that measure of control. That seems to be the only objection so far raised, and my thought is that if that is the only objection, I think it is an argument in favor of the Government owning the stock, because if there is no change in policy without additional law, certainly there can be no objection to the Government controlling the stock by reason of the privileges granted to those banks by the Government. They now enjoy something that they obviously are inclined to keep in the way of privileges.

So I merely wanted to inject this observation at this time and to cite the very strong testimony that Mr. Patman has submitted with respect to the Interstate Commerce Commission. The Government does not own any stock in that. It is not a corporate entity, merely a Commission created by statute, but no railroad representative is permitted on that Board.

Now, if the act of Congress creating that body in its original concept, and the subsequent enactments of the Congress enlarging the powers of the body were such that nothing could change that policy, I do not know what objection there could be now to the Government owning the stock in the 12 Federal Reserve banks.

Mr. PATMAN. Thank you very much. That Board was established, incidentally, 51 years ago on February 4 of this year.

Mr. McKEOUGH. And it has done a very good job.

Mr. BROWN. Do you know what dividends have been paid to the stockholders of the American Telephone & Telegraph Co.?

Mr. PATMAN. It runs from nine to nine and a half annually.

Mr. MEEKS. Let me ask you something. I have been quite interested in your remarks.

As I understood you a while ago you drew this sort of a picture, of the big banks having the facilities of the Federal Reserve and by virtue of that fact enjoying an advantage which the smaller banks throughout the country do not have. Is that correct?

Mr. PATMAN. Yes, sir; they do; especially those in California, where they have branches.

Mr. MEEKS. I wonder whether you have given consideration to factors such as these, that throughout the country we are building a great many good roads, and a good deal of private business has gone into stronger hands—chain stores and larger stores are crushing out the smaller stores. I have observed that by reason of these good roads many farmer depositors in the smaller banks now go by automobile to the larger towns to make their deposits, such as in a county seat. Then the chain stores are there, and they take a good deal of money out of local communities.

Isn't that a fact?

Mr. PATMAN. Yes, sir. There is no question about it.

Mr. MEEKS. And the local communities do not receive the benefit of much money from these institutions. I have known of smaller coal companies and mining companies going out of business by virtue of the fact that bigger companies, with larger capital and more expert operating technique, came in the field.

Have you considered these various factors? There are others, no doubt, in connection with this problem that you are now presenting, about the smaller banks going out of business.

Mr. PATMAN. I certainly have, Judge Meeks. One of the principal means of discremination in retail distribution is a low interest rate. You take a concern in New York City that has stores all over the country, and, incidentally, if we had 10 in the food business where we have 1 now, those 10 would own all of the retail outlets in the food business. In New York they can get their money for one-half of 1 percent interest, usually, and never have to pay more than 1 percent, I am sure. On the other hand, the merchants in competition with them are compelled to pay a higher rate of interest. That is one of thep rincipal advantages of some of the larger concerns, the reduced interest rate which they receive by reason of being able to do that large amount of business.

Mr. GIFFORD. But the people are benefited.

Mr. PATMAN. For a time, yes. An investigation made some time ago disclosed that they will go into your town and that they will sell to the people at low prices and save the people money for a while, until they put Tom, Dick, and Harry out of business, the people who built that country in time of peace and helped to save it in time of war, and when they have put them out of business, they put the prices right back, and the people have to pay dearly, and they use the profits made from the people in your home town to destroy the independent merchant in the home town of Congressman Crawford, or elsewhere.

Mr. GIFFORD. I grant you one-half of that statement; but, as to the other half, they will have another chain store on the opposite corner. They have plenty of competition.

Mr. PATMAN. Not always. They often get together.

Mr. GIFFORD. But we are looking after the people in this argument of yours.

Mr. PATMAN. Certainly. If the chain stores could always sell at loss leader prices, and they would never take advantage subsequently of the elimination of their competition, we would say, "Let them have it," but they will certainly take advantage of it, and testimony has been produced by witnesses that is convincing to the effect that they will do just what I am telling you, that when they get charge of the market in a town, they put prices up. Food prices are higher in chain-controlled towns.

Mr. GIFFORD. You still claim that after they put the ordinary man out of business, then they put their prices up. Some of us refute that. They have plenty of competition at the moment, so that the prices to the people still continue to be low.

Mr. PATMAN. In some places they do not. It all depends on the line of business. It is true that the chains are only doing about 25 percent of all the retail distribution, but that includes everything from peanut stands to automobile sales. If you will confine it just to the grocery line, you will find that one corporation now has in volume 10 percent of the grocery business, and you will find that in the shoe business they are doing more than 50 percent, and then if you will carry that study a little further on down to the communities where they operate, you will find that in many communities they have an absolute monopoly. They have gone into a town and picked out the best corner, the best location, and paid the highest rent, of course, and then by using the profits that they made in some other place, where they have already destroyed their competitors, they can put their present competitors out of business, and in any number of lines of business, they have already a monopoly in many cities of this country.

Mr. MEEKS. Mr. Patman, the question that I asked was rather broad and has several branches to it. The crux of it is this: The effect on the smaller banks, that you reminded us a while ago have been going out of business, of these local people going to the larger towns, and even the effect of these stores sending money out to the larger institutions for deposit.

I recall several towns in my own county where there are less than 1,000 people, and where they used to have two banks. But now, since good highway travel has come, you see many of the local people, the farmers and such merchants as are left, driving to the banks in the county seat to make their deposits, and some of these smaller banks are just gasping until they have to let go.

It is that phase of the question that I want to direct your attention to, specifically, and I would like to hear from you on that.

Mr. PATMAN. It is true that good roads have caused many people to do business in a larger city, where they did not do business before because they did not have the means of communication, the automobile, or the highways over which to travel that they have now, and naturally some of them have gone away from home for that reason, but I think that it would involve but a very small part of the business. That is just my guess. I have not looked into it.

Mr. MEEKS. I have observed it very closely, and it seems to me that it is responsible for a large proportion of it.

Mr. PATMAN. With the Federal Deposit Insurance Corporation law, there is no reason why these people should not distribute their deposits if they have more than $5,000.

Mr. MEEKS. They go to the larger towns, to the chain stores—that is the attraction—and they do all of their business there when they go.

Mr. PATMAN. Let me finish with the gentleman from Massachusetts. It is my understanding that last year in Massachusetts the onion growers received a very low price for their onions. Is that right?

Mr. GIFFORD. I do not know.

Mr. PATMAN. Anyway, the price was very low. The chains got together and only offered them this low price, and it was so low that the Federal Surplus Commodities Corporation sent a representative up there with the Corporation's money to fix the price of the onions sufficiently high so that those people could get some profit on them, and that chain stayed out of the market 10 days trying to break it, and found out that they could not, and then they went into the market like anybody else and paid the right price.

Mr. GIFFORD. I have in mind two very prominent fruit growers who said that the businessmen demanded 150-percent profit on their fruit, because of its decay and all that, and that they could not take a risk, and they said that the chain stores had never tried to beat them down on their product, and they were terribly afraid of your bill with reference to chain stores, because they are the ones now that furnish the public at large with fruit at a very low price, whereas before the public paid a tremendous price for it.

Mr. PATMAN. Let us see if the price is so low.

Mr. GIFFORD. It may have been true about onions.

Mr. PATMAN. I know it was true as to potatoes on the Atlantic seaboard; and not only that, but as to grapefruit and grapefruit juice, and as to the turkey market——

Mr. GIFFORD (interposing). Coming back to these small banks, there are usually in small communities only two or three men who are willing to take a risk in building up a community, and many of us have had, I am sure, the experience of going to a small bank and hearing them say that their capitalization is only $50,000, and no one can get out of that bank over $10,000 or $20,000, so that you have to go some place else to get your money. Your credit is very limited there; and if you want to do any business at all, you have to walk out of that bank and go to a bank that will lend you some money.

IF LOCAL BANK BREAKS

Mr. PATMAN. There is one thing about a local bank, and that is that if the bank goes broke, the community has not lost at all. All of the wealth still remains right there. It is transferred possibly from one person to another, but the wealth created by reason of that bank remains in the community. But that is not true of absentee ownership.

Mr. GIFFORD. Let me finish.

Mr. PATMAN. I know; but I want to finish answering your question. It is just a little bit off the subject matter we are discussing here today, but you made a point that I think should be answered about the low cost of distribution. It is not always the small difference in cost that the customer gets by trading with a national chain, and I will give the gentleman an illustration right here in the District of Columbia that is backed up by courthouse records.

The Superintendent of Weights and Measures employed two ladies to go to the chain stores of one corporation here in Washington and make purchases. He had had complaints that they were defrauding people, the people claiming that they were supposed to be buying so much, but when they actually checked up on it it was less than they were supposed to receive. So these ladies selected dressed chicken as the commodity to be bought.

The weight would be given to the lady, and then the clerk would go to the block to cut the head of the chicken off, and the lady would say, "No, I do not want you to do that. I want you to wrap it up just like it is," and in a number of cases they would go back and reweigh it and make a correction, but all of them did not.

Eighty-one purchases were made—and this is a matter of court record. Out of 81 purchases made from an independent merchant, some of them would be high, some would be low, and some would be exactly right, but out of these 81 purchases made, 68 were under weight up to a pound and a quarter to the chicken, 13 of them were full weight, and not one of them was a fraction of an ounce over weight.

You know why that was——

Mr. GIFFORD. Yes.

Mr. PATMAN. Not because there is a dishonest man owning that corporation. I am sure he is a good, honest, public-spirited citizen. But it is because of the system which they have that forces it. One of the managers told me when we were investigating it, and he put it in writing, this, he said, "I had to chisel. I did not want to do it, but I had to to keep my job. I was charged with all of these goods at the retail price. I did not know what they cost. They would come around every month and take an inventory, and tell me that I was short. They did not say how much, but to watch it next month. Then they would come back next month and say 'You are still short.' I would say, 'Where is it,' and they would say it is none of my business."

So they would never know, according to his statement, when they were long. Then it was none of his affair, but only when he was short. Consequently you do not know, every time that you are getting this low price that you are getting what you think you are getting.

A complaint was filed here in Washington, a criminal complaint, and this man—and I am sure that he is a great man—from New York came down here. I do not say that he is dishonest or corrupt. He means to do the right thing. But he came to Washington with his lawyer from New York, and they sat on the front seat before the jury, and with all of their crocodile tears and everything else they did not convince that jury that they were not guilty, and they have paid fines in those cases.

So that is the system under which they operate, and you do not always know that you are getting that discount that you think you are.

Mr. GIFFORD. I realize that, but your shelves nowadays are filled with package goods, where they do not ever have to measure the quantity.

Mr. PATMAN. But I do not want to devote any more time to this matter of the chain stores here. I will be glad to meet the gentleman at some other time and pursue this.

Mr. GIFFORD. I was in the grocery business for 10 long years, and my clerks, everyone that I hired, would never give me a chance; they would give down weight every time, and cheat me every time they sold a pound of sugar. You could not buy a 53-pound can of lard and come out within five pounds of it after it had been sold. There is such a thing as a balance, and the lady must balance the pound of butter she gets with the pound of sugar.

But I want you to admit that the chain store today has resorted in every conceivable way to package goods, where the quantities have been carefully measured.

Mr. PATMAN. On nationally advertised goods. But I wonder if the package is always the same. I understand that there are different sized packages.

The CHAIRMAN. Gentlemen, the House is in session, and we shall have to quit now.

We will resume tomorrow morning at 10:30.

Mr. PATMAN. May I suggest that I wanted Senator Owen to testify tomorrow, and, if the committee does not object, I will ask that he be heard, and then let me finish after he gets through, either tomorrow or the next time we meet.

Will that be all right?

The CHAIRMAN. That will be all right.

(Thereupon, at 12:10 p. m., an adjournment was taken until Friday morning, March 4, 1938, at 10:30 o'clock.)

GOVERNMENT OWNERSHIP OF THE 12 FEDERAL RESERVE BANKS

FRIDAY, MARCH 4, 1938

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

The committee resumed hearings on H. R. 7230 at 10:55 a. m., Hon. Henry B. Steagall (chairman) presiding.

Other members of the committee present: Messrs. Goldsborough, Reilly, Williams, Spence, Meeks, Ford, Brown, Patman, McKeough, Transue, Luce, Crawford, and Gamble.

The Chairman. The committee will come to order.

Mr. Patman. Mr. Chairman——

The Chairman. We have with us this morning former Senator Robert L. Owen, of Oklahoma, who had a large part in financial legislation, due to his service in the Senate, especially in connection with the Federal Reserve Act, and who is so well known to you that I am sure there is no necessity for any extended introduction of him from me.

I want to say, Senator Owen, that we welcome your counsel in this committee; we have need of it, and we want you to feel at liberty to proceed as you desire, in your own way, in connection with this bill now under consideration. If you wish, the committee would be glad to have you proceed without interruption until such time as you wish to be interrogated.

You may proceed in your own way.

Mr. Patman. Mr. Chairman, you have already said in a better way than I could say what I had in mind, except this, that I feel that Senator Owen has given more thought and consideration to this subject than any other one man in America. I feel that he is one of the best informed men in the world, if not the best, on our American monetary system. I feel that he has done more for the cause of reform in a dishonest monetary system than any other one man in America, and I feel deeply gratified to have him come before this committee and to have him give us his views and suggestions.

The Chairman. All right, Senator Owen. We will be very glad to have you proceed.

STATEMENT OF HON. ROBERT L. OWEN, A FORMER UNITED STATES SENATOR FROM OKLAHOMA

Mr. Owen. Is it agreeable to the chairman of the committee that I be seated?

The Chairman. Just as you prefer.

Mr. Owen. I would prefer to sit.

The Chairman. You do that; suit your own comfort.

Mr. OWEN. Mr. Chairman and gentlemen of the committee, I think, for the record, it might be advisable with great brevity, to give a background of my interest in connection with this subject matter.

The first item of any importance in connection with it was an experience that I had in handling range cattle. During 7 years I sent 18,000 steers to the markets, and at the end of that time I came out of the same hole I went in. I discovered during that time that there were committees representing the packers who every morning would fix the price, especially for the cattle that day, and they fixed it at a point where, although I had a free range, and nearly 100,000 acres of magnificent grasslands, I made nothing; and I was deeply impressed by it, because the methods which were pursued in that matter had afflicted the producers of the United States and had impaired the national progress.

In 1890, I, with some other friends, organized the first national bank which Oklahoma or Indian Territory had. For some reason they selected me as president of that bank, and I served 10 years as its president—which I do not mention as a qualification as a monetary expert, but, on the contrary, as a means by which not to know it, if I may use that term, because a banker does not think in terms of monetary science; he thinks in terms of making safe loans at good interest and collecting the interest and not losing the loan. He thinks in terms of his stockholders and his depositors.

I have been elected a director of that bank 48 times. So I have had some experience with the banks—not a great deal; I did not attend to the detail of the bank, even when I was president of it, but I directed its policy, and that bank, starting with a cash capital of $50,000, has paid over $2,000,000 in dividends, and it is doing very well now.

So I am not prejudiced against the banks. I am a friend of the banks. I do not sympathize with the policy of denouncing the banks for what has taken place in our country. They did their duty well. They have been most serviceable to the people of the United States, and I have deplored seeing them, through the weakness of the banking structure, lose 16,000 of their number in the last 20 years due to no substantial fault of the bankers. They have been victims of an unwise system which has ignored the wisdom of our forefathers, which has ignored the means by which our forefathers intended to protect us against the evils which they had witnessed in the past, and because of which they wrote into the Constitution of the United States an express direction to Congress to coin money and regulate the value thereof and put into the Constitution itself the broad powers in Congress exclusively to create money. I speak the language, in substance, of the United States Supreme Court in the legal-tender cases.

In 1893 I received a circular letter advising me to contract credit, as the head of that bank, and to use the distress of the businessmen, due to the contraction of credit, to petition Congress and to write letters to the Senators and Members of Congress urging them to repeal the Sherman Silver Purchasing Act, which was done a little later on, and the contraction which took place at that time caused 60 percent of the deposits of the little banks which we had there to vanish. The wholesalers called upon the local merchants to pay up, and pressure was put upon those who were in debt to liquidate their debt at whatever cost.

At that time I saw a pair of driving horses about 15 hands high selling in front of that bank for $10, for the simple reason that nobody wanted to buy and to be responsible for their care. There was an abundant number of horses, and there was a very small amount of money left in the country.

I mention that item because it was of extreme interest to me, and I found my reputation and that of my board of directors jeopardized by this contraction of credit deliberately brought about by circular letters sent all over the United States—confidential letters, I suppose they were, but it has been a long time since I saw that letter, and I do not remember the text, but the text was published in many places, and I put the text of that letter in a book which I sent to every member of this committee, called "Stabilized Dollars." I sent you that book on the 9th of January a year ago, 1937, in the hope that some of you would have time to read it, and I believe that some of you may have read some of it.

Mr. GOLDSBOROUGH. I assure you that I have read it with a great deal of profit, and I have used it as a reference book on occasions, and I know of no work that has been more highly complimented to me by monetary experts.

Mr. OWEN. I congratulate myself that it is sowing seed.

Mr. PATMAN. I have had the same experience as Mr. Goldsborough. It is a very useful and constructive work.

Mr. OWEN. It was a sowing of seed.

In 1896, deeply impressed with the monopolies which were afflicting the country, and with the means by which they were successful in the control of the money supply, I went before the Democratic National Convention. I was then a member of the Democratic National Committee, elected in 1892, and in 1896 I went to the convention, and before the committee on resolutions I made a resolute fight, demanding that the convention commit itself to the protection of this country against panics, and I showed them a way how, which I had gotten from a man named St. John, which was to provide for the easy convertibility of bonds of the United States into the money of the United States in times of panics. I got that principle also from the Bank of England.

I was defeated in the first fight. In the second contest to the same end, I got the support of Allen Thurman, of Ohio, and of Charles S. Thomas of Colorado, and of William J. Bryan of Nebraska, and the committee yielded to pressure, and adopted the plank I proposed. Senator George from Mississippi came in and made a strong speech against it, on the ground that it was new, that it was novel, that it had not been considered by the Democratic Party leaders and they did not know what the result might be of that kind of a plank, and that it might be taken advantage of to expand and contract money by the New York bankers, and it was dangerous, and that they had better leave it out—and they did, and I stood like Casabianca on the burning deck; I was the only one that stood persistently for that, but it did not go through.

I went to Europe in 1898, and spent 4 months in London, Paris, and Berlin examining methods by which the banks of those great countries controlled the supply of credit. They all had plans, of which I made a careful record. I came back and wrote many articles for the public press, showing how these principles could be adapted to the American system of banking, giving public control in stabilizing credit. I put some of them in the Congressional Record when I became a Senator, in 1907. See Congressional Record, February 25, 1908.

The Bank of England, chartered under the law of 1846, met with a sudden panic in 1847. In that contingency they were not permitted to issue money or credit except against gold, outside of a limited number of pounds of their original capital stock, and the directors went to the Ministers of the Crown, and in the ministerial meeting they passed a ministerial permit authorizing the Bank of England, regardless of its chartered law, to issue credit or money and 5-pound notes against other securities than gold and without limit. It was, in effect, an authority of government to the bank of issue to create unlimited money against assets of a sound bankable character.

The moment that that ministerial permit was declared, the businessmen of Great Britain were advised, upon the authority of the Government itself, that they would be able to get money against sound bankable assets, and as a matter of course their fear disappeared, the urgent demand of many to liquidate current obligations was abated, and the panic disappeared almost immediately.

The same thing took place in 1857. The same thing was repeated in 1866, when Overend, Gurney & Co. failed. The same thing was repeated in 1890, when Behring Bros. failed, a commercial wreckage that went to the ends of the earth. The people of England have had this means of quick remedy for a long, long time. I undertook to bring that to the attention of the people of the United States, and when I came into the Senate and took my seat on December 16, 1907, I was there for the purpose of promoting a sound banking system in the United States. That is what I came to the Senate for. That is my chief purpose.

Within 90 days from my entry into the Senate, I discussed the Vreeland-Aldrich bill, which had been offered by Mr. Nelson W. Aldrich, the chairman of the Committee on Finance, as a means of meeting the panic of 1907, a panic artifically created, deliberately created. I gave a record of the facts in the book that I sent you. I pointed out to you the fact that a man who knew what he was talking about came and told me in January 1907 that there was going to be a big squeeze in stocks and bonds, and I asked him how much of a squeeze, because I knew that he knew, and he grinned and said "Just enough of a squeeze to make the fellows let loose that cannot hold on", and I followed it with interest and care. In the meantime I notified my bank to reef its sails and to strengthen its collateral from borrowers, and to call nobody, but to protect the bank against the contingency of loss. The bank lost nothing, but many others did lose.

It was a grievous loss, and a picture of it was painted by Mr. Aldrich on the floor of the Senate that has not been surpassed as a dramatic statement of great power, and which he urged as an argument for the Vreeland-Aldrich bill, which provided for regional currency associations by which the banks associated together in regional groups could add their bank assets as a basis for the issue of money. This was a principle of the British system to which I have previously referred.

I analyzed that bill, recognized its good qualities gladly, and said that I would support it if necessary, but I pointed out its weak spots, that it had many constrictions in it, so as to make it difficult for an individual bank to get the proper supply of money against sound bankable assets, and I urged its amendment on that occasion. I think it might be of interest in this connection to say, I advocated on the floor of the Senate, in a 3-hour speech, that the United States Government should exercise supervisory control over the banking system, that all money should be legal tender, that bank deposits should be guaranteed, that the United States should issue the money of the country, that no bank should be allowed to lend money for speculation in securities in the stock market, and that the security exchanges should be put under public control. That speech was made last Friday 30 years ago, on the 25th of February 1908.

I advocated an emergency currency fund, the quick conversion of United States bonds into currency through the Treasury of the United States by permit of the Secretary of the Treasury in times of panic or great emergency. In this address (p. 2427, Cong. Rec., February 25, 1908), I said:

> In discussing this matter, Mr. President, it should always be kept in mind that it is not the welfare of the bank or of the depositor, however desirable these questions are in fact, that should be considered, but the real question to be considered is:
> The prevention of panic.
> The protection and promotion of our national commerce.
> The firm establishment of stability in business affairs.
> The maintenance in active operation of the productive energies of the Nation.
> Panic is like a stampede in a theater at the cry of fire. The remedy is, first, a fireproof building; second, abundant avenues of escape, wide open.

On the 25th of March 1908, I demanded on the floor of the Senate a committee that should be charged with the duty of studying this system of banking, so as to advise the Senate of the United States what was the best means by which to strengthen our national banking structure. Mr. Aldrich then and there, on the floor of the Senate, acquiesced in the suggestion, and I had had a previous agreement with him that he would do so, and the Monetary Commission was the consequence. They studied the subject matter for 4 years.

I am reciting this history, because I want this committee to realize the enormous amount of study which has been given to this question by the authorities of the United States through the Congress of the United States. That committee reported in 32 volumes after 4 years of study, and 2,500 auxiliary books which they had collected from the ends of the earth relating to banking systems all over the world. Those books are all in the Congressional Library now for those who are interested in the subject matter. They brought in a bill called the National Monetary Commission bill, and did a great deal of work to excite public interest in it, and it was a bill which had very substantial merit. It had the demerit, I thought, that it left the management of the banking system, which provides the money of the country, entirely in the hands of privately owned banks. I did not think that that was wise, because the policy of the banks is exactly the reverse of what the policy of the Government would be in the matter of expanding and contracting credit.

Under our system of government we have built up a structure which was perfectly natural and which I do not feel disposed to criticize in any harsh way whatever. The Government of the United States naturally and normally failed to provide the people of the country with an adequate supply of the medium of exchange to meet the requirements, constantly expanding year by year, of products and services which had to be exchanged by the people with each other. The Congress of the United States did not realize that. The people were compelled to realize it by their own necessities. They had to have money in order to transact their business. They transacted a great deal of business without any money. The individual citizen would go to his merchant and say "I have not any money at present, but I will have money after a certain time from the proceeds of my labor, from my cattle, from my hogs and cotton crop, and so forth, and I want you to credit me and let me come to the store and get what I need for my supplies while I am preparing the crop, and so forth," and an entry on the books of the merchant served the purpose of money and the going in and getting the goods at the store and having them charged served the purpose of money, but it was not adequate.

In a civilization such as we have developed, wherein you will find in an ordinary department store tens of thousands of different articles made by modern machinery in enormous volume, to exchange those products with the people who would like to buy those products is absolutely impossible without an adequate supply of money with which to do it.

Under this system which we have built up, the banks, when times are good and prosperous, begin to expand credit, and as they expand credit, the expansion grows on itself, and they expand to excess, and when they expand to excess it has the effect of causing property values to rise correspondingly, and then it is soon discovered that these values are too high, and there comes a reaction, and the reaction excites great fear, and the depositors and the banks alike through the process of fear, contract the credit, which means the money of the country, and they contract that to great excess, and because of that excessive contraction they bring about the destruction of property values, they bring about the weakening of the security upon which the banks have made loans, they weaken the solvency of the borrowers, they frighten the banks who have their capital in jeopardy, and the banks naturally contract credit and ask to have the loans liquidated, and prudent borrowers make haste to liquidate when they anticipate conditions of this character.

For that reason, the policy which works against the interests of the people in this field needs to be corrected by some power greater than that of the banks, who cannot cooperate with each other in such a matter. The only power that can do that adequately is the power of the United States, of all of the people, and the policy of the United States should be, when an undue expansion takes place, or what is called inflation, when the word "inflation" is properly used—when undue expansion takes place, the Government ought to be in a position to correct that, in order to prevent interference with the normal relations of debtor and creditor, and the normal relation of the buying and selling of goods which is necessary to achieve and maintain uniform, maximum production.

Therefore the policy of the Reserve Board and of the Reserve banks should be to correct these unhealthy tendencies when they occur injuriously to the public interest. For that reason the Government of the United States ought to have control of the Federal Reserve System in such a way that they could make effective the policy to which I refer.

It is for that reason that I approve the Patman bill, which provides for taking over the 12 Federal Reserve banks under the ownership of the United States Government or by the people of the United

States whose interests are so vitally and deeply affected by the panics which have occurred from time to time, I believe now some 25 times since we established this Government, and three times in the last 20 years, 1921, 1932, 1937, excruciating periods of suffering for millions of people.

In the depression of 1932 I want to call the attention of this committee to the fact that the suffering was so extreme that the personal suicides increased to 22,000 per annum, an increase of 14,000 above the previous record, many of which were even then due to the conditions in this country which made poverty so unendurable that people preferred to die rather than to live.

I am not going to describe the effects of these last three panics beyond calling to your attention with the greatest possible brevity the fact that the first year of the panic of 1921 caused a loss in the products and services which the people previously enjoyed of 15 billion dollars. That is a recorded fact, not a theory.

The loss of products and services under the panics of 1929 to 1936 amounted to 164 billions of dollars of products and services that might otherwise have been enjoyed.

The panic of 1937 has been more sudden and more violent than any which preceded it, and the effect on production has been more violent.

Let me call your attention, gentlemen of the committee, to the record found in the files of the Federal Reserve Bureau of Research, the index of physical production. I sent a letter to the members of this committee by mail, with which was a copy of the report of Sir Reginald McKenna, former Chancellor of the British Exchequer. In that he said that the index of physical production, or the actual physical production of Great Britain, had increased in 5 years under managed money 50 percent. That is 10 percent per annum under a system of managed money, where the people were supplied with a sufficient amount of money to transact their current business.

Our index of physical production was set at 100 by the Calvin Coolidge administration for the average of the years 1923 to 1925. That index of physical production is an index that should normally rise without any assistance or special assistance on the part of Government, not less than 4 percent per annum. The index of physical production that should be 4 percent per annum each year should be followed by a 4 percent increase, so it compounds itself as you proceed; and, taking 1924 as a basis, the index should have increased from 1924 to 1937 by 13 times 4 percent, plus the actual compounding percent, or about 68 percent. I have made the calculation. That is substantially correct.

The index of physical production, without the assistance of anyone, and without panics, should have been for 1937, 168.

While we did substantial service in overcoming some of the effects of the depression, our index of industrial production last May reached 122. Then it went down, down, down, and now it is 79. We have lost 43 points, or about 35 percent in the index of physical production since last May, and I hope that you will read the letter which I sent you, enclosing the statement from Sir Reginald McKenna. He is a high authority. He was Chancellor of the British Exchequer. He has had charge of the London City and Midland Bank for 25 years or more, the largest commercial bank in the world, I believe, over 3,000 branches, over 2 billions of deposits.

I know Sir Reginald McKenna very well. I had the honor of visiting with him in London immediately after the armistice in 1918. He was associated with Sir Edward Holden, also formerly Chancellor of the British Exchequer, and who at that time was the head of the London City and Midland Bank, and those two were deeply interested in the Federal Reserve banks which had financed the war to the extent of 40 billion dollars without any disturbance of credit conditions in the United States, although the bankers assured the Government that it would be impossible to raise over 2 billions when the war started, but we raised 40 billions without difficulty under the Federal Reserve System. So the act was well drawn for national emergencies.

At that time, Sir Edward Holden and Sir Reginald McKenna spent 2 days with me talking about the Federal Reserve System, the Federal Reserve Act, its management, and so forth. They gave me a banquet at the Hotel Cecil, with 80 financiers and the leading representatives of the British Treasury there, and Sir John Bradbury was there, and Sir Robert Chalmers, and various dignitaries, and for 3 hours I answered their questions with regard to the operation of the Federal Reserve Act and they were deeply impressed with it, and an effort was made to amend the charter of the Bank of England, to give it greater powers to correspond with the powers we had given the Federal Reserve System. But the English are very conservative, and no change in the charter was made.

I recite this because I think it is of importance for the committee to realize the importance of the present experience of Great Britain for the last 5 or 6 years in managed money. They have accomplished some very important results. They have restored prosperity reasonably. They have increased their physical production 50 percent, and that is a colossal transaction. They have reemployed over 2 millions of workmen in the last 5 years under that system who previously were unemployed. They have given the businessmen of Great Britain a 2-percent annual rate on the use of money, and our businessmen have got to compete with that 2-percent rate when they come into competitive conditions in the world's markets with the products of English industry.

Now, in 1920, on May 18, in Washington City, at a secret meeting of certain members of the Federal Reserve Board and 36 class A directors of the Federal Reserve banks, and 12 members of the Federal Advisory Council, they had an all-day meeting. The minutes of that meeting fill a small book of some 60 or 70 pages and will be found in Senate Document 318, published in February 1923. I recommend that to your careful perusal. You will find there where they deliberately agreed to contract credit and currency, to drastically contract it.

On the floor of the Senate, between January and June 1920, knowing that they were secretly working for the contraction of credit and currency, I entered 11 different protests, verbally and in writing, against that policy. I want history to record that fact. I pointed out to the Senate and to the people of the United States that if they permitted that kind of treatment, they would first experience a serious depression, bringing sorrow and grief to the people of the United States, and if that was persisted in, through the private management of that institution, they should not be surprised if the people of the United States would demand that the Federal Reserve System should be turned into banks of discount and deposit. I am opposed to that remedy, but the remedy proposed by the Patman bill, to take over these banks, is for the purpose of preventing private interests, by cajolery, by intrigue, by cleverness in social relationships, and in the scientific use of economic jargon, to control the policy of an institution that ought to be exclusively employed in the welfare of all of the people of the United States, and not permitted to be used to promote the interests of those who speculate in money.

I speak respectfully of those who speculate in money. In a certain intellectual sense, they have my admiration, not that all of them are deserving of admiration, but they follow with reasonable alacrity when the leaders set the pace, and what they do is simple enough. Just what they did at that secret meeting on May 18, 1920, and which they were able to write into the records of one of our great and patriotic political parties, was this: On the 10th of June 1920, there was written into a platform of one of our great parties a provision that that party would carry on a persistent fight against the high cost of living by the courageous and intelligent deflation of over-expanded credit and currency. Well, they contracted, and the general price level, the all-commodity index, which in May was 167—and I confess it was too high; I confess it was at that time 37 percent too high because of the speculation in commodities following the World War, when there was a scarcity of commodities; but from 167, by the contraction of credit and currency, that index fell to 93 the following June, 74 points.

Then, under Calvin Coolidge, we had a serious attempt to stabilize the value of money, and they set standards that were believed to be sound and fair; they set the standard of 100 for the price level of 1926, and under Benjamin Strong's management, he being the governor of the Federal Reserve Bank of New York, in which he controlled credit in a substantial degree through his influence directly or indirectly over the great banks of New York who cooperated with him, we had an era of very substantial prosperity, but in that era there took place a very unusual thing which followed the great distress of the panic of 1921.

In the panic of 1921, our great industrial companies discovered that they had not a sufficient amount of reserve money to bear the stress of the sudden loss of business, when their expenses went on and their income was reduced subnormally. They therefore put on a campaign to correct that condition which they regarded naturally as an evil, to expand their cash reserves, and the best way to do it was to sell their stocks and bonds to the public. So, great campaigns were put on to sell stocks and bonds to the public. These great institutions were admirably managed for the most part. They were money-making concerns. They deserved the confidence of the public as investments, and the public bought the stocks to an extent which I think is not generally understood, but which was put into the record of this committee in the hearings on the Goldsborough bill in 1932, in which Mr. Goldenweiser, the Director of the Bureau of Research of the Federal Reserve Board, testified while I was on the stand that these industrial corporations had sold to the public over 50 billions of dollars of stock.

It was a grand performance, representing the highest skill and activity humanly possible, and the great institutions had so much cash on hand that they looked around to see how they could employ it and get some interest on it.

Nothing was easier. The call money market was absorbing all the money that anybody was willing to lend, and at increasingly high rates of interest. The margins were abundant, 40 and 50 percent.

The security could be sold overnight. There did not appear to be any risk in it whatever, and so attractive was it that they not only took money which was held as reserves by the industrial corporations, but they also attracted money from the small banks all over the country.

I found that my own bank, of which I was a director, had $1,000,000 loaned up there. When I discovered it, I objected to it very seriously, and it was withdrawn, but my directors told me that they did not have any demand for it at home, and they were getting a high rate of interest on call, and the margins were abundant, and it was safe, and they could do it through their correspondent in New York without difficulty, and they did not see any reason why they should not make that money.

The CHAIRMAN. Do you remember how high the call-money rates went at that time?

Mr. OWEN. The highest point which I recall was about 25 percent, just about the time of the crash.

Now, I do not blame anybody——

The CHAIRMAN. What is the highest rate of interest that your bank received on call money in New York?

Mr. OWEN. I do not remember. I think at the time it was somewhere around 8 percent, but the rate did run up to a point above 20 percent; and those processes represent human nature in action. I do not think it advisable to criticize the motives of people who do the natural thing under the conditions under which they are living, and I am not willing to do it, because I do not like to impugn motives of individuals; I do not think it is wise and just to do it, as a rule, but I am calling the attention of this committee to these things because of their bearing upon the importance now of taking over these Reserve banks without any nonsense about it, for the reason that you have then an instrumentality subject to the control and the influence of the Congress of the United States in the discharge of its constitutional duty of regulating the value of money. You cannot regulate the value of money except by regulating the flow of credit in the form of demand bank deposits in circulation. The demand bank deposits not in circulation do not function as a medium of exchange. They function as a warehouse receipt, and as a measure of value.

Money has several different aspects. One of its aspects is a medium of exchange—the great aspect. Another is as a measure of value, and the third is purely as investment.

There are many men who have the wisdom to know that they can invest in money just as profitably as they can invest in property. There are men who know that money can increase in its purchasing power in terms of stocks 100, 200, and 300 percent, just as well as men who know that stock can increase from a low price 100, 200, and 300 percent, and this last panic which took place, I think, was clearly due, first, to the general condition of hoarding credits which had been built up through the terrible agony of 1931, 1932, and 1933, and 1934, when men hoarded demand bank deposits.

In 1932 and 1933 they hoarded pocket money on such a colossal scale that there were over 1,000 communities in the country, collected by the Department of Commerce, who resorted to barter exchanges and to the issuance of the scrip money. The Chase National Bank has on exhibit to any of you gentlemen who would care to see it in New York, 2,000 pieces of scrip money issued in violation of statute law, but in accordance with the law of self-preservation, which rises above statute law. The scrip money was issued on paper, on leather, on wood, and on metal, and it was due to the hoarding of pocket money which did not exist in sufficient quantity to enable the people to carry on. The clearing houses during this period authorized the issue of clearing-house certificates to an extent of over $600,000,000.

But the real hoarding which takes place, which is most dangerous, which is most harmful to our commerce and industry, is the invisible hoarding of demand bank deposits, and how shall we ascertain to what extent that invisible hoarding is taking place? Fortunately we have the actual figures. There were twenty-four and a fraction billion dollars of demand bank deposits in 1929 which were active, in circulation. One thousand two hundred and twenty-seven billions dollars of checks were circulated during that year and debited on the books of the banks of the United States, measuring the flow and activity of that twenty-four and a half billion dollars of demand bank deposits in all the banks of the United States in 1929, but when the people became frightened, it fell to nine hundred billion in 1930, and in 1932 it fell to four hundred and fifty billions, and in 1933 to four hundred and thirty billions. In the meantime, the deposits themselves decreased very substantially, but the decrease was more largely in the hoarding than in the contraction of the actual volume of demand bank deposits. But in 1936, when the demand bank deposits had crept gradually to twenty-four and a fraction billions, the total of checks debited against the books of the banks was $611,000,000,000. Last year it was $637,000,000,000, but I call your attention to the morning Post, the morning Record, which shows that the clearances of last week were 26 percent below what they were a year ago.

Now, that contraction of demand bank deposits is a thing which can only be controlled by an instrumentality in the hands of the Congress of the United States.

Let us look at what took place in 1937, when the Federal Reserve Board called upon the banks to raise their reserves to twice what they had been before. It created a reactionary impression and promoted credit contraction. When they did that, some of the banks sold their bonds and there was a corresponding contraction of credit to the extent of nearly two billions. The amount I estimated from January 6 to August 13 was 1,850 millions, but that was not the most important matter. The important matter was the cause of the policy of contraction which was broadly advocated during the spring of 1937 by Mr. Morgenthau in his address at the Harvard Conference on the 27th of February 1937, which was advocated by Mr. Wallace, of the Agricultural Department, and three of his assistants who spoke over the radio protesting against the prices of the country being too high. The sagacious gentlemen who were experts in monetary science and who study monetary science for the purpose of making a living out of it, advised their clients who speculate in money—and perhaps the word "speculate" might be regarded by some as offensive, so I might say those who merchandise in money and who merchandise in stocks as a means of merchandizing in money, converting money into stocks and stocks into money, and money into stocks, and back and forth from one to another—these monetary experts of New York, of Chicago, of Boston, and San Francisco naturally and wisely had the sane common sense to advise their clients who had accumulated stocks with the expectation of the stocks remaining stable and going higher—they advised them to sell their stocks, not to do it too fast, not to disturb the confidence of the purchasing public, but to sell their stocks as rapidly as it could be discreetly done, without glutting the market.

That was done on a tremendous scale, and gentlemen of sagacity conveyed their stocks to gentlemen of less sagacity, who in turn conveyed those stocks to gentlemen of still less sagacity as the market went step by step down the hill, and the more learned and sagacious gentlemen accumulated cash in the form of demand bank deposits which they held in storage, not earning any interest, but on the theory that the money which they were accumulating would increase in purchasing power, in terms of the various stocks which they were selling, and we saw under this process United States Steel go from 126 down to under 50. So that the dollars which were accumulated by the sale of United States Steel at 126, when it went down to 50, could buy about two and a half times as much steel stock as they had sold.

Isn't that common sense, and a good way to make money? Is there even any moral objection to it, in the ordinary use of the word "moral" as used in the business world? It is a matter of judgment. Men who think property is going down sell it, and acquire property that they think is going up, and then the same thing will reverse itself, and when the thing gets down to the bottom, and the gentlemen who have accumulated money invest the money in stocks at the low price, that money begins to flow again, and as the stock market rises in consequence of this, the money will flow more and more actively, and the money which has been hoarded for the purpose of a rise in purchasing power, for the purpose of buying first-class real estate under mortgage in the New York centers and elsewhere, when that has been gratified and the money which has been accumulated in this way has been judiciously invested in property, then we will see a reversal of the matter, and money will begin to flow into rising property.

Now, when the United States takes the step of saying that it is going to give the people of the United States stable money, that they are going to establish a money system which will furnish the people of the United States with a medium sufficient to easily move all of their products and services from and to each other—when they agree that they will do what the Goldsborough bill of 1932 proposed to do, you will see the money which is frozen with a view to its rise in value begin to move, because then they will know that the end of the depression paralysis is at hand and that there will be a rise in the value of property. You will then release this frozen money.

But that is not enough. This is not just one case of which we are speaking. We are speaking now of a national policy for all time, by which the hope expressed by the President of the United States to the London Monetary Conference in 1933 shall be really achieved, when we shall have a dollar whose purchasing debt-paying power shall be the same from one generation to another. That is a noble and humane ideal. It is one easily capable of achievement. It is one which I believe will be accomplished now under the patriotism and courage and intelligence of this committee and of this Congress, and of the present Senate.

I want to say this: That the time for study of this matter has to be drawn to a close. I remind you that on this question, the committee of which I was chairman in 1913, took 3,000 pages of testimony to establish a system that would give stability to the purchasing power of money and in the debt-paying power of money.

In my committee in 1914 a thousand pages of testimony was taken on the control of the security exchanges. Under Mr. Goldsborough's efforts, nearly 3,000 pages of testimony was taken in the study of this question. The subject matter is now understood by thousands.

I wrote into the bill which was introduced by me in the Senate on the 26th of June 1913, a provision that the powers of the system should be employed to promote a stable price level, which meant a dollar of stable purchasing debt-paying power. George Shibley was responsible for that ideal, a grand and noble man, a student—and a great student—of monetary science, who wrote a book of wonderful merit in 1896, called Honest Money. It was a prophecy. It was the sowing of seed. George Shibley is not here now, but the evidence which was taken at that time, in 1913, sustained the wisdom of the policy.

But there were those who did not want stable money. There were powerful interests that preferred to have the management of money left exclusively in the hands of those who understood the money business. There were those who desired to retain private control over these questions. In their view, it was better for the public interest. In their view, it held out the opportunity for profit, and our system being based on the profit system, they thought should be encouraged to the highest degree so as to hold out the greatest possible profits to those who were energetic and sagacious.

I shall not quarrel with their view of the matter, except to point out that my chief antagonists in liberalizing the Federal Reserve Bank Act of 1913 were guided by these forces, through Mr. H. Parker Willis, who did not believe in the quantitative theory, and who derided the idea of the public regulation of the value of money.

I was not able to keep that item in the Federal Reserve bill. It was stricken out in the House. I was unable to replace it in the Senate. But the act functioned, nevertheless, fairly well until the conservative element who believed in the private control, who believed in the view entertained by those who presented the bill drawn by the National Monetary Commission, were successful in modifying to that extent the Federal Reserve Act of 1913, but not to impair its real meaning of supervisory control by the Government of the United States over the system, but when they got charge of the personnel of the Federal Reserve Board, through Mr. Paul Warburg, and Mr. W. P. G. Harding, and Mr. Strauss, and Mr. Adolf Miller, they were able to have that secret meeting on the 18th of May 1920, and bring about a contraction so violent that it threw 5,000,000 people out of employment; and the same forces, unrestrained in the stock market, expanding credit to great excess between 1926 and 1929, raised the price of stocks to a fantastic point where they would not possibly earn dividends, and therefore wise bankers constantly warned those who were buying such stocks of the danger of it, and it resulted in a sudden change of public opinion on October 23, 1929, with the crash which followed.

I did my utmost to protect Mr. Hoover against that. I spent a month preparing for his special use a memorandum, 16 printed pages with 12 charts, which I presented to him at a luncheon in May 1929, warning him of what was going to take place in the stock market, urging him to study the question or to have his experts study it, so as to abate what otherwise would happen with colossal violence, and urging him to prepare to correct the reaction when it took place.

The chairman of this committee will remember that I gave him a copy of that memorandum several years ago. I do not know whether he retained it or not, but he will recall it surely. It was a very interesting memorandum, at the close of it, because I said to Mr. Hoover at the close of it that if he failed to meet the exigencies pointed out in the letter, it would discredit him and his political prestige, and greatly impair the prestige of the party to which he belonged. I had supported Mr. Hoover for the Presidency of the United States, on the ground that he was more thoroughly equipped for that post, because of his own service in Commerce and abroad, and I thought he would have appreciated the message I gave him.

But I only refer to that as a historical matter which is worth while to consider, since the political consequences of not giving the people of this country relief against a depression are just as certain as the night that follows the day; and I say to this committee, and I say to this Congress, that if this Congress fails now to give relief, it will be just too bad.

I want to say more, and that is that it would be very unwise to treat this matter as a partisan matter. I want to compliment Mr. Goldsborough for the great work he did in bringing about a better relation and understanding of these matters by the examination which he caused from 1922 on up to 1932, and the bill which he then presented, with the approval of the Committee on Banking and Currency of the House—and I believe it was practically a unanimous report. It was debated 2 days in the House, a very simple bill, declaring it to be the policy of the United States to restore and maintain the value of money according to the standards of 1921 and 1929, and directing the Secretary of the Treasury, the officers of the Federal Reserve Board, and the Reserve banks to make effective that policy. That was all, but enough, and it passed, not by a partisan vote. There were 117 Republicans who voted for that measure. That measure was treated as our great leaders on both sides would have it treated and should have it treated, as a nonpartisan patriotic measure intended to protect the people of this country from the agony of repeated depressions which have taken place and vexed our souls so frequently in the past. As I say, 117 Republicans voted for that bill, and it passed by 289 to 60, and, of the 60 who voted against it, only 12, by the will of the people, remain in the Congress.

I think that that is a pretty good political index for those who know how to measure political signs. The people of this country are studying this matter, and they understand it a great deal better than the public press realizes. It is a favorite hobby with the public press to say that nobody understands the question of money. Nothing could be more erroneous than that statement. Millions of people in the United States understand it. The British people understand it, and they are regulating the value of their money now to their great advantage. The Swedes understand it; they are doing the same thing. These seeds which have been sowed by the Shibleys and the Goldsboroughs and others are bringing their reward in the public knowledge.

This Committee understand this matter perfectly well. I have not the slightest doubt of that. I have not the slightest doubt that every man on this Committee understands it perfectly well. You may differ as to some of the details, but surely you cannot differ as to the fundamental facts with regard to the matter.

The Goldsborough bill was based on the quantitative theory of money and on the regulation of the value of money and proposed to carry out the Constitution of the United States, which gave Congress the exclusive right to create money and to regulate the value thereof. It was based not only upon the right and duty of Congress to regulate the value of money, but the power of Congress to regulate the value of money by regulating the volume of money in the form of credit and currency, and in the form of demand bank deposits and currency functioning as money.

There are those who disbelieve in the quantitative theory. There are those who do not believe it is possible to regulate the value of money.

Even so distinguished a gentleman as the former chairman of this committee, now in the Senate, expressed that view on the 8th of July 1932, in an attack on the Goldsborough bill, when he said substantially that the quantitative theory had been repeatedly exploded, and that the theory of regulating the value of money was all Greek to him, and he did not understand the Greek language at all.

Well, I sometimes seem to speak Greek. I have often found that I was speaking Greek by talking and not being understood, and many men do that; they assume a background of knowledge on the part of one to whom they speak, and unless the background is there, the language will not be understood, and one should not condemn other men because they differ in opinion, and do not understand. If you look into their background, you will find that their premises are different. I would not condemn the National Committee on Monetary Policy, which represents some 66 economists, of many universities of the United States, who have protested against the question of managed money, because they say, in substance, that money does not control the value of commodities or property, that money is comparatively stable, and they will prove it by taking the records and showing that the money in circulation outside of the Treasury is comparatively stable, and was not only stable during the depression of 1929 to 1936, but actually rose a billion dollars, over a billion dollars from June 30, 1929, to 1936. The money actually increased while commodity values and the value of farm products went down to below half of what they had been before.

What do they mean by money? They mean by money, currency, and they do not mean anything else but currency.

J. P. Morgan said before the Pujo Committee in December, 1912, that gold was money, and nothing else is, and Mr. Barney Baruch, in his magnificent, illustrated article of November 25, 1933, in the Saturday Evening Post, declared that inflation was the enemy of mankind, and described as inflation any expansion of money not based on gold redemption.

Those views men have a right to entertain, but when they have those views they have a background of premises entirely different from another man who has a different set of premises in mind, and you have to know both premises.

When I talk about money, I do not talk about currency in your pocket only. I know that that kind of money transacts less than 5 percent of our business in the United States, and I know that demand bank deposits as a basis of checks transact 95 percent and more of the business of this country, and therefore when I speak of money I practically ignore currency, because it only occupies a relatively small position. I speak in terms of demand bank deposits. I think that men should be respectful to each other's opinions and not impugn motives merely because you differ in opinion in regard to an economic question.

Now, it is for these reasons, and as a means of giving a stability to the debt-paying purchasing power of money, and for carrying out the principles of the Goldsborough bill of 1932, that I advocate and favor the absolute control of the Federal Reserve banks by the Government, so that the agency shall be itself under the control of Congress.

At the present time the Federal Reserve Board get their salaries paid by the privately owned banks. That is not a good system. At the present time the privately owned banks can veto any act of the Federal Reserve Board in the matter of open-market operations, because they have five private citizens as members of the open market committee against five public functionaries on the Federal Reserve Board. The Federal Reserve Board cannot move.

What kind of a system is that? It does not meet my approval. I protested against it at the time the Bank Act of 1935 was passed. Woodrow Wilson refused to agree that there should be any bankers put on the Federal Reserve Board. The bankers wanted to have the right to nominate a certain number of them. He refused to do that, on the very reasonable ground that the public control was a public matter, belonging to the whole of the people of the United States, and that in undertaking to regulate the value of money and to regulate the flow of credit to the banks, the public had an interest that was not necessarily the same as that of the bankers, or that the bankers might have, and he refused to agree to that. That was in 1913.

So it has proved to be to the disadvantage of the public that the personnel of the Federal Reserve Board should be influenced so largely by bankers. I quoted in the book that I sent to the members of this committee from Mr. Paul Warburg, showing exactly how he and his conservative friends had finally got control of the policies of the Reserve Board. I remind you of that, and ask you to keep it in mind in considering these questions.

Now, there is a very important distinction between the ownership of Federal Reserve banks and the ownership of member banks. The member banks are engaged in the transaction of banking business. The Federal Reserve banks should be engaged in the monetary business, in regulating the flow of credit, so as to protect the welfare of all of the people of the United States and especially the interests of those who are engaged in banking in any line.

This system, in my opinion, should be so framed not only as to take over the Reserve banks, and the reasons given by Mr. Patman in his address, I thought were excellent, but in addition to them I want to call attention to this. Under the management of our banking system that has heretofore prevailed, by the nature of their business they expand to excess against the public interest, and they contract to excess against the public interest, and they are incapable of helping that. They follow the law of human nature, the law of profit and of safety. You cannot expect them to cooperate. They are not charged with any political responsibility.

I have a great respect for them, and great sympathy for them, but they cannot be charged with that political duty, and the United States, through its powers, should have for its policy precisely the reverse of what naturally takes place with the banks. The banks naturally expand to excess through optimism; they naturally contract to excess through pessimism, and the United States Government, knowing that, and knowing that it is against the public interest, knowing that it inflicts dreadful losses, knowing that it is the mother of poverty, and that without those processes we could absolutely abolish poverty in this country and raise the standard of living to a higher point than civilization has ever conceived—knowing all that, it is high time that the Government should exercise its power to neutralize this uncontrollable tendency to expand to excess, this uncontrollable tendency to contract to excess by the member banks and by the nonmember banks.

For that reason, and for the reason of keeping the Government of the United States out of the banking business, and keeping the Government of the United States in the monetary business, and keeping the bankers out of the monetary business and keeping them in the banking business, I trust that this bill will be so drawn as to use the powers of the system for the complete protection of every banker of this country, big and little. The least of these should be the object of the greatest solicitude, because they are the ones who down in the little county at home furnish the accommodation for every little businessman who wants to borrow money in small amounts, money needed to transact their business, and to be safe in making the loan, and have plenty of time with which to liquidate it, so that their plans may be made with dependable security. There is no reason why the great powers of this system should not be employed to give absolute protection to every one of these little banks against the possibility of squeezing which might arise from any cause.

We contemplate a new system entirely. The background of the past must not be used in contemplating the system proposed by the bills now before this committee. In the past we had no protection whatever from these recurring depressions. They were just taken as a matter of course, and people got to regard them as an act of God. They were due to the processes of human nature, the desire for profits, and the desire to have safety from loss. Those are human qualities created by nature itself, and against that tendency we must have an instrumentality endowed with power and with wisdom, to safeguard all of our people.

We are all a great family here, drawn from the ends of the earth, of every race, of every color, of every previous political condition. We have come here seeking liberty, seeking happiness under a charter that guarantees freedom of speech, freedom of assembly, freedom of the press, freedom of religion, the right to life and liberty and the pursuit of happiness; and how sadly we have failed to carry out the great purposes of the charter is exhibited by the pathetic words of the President of the United States, who has told us over and over again that over a third of our Nation is underfed, underclothed, and undersheltered.

And look at the wreckage which we have permitted to take place in the last 20 years. It is a shocking record, discreditable in the highest degree to our intelligence, but not incapable of complete and perfect repair.

We are now face to face with a condition which again has emphasized upon the attention of the American people the importance of this matter. I therefore welcome the depression of 1937. Yes; it has caused many to suicide; that is true. It has caused many bankruptcies—yes, that is true. It has taken the last hope away from many who thought that they were going to escape from the happenings of 1929 and 1936—that is true, too. But it takes a national catastrophe to move the American people into action, and they are beginning to move now; they are beginning to move in this committee, and in this House of Representatives, and I hope that the movement will end here for the good of this Nation.

Now, Mr. Chairman, I have given a brief sketch of this matter. I have given the principal reason which I think justifies the taking over of these banks, the important and financial reason that the United States is furnishing 4½ billions of dollars of money to these banks, and the member banks have a credit in the form of stock in the amount of $132,000,000, and that is sufficient to answer any question as to the relative investment in these banks. The real value of the banks is the charter granted by the Congress of the United States. The right of the United States to amend the act at any time is proven by this, that you can liquidate these banks at will, you can liquidate the Federal Reserve Board at will.

I favor the enlargement of the Federal Reserve Board as proposed by the Patman bill, because I think it will be beneficial. I doubt the advisability of putting on as voting members the officials who are otherwise charged with very great responsibilities. I think the same end could be accomplished by having a representative properly qualified to attend monthly meetings of the Reserve Board, so that the Departments of Agriculture, of Commerce, of Labor, and the Treasury should be kept in a position of cooperation and coordination with the economic views of the Federal Reserve Board and its actions, and so that they might mutually advise each other. I think that that could be accomplished very well without giving them the voting power and putting the responsibility of voting upon them. I think the responsibility should be entirely upon the Board.

I think that there should be another step taken in connection with the Board. I think there should be in this bill a provision by which the House of Representatives and/or the Senate of the United States, by simple resolution, could call on the President of the United States to nominate a successor to any or all the members of the Board that that are not functioning to the satisfaction of the Congress of the United States, whose special agents they are, and I think it is necessary to do that in order to have it understood that they are representing the will and the positive direction of the representatives of the people of the United States, and that they are not there in the attitude of using their own judgment contrary to the will of the Congress of the United States, or indifferently to the will of the Congress of the United States.

When the Goldsborough Act was passed in 1932, and the campaign which followed resulted in the defeat of Mr. Hoover by 7,000,000 votes, although he had previously been elected by a majority of 7,000,000, those votes were of Republican and disinterested citizens who changed from one party to the other because they relied upon the action taken by the House of Representatives, assuring them of the restoration of the price level of 1921 and 1929 average, and the stabilization of the value of money. On that platform Mr. Roosevelt was elected, and it is written into that platform in terms that ought never to be forgotten, where it pledged sound currency at all hazards, and he interpreted sound currency correctly, and in that platform, the very first paragraph, were written words which I shall never forget and with which I was intimately familiar at the time they were written, that the depression was due to "the indefensible expansion and contraction of credit for private profit, at the expense of the public."

I think that the latter part could as well be omitted. It was the indefensible expansion and contraction of credit that caused the disaster, regardless of the alleged motive which might to some extent have existed and to a very great extent might not, but the political aspect of it was in the latter part of the sentence; but I remind the committee that when the action was taken to contract currency and credit in 1920 and 1921, the Democratic Party in 1924 wrote an elaborate plank connecting that action of indefensible contraction of credit with the destruction visited upon the farmer and businessmen, and urged the restoration of the Federal Reserve System for the purpose for which it was intended.

I think that that platform might well be written into this record as a reminder, and I ask the permission of the chairman to insert that platform of 1924.

The CHAIRMAN. It will be made a part of the record.

Mr. OWEN. It will act as a historical reminder on this question. Is there any objection?

The CHAIRMAN. I say, it will be inserted.

(The excerpt from the 1924 platform referred to is as follows:)

REPUBLICAN CONTRACTION OF CREDIT AND CURRENCY

We denounce the recent cruel and unjust contraction of legitimate and necessary credit and currency, which was directly due to the so-called deflation policy of the Republican Party as declared in its national platform of June 1920 and in the speech of acceptance of its candidate for the Presidency. Within 18 months after the election of 1920 this policy resulted in withdrawing bank loans and discounts of over five billions of dollars and in contracting our currency by over fifteen hundred millions of dollars. This contraction bankrupted hundreds of thousands of farmers and stock growers in America and resulted in widespread industrial depression and unemployment. We demand that the Federal Reserve System be so administered as to give stability to industry, commerce, and finance, as was intended by the Democratic Party, which gave the Federal Reserve System to the Nation.

Mr. OWEN. In recommending that the Congress retain the right to remove members of the Federal Reserve Board at will by a vote of no confidence, I do so believing that our experience with the Federal Reserve Board since the passage of the Federal Reserve Act makes this safeguard necessary. And with great brevity, I recall a few of the important facts which justify Congress in retaining the power to remove.

In 1920 the Reserve Board deliberately caused the panic of 1921. The Reserve Board in the most substantial manner contributed to the panic of 1929–32. In 1932 the Reserve Board vigorously fought the Goldsborough bill, which expressed the overwhelming will of the House of Representatives. In 1933, Congress having given the administration the power to expand credit and currency $6,000,000,000. the

Reserve Board used its influence with the administration to prevent this necessary expansion. From March 15, 1933, to March 14, 1934, the Reserve banks, under the supervisory control of the Federal Reserve Board contracted credit and currency 2.7 billion dollars.

In January 1934 the Reserve Board advised $2,000,000,000 of gold be withdrawn as a basis of credit expansion in the United States and its sequestration as an international stabilization fund for the impossible purpose of stabilizing the pound sterling and the French franc. The futility of this action has been demonstrated in the last 18 months by the French franc falling in purchasing power approximately 50 percent. The Reserve Board was responsible for the advice which sterilized a billion and one-half of gold in order to prevent it being used as a basis of credit expansion. The Reserve Board, in its supervisory control of the Federal Reserve banks—having the power to expand credit so greatly needed—has refused to expand the credits of the Federal Reserve banks and has not used the powers given to the Board by the Banking Act of 1935. The Reserve Board, having power through its influence with the President to prevent private persons being put on the open-market committee, did not use its power to prevent that interference with public control. It is, I think, quite well known that the present Governor of the Federal Reserve Board does not believe in the quantitative theory—does not believe that the Government can exercise the power to regulate the value of money. He believes that the banks should have the power to expand the money supply and of course to contract it. He does not believe in the principles laid down by the Goldsborough bill of 1932, upon which Mr. Roosevelt was elected.

The Reserve Board has offered no plan for correcting this depression and is letting nature take its course. No plan is being offered by the Federal Reserve Board, or the Treasury Department, to end this destructive depression. On the contrary the policies which have been declared by the Federal Reserve Board have contributed in a grave manner to producing the depression of 1937. Ever since the passage of the Banking Act of 1935 the chairman of the Federal Reserve Board has been warning the country against inflation, using the odious term "inflation" to condemn any expansion at a time when nearly one-half of our demand bank deposits were being hoarded. The Federal Reserve authorities were not only responsible for the failure of the President to expand the credit authorized by Congress in the Thomas amendment of 1933, but persistently assured the President during 1934, 1935, and 1936 that the banks were full of money and there was no need for any expansion of the money supply of the country. The Federal Reserve Board by opposing any expansion of credit encouraged people who were hoarding demand bank deposits to hold their cash in anticipation of its increased purchasing power.

Our check money supply in 1929 was 1,230 billions. It fell to 430 billions in 1933; slowly increased to 600 billions in 1936 and to about 630 billions in 1937. The last report of clearings in February 1938 was a fall of about 25 percent from a year ago.

The depression of 1937 was due, in my humble judgment, in large part to the attitude of the Federal Reserve Board and the Secretary of the Treasury in pursuing a contraction policy. This was done by demanding a cessation of public expenditures and the balancing of the Budget by cutting down public expenditures for that purpose, instead of pursuing a policy of expanding the money supply and thereby raising the price level, and thereby raising employment and wages. Mr. Morgenthau, in his Harvard conference speech, minimized the monetary factor; demanded contraction to balance the Budget; stated the noblest objectives of the President; but stated also that such objectives were very difficult of achievement, if not impossible. The Board of Governors of the Federal Reserve System followed up this policy of Mr. Morgenthau by declaring similar views in its letter to Senator Smith of the Committee on Agriculture in the Senate opposing the proposal of Senator Thomas to establish a monetary policy. The result of these policies by the Reserve Board was to give the experts operating on the security exchanges good reason to believe that there would be a recession of prices.

The administration was lead to declare that the prices were too high because some of the monopoly prices had risen to excess. This was a contraction policy. As a consequence sagacious men took the lead on the stock exchanges and sold their stocks which they expected to go down in price and bought dollars by selling stock believing that the dollars would rise in purchasing power in terms of the same stocks. They were quite right about it. And as the process of selling stocks brought about a falling market, the fear of loss and the hope of gain lead to a wholesale selling of stocks and to a wholesale accumulation of cash credit in exchange for such stocks. The depression was caused by the same forces that have always caused depressions.

It is painful and distasteful to call your attention to these historical facts but it seems to be necessary in order to put an end to such untoward circumstances and to establish a system which Congress advised in the Goldsborough bill of May 2, 1932, when, by a vote of 289 to 60, they demanded the restoration of the normal, predepression price level and its maintenance. This can only be done by expanding credit to a predepression normal and maintaining it. England has verified the truth of the theory of the Goldsborough bill. The report of Sir Reginald McKenna to the stockholders of the Midland bank, to which I have called your attention, demonstrates the method and the favorable results.

(The report of Sir Reginald McKenna is as follows:)

EXTRACTS FROM THE ADDRESS OF THE RIGHT HONRABLE REGINALD MCKENNA, CHAIRMAN OF THE MIDLAND BANK, JANUARY 26, 1938, AS GIVEN IN THE LONDON ECONOMIST, JANUARY 29, 1938

My Lords, ladies and gentlemen, the year 1937 opened with a good prospect of sustained business improvement. The industrial outlook was so promising, indeed, that fears were expressed of a coming boom. There were signs of growing speculations on the stock exchange and in raw materials; some commodities, particularly metals, had made a disturbing jump. Speculation, however, was speedily checked by a reduction in the quantity of money, and a decline in prices followed. The decline went so far as to cause some anxiety, and, although the quantity of money was later restored, the closing months of the year that had opened buoyantly were marked by a more subdued outlook.

DEPRESSING AMERICAN INFLUENCES

Meanwhile depressing influences had been at work in the United States. In April President Roosevelt declared that some prices, particularly of the nonferrous metals, were too high. At the same time the gold scare, based largely on unjustified inferences from that statement, gave rise to fears of a restrictive monetary policy and precipitated a general decline in stock exchange quotations and primary commodity prices. But what might have been no more than a temporary break developed in the United States into a real business recession. The confidence of industrialists, already disturbed by the policy of the Government, became seriously shaken, and capital construction was arrested. Happily, no similar obstacle to business enterprise is present in Great Britain, and there is no indication here that the drop in stock exchange quotations and commodity prices will lead to a comparable decline in general trade.

It is natural that a set-back first in prices and then in trade should be taken to confirm the fears of people who are dubious about both the theory and practice of a managed currency. Management has meant cheap and abundant money, and in their view long-continued cheap money must lead to over-expansion of industry and trade, which has its inevitable reaction in a slump. The alleged benefits of cheap money, they tell us, have been exaggerated, while the danger of inflation is always present. Now they see that a fall in prices and a drop in employment have taken place while money is still cheap, and they regard this as definite condemnation of a managed currency.

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* * * Much had to be learned and is being learned, but, however, difficult it may be to put on one side the ideas to which long usage of the gold standard has accustomed us, we find in practice that the system is working smoothly. In the light of our present knowledge a managed currency can no longer be regarded as a mere temporary makeshift while the gold standard is in abeyance.

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* * * It will be remembered that the gold standard, having been suspended on the outbreak of war, was brought into operation again in April 1925. It was maintained for over 6 years until September 1931, when once again it was suspended. For the first time we then set about controlling our currency without any active effort to restore the gold standard. We started a true experiment in management, and the experiment has now lasted for a period almost precisely as long as the restored gold standard was in operation, that is for rather over 6 years from Septermber 1931 to the present time. In answering the question, then, how have we fared, we can compare our economic condition during two equal periods, one on gold and the other under management.

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* * * When the demands upon the Exchequer are as heavy as they are today, both for national defence and social services, I cannot imagine any Chancelor of the Exchequer closing his eyes to the immense economy in the service of the debt that has been made as a result of monetary policy.

The relative degree of cheapness and abundance of money in the two periods is indicated by a comparison of the bank rate and the quantity of bank deposits. From 1925 to 1931 the average bank rate was approxiamtely 4$\frac{9}{16}$ percent. On the bandonment of the gold standard the rate was raised to 6 percent as a precautionary measure which was soon found to be unnecessary. It was lowered by stages until at the end of June 1932 it stood at 2 percent, where it has remained ever since. There were no less than 16 changes of bank rate in the first period of 6 years, all of them consequent upon the obligation imposed on the Bank of England to protect its meagre gold stock. The subsequent stability at 2 percent has lasted over 5½ years. No previous period of stability of so long duration can be found in the last hundred years, a fact which suggests that the frequent description of present money rates as abnormal is hardly justified. It is difficult to draw a line between the normal and the abnormal, but a rate which is now in its sixth year and shows no likelihood of variation in the early future might perhaps put in a claim to being no more abnormal than any other. The effect of freedom from the restrictions imposed by the gold standard is no less apparent in the quantity of money than in the rate paid for its use. Bank deposits, which were about £1,800,000,000 on the average for 1931, rose to nearly £2,300,000,000 in 1937.

TRADE AND EMPLOYMENT

The increase in purchasing power shown by this growth of deposits has been as beneficial to industry and trade as to the treasury. If we resume our comparison and consider our condition at the beginning and end of each of the 6-year periods, the conclusion is inescapable that, whatever other forces may have been in operation, a managed currency is at least consistent with flourishing trade. Let us look first at weekly wage rates, taking rates in 1924 as the basic figure of 100. In 1925 the corresponding figure was 102; by 1931 it had fallen below 97; but by last year it had risen again above 103. Taking the same year as the basis, profits, according to Sir Josiah Stamp's calculation, stood at 104 in 1925, dropped to 77 in 1931, but rose again to 120 in 1936, the last year for which this index is available. The figures of industrial production repeat the same story in another form—a decline over the first 6 years and a rise in the second by perhaps 50 percent. Thus, it is evident that, while business was on balance dropping away in the earlier period, it was steadily improving in the later.

Wages and profits are a measure of the incomes of the mass of the population. Production measures the degree in which our industrial capacity is being used; it governs the total of employment and unemployment, the returns for which make perhaps a more striking comparison than any others. Between 1925 and 1931 the total of our insured workers rose by 1,200,000, but the employed fell by 200,000, and the unemployed rose in consequence by 1,400,000. This was how we stood at the end of the first 6-year period. In the second the insured workers increased by a further 800,000, but the number of those employed grew by as much as 2,100,000, thus reducing the unemployed by well over a million. What a contrast, a decline in employment of 200,000 in the first period; an increase of 2,100,000 in the second. No figures could be more convincing; no figures could exemplify more clearly the change in our economic condition in the two periods. We have still some way to go before we shall be utilizing our full productive capacity, but the experience of the past 6 years indicates that in currency and credit policy we have not been led astray in using the opportunities for intelligent management which the departure from gold presented. I have not suggested, and I would not for a moment do so, that the pronounced improvement in our position as between the two periods is due solely to the change in the monetary system. But I do suggest that there is nothing in our present condition to indicate that the change has been other than for the better or that it is fraught with unknown perils in the future.

Mr. OWEN. I enclose for your information a table from 1920 to 1937 giving the annual figures for the volume of check money employed, the price level, the index of physical products, the volume of currency in circulation, the dollar index, and the amount of exports which show how economic consequences follow the money supply. It should be remembered that from 1926 to 1930 the expansion of credit took place almost exclusively in the security exchanges and not in the wholesale-commodity markets.

Expansion and contraction of the money supply

Year	Checks [1]	Price level	Physical products	Currency [1]	Dollar index	Exports [1]
1920	702	166.5	87	5.2	60	8.2
1921	575	93.4	67	4.6	107	4.5
1922	624	96.3	85	4.2	103	3.8
1923	666	100.3	101	4.5	99	4.2
1924	694	94.9	95	4.6	105	4.6
1925	795	103.0	104	4.5	97	4.9
1926	845	100.4	91	4.6	100	4.8
1927	920	94.1	93	4.6	106	4.9
1928	1,074	96.7	96	4.5	105	5.2
1929	1,230	95.2	100	4.5	105	5.2
1930	900	86.8	92	4.2	115	3.8
1931	660	72.1	78	4.5	138	2.4
1932	450	63.9	61	5.4	156	1.6
1933	430	65.0	57	5.4	153	1.7
1934	470	74.6	63	5.4	134	2.1
1935	530	79.8	91	5.6	125	2.3
1936	611	80.6	109	6.2	124	2.4
1937	634	81.7	(Dec.)79	6.4	122	3.2

[1] Amounts in billions and decimals thereof.

The importance of a legislative mandate is that monetary policy should be a matter of statute law upon which businessmen may predicate their future contracts with dependable security on a dollar of uniform, permanent, debt-paying, purchasing power. No monetary policy declared by an executive officer, even of the President, himself, has the permanence which is required as a basis of dependable security. An Executive policy may be changed at any time, but a policy fixed by statute law cannot be changed except by the Congress, itself.

If the policy merely depended upon the Secretary of the Treasury, or the Governor of the Federal Reserve Board, these officers may die, may resign, may change their minds, and there is no dependable security in such a policy.

I deem it advisable to call your attention to the action of the Secretary of the Treasury when over 800 millions of maturing obligations of the United States fell due September 15 1937. He refused to take advantage of the maturity by liquidating the debt with bank credit in the Reserve banks, which would have saved the taxpayers the interest on such securities, would have helped relieve the Budget and would have expanded demand bank deposits by 800 millions and offset to that extent 800 millions of demand bank deposits hoarded by the operations on the stock exchanges. And again in March 1938, he is repeating this process of negation and refusal to expand. The Reserve banks are following this same policy of refusing to expand and are selling Government bonds of a higher rate of interest to the banks and taking up the short-term notes that bear a low rate, thus transferring to the banks the earnings on these bonds. This is against the interest of Budget balancing and is giving favors to private interests at the expense of the public interest.

In my humble judgment the sale of baby bonds by the Treasury is a means by which the small depositor having demand deposits can be induced to part with their demand bank deposits and thereby diminishing the purchasing power of small depositors. It will be remembered that the chairman of the Board of Governors held that the payment of the soldiers bonus was a dangerous "inflationary" movement, although I understand he now advocates expending a billon dollars in cash as a means of stopping the downward course of depression. This attitude seems to me all the more remarkable since the soldiers bonus was paid almost exclusively in bonds and not in cash. If these bonds issued in payment of the soldiers bonus, or other bonds for that matter, were now bought for cash credit by the Reserve banks, it would convert such bonds into liquid money which the country so greatly needs.

It should be remembered that the normal increase of the business of the United States, before interrupted by depression, is 4 percent per annum. Therefore, from 1926 to date, there should have been a normal expansion of credit for use in the wholesale commodity markets and for the general transaction of legitimate business, of approximately 50 percent. Instead of which, under the management of the Reserve banks and the Federal Reserve Board and the Secretary of the Treasury, we had a contraction of our check money by two-thirds from 1929 to 1933, with universal ruin as a consequence. A year ago before this committee I gave tables showing the maldistribution of demand bank deposits subject to check by consumers. Those interested in this matter should see these tables in the hearings on the Goldsborough bill of a year ago.

I thank you, Mr. Chairman and gentlemen of the committee, for your courtesy in inviting my views with regard to this matter. I shall now be glad to answer any questions which you may desire to ask.

Mr. Luce. I have a question, Mr. Chairman.

The Chairman. We have been so deeply interested in your statement that we have departed from the ordinary practice of the committee, which is to adjourn soon after the meeting of the House. It so happens today that the House has a matter before it in which every member of the committee is interested. Notwithstanding that, we have gone 35 minutes beyond the usual time because of our pleasure in listening to your address. But we must adjourn now. The committee will be glad to have you come back at your convenience, if the members desire to interrogate you.

(Thereupon, after an informal discussion, off the record, it was agreed that the witness would present himself for questioning on Monday, March 14, and the committee then adjourned until Monday morning, March 7, 1938, to then take up another matter at 10:30 o'clock.)

GOVERNMENT OWNERSHIP OF THE TWELVE FEDERAL RESERVE BANKS

MONDAY, MARCH 14, 1938

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

The committee met at 10:50 a. m. to resume hearings on H. R. 7320, Hon. Alan T. Goldsborough presiding.

Other members of the committee present: Mr. Reilly, Mr. Williams, Mr. Spence, Mr. Ford, Mr. Brown, Mr. Patman, Mr. McKeough, Mr. Transue, Mr. Gifford, Mr. Luce, Mr. Crawford, and Mr. Gamble.

Mr. Goldsborough. The committee will come to order.

Senator Owen, when you concluded week before last, Mr. Luce had just expressed a desire to ask several questions, and I have been waiting, hoping that he would come in, and I have asked the clerk to call him. If he does not come right away, we will proceed with some other member who may desire to interrogate you.

STATEMENT OF HON. ROBERT L. OWEN, A FORMER UNITED STATES SENATOR FROM OKLAHOMA—Resumed

Mr. Owen. All right, Mr. Chairman; I am ready whenever the committee wishes to proceed.

Mr. Patman. May I ask a question?

Mr. Goldsborough. Yes.

Mr. Patman. Senator Owen, many people claim that the way to balance the Budget is by reducing expenditures. Other people claim that we should put money into circulation, and that the increased velocity of money will cause an increased amount of taxes to be collected, and in that way the Budget will be balanced easily.

Would you please give this committee the benefit of your views on that question?

Mr. Owen. The Budget can be balanced, of course, by cutting down the expenses of Government and dismissing a sufficient number of employees, by cutting the expenses of Government to within the amount of money that is being received, but in doing that it would feed on itself and there would be a falling off in revenues as a consequence.

The other way to balance the Budget is to expand the money supply and thereby expand employment and wages, and raise the national production to a maximum of employment, and in that way create incomes for corporations and income for individuals, and from those incomes collect the revenue necessary to support the Government and to meet the Budget—in other words, to balance the Budget by creating additional income.

I might use a simile. A man who found himself in distress, through having expenditures to feed and clothe his family greater than his income at the time, ought not to starve his children, and deny them clothing, but he should use his credit until he increases his income, and he should diligently increase his income by every means in his power.

The Government of the United States can double its income by furnishing the people of the United States with an adequate supply of money with which to exchange their products and services with each other, and a demonstration of that has been repeatedly made before this committee. It was made before the committee 4 years ago; it was made in 1932; it was made a year ago, both by the tables which I inserted in the record at that time and by those which were inserted by Carl Strover, of Chicago a year ago before this committee, in which it was pointed out that the rising price level is due to the expansion of available money, and that the raising of the price level is invariably followed by a rise in factory employment and factory wages.

Of course, after you reach a point where those who are capable of being employed, and those who are willing to work, are all engaged, you can serve no further purpose by expanding the money supply, because when you reach that point you have a sufficient amount to exchange products and services, but when you go beyond that amount you are engaged in inflation and, when you engage in inflation by producing too great an amount of money, you have the effect of increasing the value of property beyond a normal reasonable level and decreasing the purchasing power of money, to the disadvantage and injury of the creditor and of those who happen to have insurance policies or bank deposits in the form of savings accounts, and so forth.

So that there comes a point where you have a sufficient amount of money, and if you go beyond that, you then go into inflation, which nobody with an understanding of monetary science would agree to at all. Nobody wants inflation who understands what it is.

But this country has been deluged with the use of the word "inflation" in lieu of legitimate expansion, thereby stigmatizing legitimate and needed expansion and making it bear the odium of the term "inflation," which, by its proper meaning, is unjustified expansion, is indefensible expansion, is an expansion of currency harmful and injurious and unjust to the creditor and to the property owners.

Mr. Patman. You used one phrase there that I have noticed is being used generally over the country, but I doubt if all of us are in accord with what it means, the phrase "the money supply." Some people contend that you must actually issue the physical, tangible money and place it into the hands of the people. Others contend that the money supply consists of checks as well as money, and that the money supply can be increased through bank credit without the issuance of any more physical, tangible money.

What is your meaning of the phrase "the money supply"?

Mr. Owen. The money supply of the country is the money which is employed by the people of the United States in exchanging their products and services with each other, and in transferring dollar values from one to another, and that consists of about six and a fraction billion dollars of currency now, and it consists of checks which are drawn against demand bank deposits in circulation, which amounted last year to 630 billion dollars.

Mr. PATMAN. The velocity of money has much to do with the money supply, does it not?

Mr. OWEN. The word "velocity" has been used to mislead the public. The word "velocity," when applied to the turnover of a demand bank deposit, varies according to the individual deposit. The demand bank deposit may have zero velocity, and we have billions of demand bank deposits now having zero velocity, and because it has zero velocity it does not function as money at all except in the sense of the storage of money and in the sense of a warehouse receipt for money, money being held subject to call by the depositor; but the deposit which is circulating 50 times per annum is the deposit which is serving the money supply of the country.

In other words, the serious problem is to stir up these dormant demand deposits and get them into the channels of trade, production and commerce. That is one way to do it.

But there is another way to do it. Suppose that these demand bank deposits are being held by great corporations for the purposes of reserves, to protect themselves against a shrinkage of their business, like the United States Steel, which dropped from a production of 90-percent capacity down to under 30-percent capacity during the year 1937. In that case they begin to suffer a loss, and if they have no reserves with which to meet that loss, they will be compelled to use their credit and to obtain the money by whatever means they can, but it is a dangerous situation for a corporation to face a great deficit and a great depression without any supply of cash with which to meet the contingency.

Now, I do not think it is advisable to treat people as culprits who built up reserves, or to penalize them with taxes, because while it is desirable that they should not hold demand bank deposits unemployed, for they thereby contract the money supply—it is not desirable for them to do that from a public standpoint, when the country is powerless to replace that money so contracted. But you are not without remedy. All that you have to do is to buy United States bonds, or bankable assets by the Federal Reserve banks, and you can convert those nonliquid assets into immediate money, to replace the money hoarded by the corporations for reserves.

Mr. PATMAN. One more question, and I will yield to my good friend from Massachuesetts, Mr. Luce.

In other words, the Open Market Committee, composed at this time, since the new appointment was made to the Federal Reserve Board the other day, of Mr. Draper, of six from the Federal Reserve Board and five private bankers, has the power to remedy this situation, but, as I said, on that committee there are five bankers and for that reason do you believe that it would be better to have just Government officials on the Open Market Committee?

Mr. OWEN. I do not think that any private person has any right to exercise the governing power of the people of the United States, especially in so important a matter as controlling the volume of money and thereby regulating the value of money.

Mr. PATMAN. And do you feel the same way about the Advisory Committee? Do you feel that its make-up is likewise objectionable?

Mr. OWEN. I feel that the Advisory Committee should be terminated, and I think the Open Market Committee should be terminated, and give the power completely to the Federal Reserve Board.

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Mr. GIFFORD. I want to ask a question.

Mr. PATMAN. I yield to Mr. Luce.

Mr. GIFFORD. It is just one question; that is all.

Senator Owen, if we abolished the five members representing the banking fraternity, and added to the Board men like Governor Eccles, men having his viewpoint, would that be satisfactory to you?

Mr. OWEN. With the same viewpoint, it would be most unsatisfactory to me.

Mr. GIFFORD. Exactly. They might be of the same viewpoint.

Mr. OWEN. Yes; and they might not be, but the bankers are certain to be of the wrong viewpoint, and we can control our own officers, but we cannot control those whom we do not appoint and who do not take an oath of obligation to the people of the United States.

Mr. GIFFORD. However, the point that I want to stress is that Governor Eccles is the chairman of the Board of Governors of the Federal Reserve Board, and an appointee of the President, and the President could appoint all of the same viewpoint should he see fit to do so.

Mr. OWEN. I do not think that the President of the United States knew what Mr. Eccles' viewpoint was sufficiently at the time he appointed him, because if he had known that Mr. Eccles was altogether acceptable to Mr. Ogden Mills, he might as well have kept Mr. Ogden Mills in as Secretary of the Treasury. I call attention to Mr. Ogden Mills' recent book, The Seventeen Million, on page 91, where he gives a strong endorsement of Mr. Eccles.

Hon. Ogden Mills in his book, The Seventeen Million, published July 1937 by Macmillan, advised the country among other things that—

> While cyclical business movements cannot be eliminated in a dynamic society, we possess the technique to mitigate their swings (p. 96).

Members of the Banking and Currency Committee will doubtless remember that when Mr. Mills was Secretary of the Treasury he appeared before the Banking and Currency Committee of the House maintaining this thesis that you could not control cyclical booms and depressions. He stated off the record at that time that if he could tell how to do that he would be the smartest man in the world. Since then men who have made no claim to being above the ordinary in intellectual capacity have stabilized the value of money in Sweden and in Great Britain, giving a stable money to hundreds of millions of people throughout the world and bringing great prosperity as an immediate effect. Great Britain, since the Goldsborough bill was defeated in 1932, has established stable money and has increased its physical production 50 percent.

In Mr. Mills' book (p. 91), he says:

> In an able and penetrating article published in the April number of the magazine, Fortune, Mr. Eccles, Chairman of the Federal Reserve Board of Governors, has outlined measures that can be taken to mitigate the security of the business cycle.
>
> I am so completely in accord with nearly all of his suggestions, and they are so consistent with the principles that govern a free economy, that I cannot do better than to recite them.

The interesting matter is that the Honorable Ogden Mills, who bitterly fought the Goldsborough bill in 1932, which proposed the establishment of stable money at a normal predepression level, is in almost perfect accord with the chief monetary adviser of the present administration. Mr. Mills in 1937 apparently had no idea that the United States was on the immediate brink of a violent depression. He said on page 94 of his book:

> We are faced with an inflationary boom as to the seriousness of which Mr. Eccles at least has no doubts. It could be arrested were there the will to do so. But the will seems to be clearly lacking. Were it not, the first step, balancing the Federal Budget, would be taken.

The inflationary period so clearly seen by Mr. Mills, Mr. Eccles, and Mr. Morgenthau was met in many ways by the chairman of the Board, Mr. Eccles, and the Secretary of the Treasury, Mr. Morgenthau—some of which I referred to in my testimony on March 4, 1938, before this committee—with the unavoidable consequences that resulted in a major depression for the reasons pointed out in my testimony. The President of the United States was fully justified in his release of February 18 last in putting the responsibility of that statement upon the Chairman of the Board of Governors of the Federal Reserve System, the Secretary of the Treasury, the Secretary of Agriculture, the Secretary of Labor, and their experts.

The release framed by these responsible authorities, as the economic and monetary advisers of the President, began the statement with proclaiming the noble objectives of the President, with which all citizens could agree. But they offered no intelligible plan for achieving these objectives. They charge, in effect, that they have been obstructed in achieving these objectives by "the behavior of prices." As if the behavior of prices were primary causes instead of being effects of credit contraction as to the general price level. Even the monopoly prices, such as copper, which went to 17 cents a pound and quickly fell to 9 cents a pound, fell as a result of the contraction of the money supply of the country. The most impressive feature of this release, prepared by Mr. Eccles and others, is the entire omission, or reference to, the contraction of credit by the banks and by depositors hoarding demand bank deposits, and the absence of a plan to correct the contraction of credit by the expansion of credit.

Mr. GIFFORD. That is all that I care to ask.

Mr. LUCE. Senator, when you were before us, you reviewed the history of the Federal Reserve Board, and brought out that in the original act you advocated giving instructions to the Board to bring about what may be called managed currency.

Mr. OWEN. It was a provision in a bill which was submitted on June 26, 1913, to the Senate by myself, at that time chairman of the committee, and it was also submitted to the House of Representatives by Mr. Glass, who was chairman of the House committee at that time, and in that bill there was a provision that the powers of the System should be employed to promote a stable price level.

Mr. LUCE. Yes.

Mr. OWEN. It was the same thing as promoting a stable dollar, since a stable price level really means only the purchasing power of the dollar itself.

Mr. LUCE. I came on the committee in 1919, and in the following year there occurred a depression, and you will recall that there was a joint agricultural inquiry which in due course investigated the matter of what action had been taken in regard to the agricultural interests of the country. Agriculture had been inflated in the war, and the farmers had profited more by the war itself than any other one class, except perhaps the railroad employees, and there were two schools of thought. One wanted the balloon exploded at once, and the other wanted it deflated slowly, and the committee divided in its judgment on that question, Mr. Ogden Mills thinking that the Board had been too slow in acting, and the other members headed by Congressman Anderson thinking that the Board had been too quick in action. This was followed not long afterwards by the beginning of a discussion in this committee which ran through 10 years. We spent many, many hours and days in debating the question as to whether the Board ought to be explicitly ordered to manage the currency.

Through that time, the Board consistently and continuously held that it had the power and did exercise that power according to its best judgment, which may or which may not have been good judgment.

Finally Mr. James Strong, who has recently passed away, had persuaded Governor Ben Strong of the New York bank to come out squarely for the view that explicit instructions ought to be given to the Board, but the Board said in effect again and again and again, "We have that power; we are exercising that power, but, for heaven's sake, do not order us to do it."

That has always seemed to me a rather finical difference of opinion——

Mr. OWEN. Rather what?

Mr. LUCE. Rather petty—that is not quite the right word—an insignificant difference of opinion. Yet, when finally we brought in the so-called Goldsborough bill, those gentlemen who did not want explicit power were exceedingly strenuous in their criticisms of those of us who at last decided that they ought to be told to do these things.

The Board's reason apparently was that they were afraid that if they failed in exercising those powers to the general satisfaction of the public, public opinion might be strong enough to secure the abolition of the Board.

The pending bill seems to contemplate, or seems to be based on the theory, that the Board has not functioned properly. Always, when there are mooted questions, the people who disagree with the action of an administrative agency want to change it, want to change the Board, and this is by no means the first of the proposals that have been laid before us to change the Board.

Now, as Mr. Gifford pointed out, the Board is appointed by the President, and I rather think that it has been almost completely changed in its personnel by the present administration, but whether under Republican or Democratic administration, the Board is the subject of constant attack.

Pardon this long introduction, but it brings up questions that are uppermost in my mind, and one is, what assurance have we that if the Board were completely changed, reconstructed, it would reach any different conclusion from what previous Boards have reached?

Mr. OWEN. Is that your question?

Mr. LUCE. That is the question.

Mr. OWEN. I am asked the question, if I understand it correctly, what assurance would Congress have in the future that a Board would change its policies. My answer is, you have no assurance. The best answer to that is that the House of Representatives, on May 2, 1932, after all of these hearings to which you have referred, and after these hearings were based on the Federal Reserve Act itself, in 1913—after all the hearings which took place in this committee in 1922, 1924, 1926, and 1932, and after 2 days' debate in the House of Representatives, the House of Representatives, by a vote of 289 to 60, declared that it was the policy of the United States to restore the value of the dollar, as ascertained by the Department of Labor for the years 1921 to 1929, inclusive, and directed the Federal Reserve Board, the Federal Reserve banks, and the Secretary of the Treasury to make effective that policy.

Since that time, although that was the expression of the Congress of the United States, 289 to 60 voting for it, and, of that 289 there were 117 Republicans, and of the 60 who voted against it, the American people retired 48 of them and only left 12, but notwithstanding that colossal expression of public opinion by the highest legislative authority in this land, the Federal Reserve Board refused consistently and persistently to carry out the will of the House of Representatives.

Therefore, the answer to the question of the distinguished Member from Massachusetts, what assurance we have with regard to the future conduct of this Board under existing law, is that we have no assurance whatever, or, rather, I should say that we have the assurance that they would continue to disregard the opinion of the representatives of the American people in Congress assembled.

It therefore follows that unless you put in this bill an imperative mandate, they will not obey it.

Mr. Luce. Now, of late we have been given to understand that this country would be better governed were the administration of the affairs of Government controlled by the President. The Senate at the moment is discussing at great length that problem. The opinion seems to be that it is wise to have the President control the policies of the administrative officials. Assuming that to be the case, what can the House and the Senate do about it?

Mr. Owen. I do not make any assumptions in that case, but I will say this: That the Constitution of the United States clearly points out to this committee, and to the House of Representatives, and to the Congress of the United States, and to the President of the United States, that it is the exclusive right of the Congress of the United States to create money, according to the interpretation in the legal tender cases by the Supreme Court of the United States, and it is the duty of the Congress of the United States not only to create the money, but to regulate its value, because that is the express mandate of the Constitution of the United States. If this committee does not obey the mandate of the Constitution, I do not think we can expect the Federal Reserve Board to obey the mandate of this committee.

Mr. Luce. This committee, of course, has nothing directly to do with the administration of the currency laws. That was turned over to the administrative agency. For some years the Federal Reserve Board has been not only appointed by the President, but the Secretary of the Treasury has cooperated with the President in advising with the Federal Reserve Board.

What justification would we have for Congress questioning the President of the United States and his conduct in that connection?

Mr. Owen. We have this justification, that on the 18th of February the President gave out a release to the country which had been prepared by the Secretary of the Treasury, the chairman of the Board of Governors of the Federal Reserve Board, and by the Secretary of

Agriculture and the Secretary of Labor, and that declaration started out by declaring the objectives of this administration, which were all that anyone could desire, I take it. They were excellent. They were not called objectives, but called policies in the release, but obviously they were not policies, but objectives.

When it came to the body of the release, the first thing that was brought to the attention of the public was that the administration had been obstructed in achieving these policies by—and this is a quotation—"the behavior of prices," and the release followed, giving no definite plan for achieving these objectives, and, strangely enough, coming from the chairman of the Board of Governors of the Federal Reserve System, and from the Secretary of the Treasury, it made no mention of what had taken place during 1937, when we had a collapse in the value of stocks, amounting to $25,000,000,000 or more, when we had United States Steel in its operations fall from 90 percent of capacity to under 30 percent of capacity, when we had the index of industrial production fall from 122 in March, April, and May 1937 to 79 at present, a fall of 43 points in industrial production, and no explanation was made of that astounding occurrence, and no remedy was proposed, and there was no recognition in that release that that depression had been caused by a contraction of money by the banks, and had been caused further by the hoarding of demand bank deposits to the extent of billions.

Therefore, when the President puts this responsibility upon his advisers, as he did, and since no man is omniscient, and since any President is almost compelled to rely upon his technical advisers, it comes down to an objective lesson of which Congress should take note, that these advisers of the President have not themselves understood what caused the depression of 1937, nor what the remedy was, and yet I call attention to the act of this Congress of May 2, 1932, in the Goldsborough bill, and I again call attention to the fact that the campaign which immediately followed was based upon the restoration of the predepression price levels, and I might call attention to the morning Post, on page 6, where a quotation is made from the President of the United States himself. I do not have it in my memory with accuracy but I will put it in the record. There is a clipping here that I have that might be read for the reporter.

(The following was thereupon read from the article from the Washington Post:)

> The President's recent dissertation on the need of a balanced price structure is in line with earlier statements. On April 19, 1933, he said "It has got to be a definitely controlled inflation. * * * It has got to be a controlled price level, but keep it from going too high."

Mr. OWEN. That is sufficient.

The country understood that we were going to restore predepression conditions, and the great popularity of the administration turned largely upon that point.

Mr. PATMAN. Explain the significance of that statement. I do not believe that you have explained that this statement was made by the President in 1933, but not released until today.

Mr. OWEN. No; the quoted statement was not given out to the press at that time; it was just in a press conference, but it is now detailed——

Mr. PATMAN. For the first time.

Mr. OWEN. For the first time, as far as I am informed.

Mr. McKeough. Being brought about by reason of the fact——

Mr. Owen. There is no secret about it; everybody knows that that was in the platform of the Democratic Party, the very first part of the platform, which stated that the depression was due, among other things, to the indefensible expansion and contraction of credit. It is the same cause that has caused all panics. The 1907 panic was caused by that. It caused the panic of 1921, caused the panics of 1929 and 1933, caused the panic of 1937—nothing new about it. Every student of monetary science knows it perfectly well.

Mr. McKeough. May I ask a question right there? Isn't it a possibility that without any action on the part of the Federal Reserve Board of Governors, the large banking interests of the country would go ahead and buy Government obligations, even though the Federal Reserve Board of Governors and the Open Market Committee's operations might attempt to sell them in order to create an additional money supply?

In other words, the purpose of my question is this, to have your opinion as to the possibility of the large banking interests of the country thwarting the will of the Board of Governors in its open market operations. Is that a possibility?

Mr. Owen. The explanation which I gave on March 4 before this committee I believe to be the true explanation, and that is that when it was understood by the country that the expenditures of Government for relief, and so forth, were going to be cut down severely, that we were going to cut down expenditures with a view to balancing the Budget, and when there was evidence that the Treasury Department did not intend to expand, and refused to expand, as they did on September 15, when $817,000,000 of Government securities matured, and instead of their being paid with credit, they were renewed—the evidence of that kind which I enumerated in my testimony on March 4 caused men who are sagacious to advise their clients to sell stocks and to accumulate money for the simple reason that their stocks under those conditions would go down in market price and the money would go up in purchasing power, so that money which was received from the sale of United States Steel at 126 could, at the bottom of the depression, buy two and a half times as much as was sold in January and March 1937.

That is the point. It is very simple. It is not involved at all. Anybody can understand that if the money supply of the country consists of demand bank deposits in circulation, and those demand bank deposits are taken out of circulation, you have not the money with which to transact the normal business of the country.

I want to call the attention of the committee to the amount of money which is needed to transact the normal business of this country.

Mr. McKeough. Senator, right there, isn't there evidence——

Mr. Luce. Mr. Chairman——

Mr. McKeough. That these sagacious gentlemen might be able to thwart the will of the Federal Reserve Board, even though it were carrying out the will of Congress?

Mr. Owen. I do not know to what extent their persuasive power might influence the opinion of the Board.

Mr. McKeough. No; I mean in open conflict with their desires.

Mr. Owen. No; not if the Federal Reserve Board chose to exercise its power——

Mr. Luce. Mr. Chairman——

Mr. OWEN (continuing). And would buy the bonds and bankable assets. Then they could replace the money which had thus been withdrawn for hoarding by those who sold those stocks.

Mr. GOLDSBOROUGH. Mr. Luce, you may resume.

Mr. LUCE. Senator, we had brought our discussion, before this diversion, to the point of understanding, I think, that this bill, like its predecessors, results primarily from dissatisfaction with the judgment exercised by the Federal Reserve Board.

Mr. OWEN. That would be an excellent reason.

Mr. LUCE. Now, we learned in the course of these previous hearings through the years that the Board had two powers, the power of the rediscount rate and of the open market operations. There has since been added, and I am not quite clear whether there is a distinct line between it and the two of which I have spoken, but there has since come to the surface the control of our reserves. That makes three powers that the Board has, which may or may not have been wisely used.

Do you think that additional power should be given the Board beyond those three?

Mr. OWEN. The power to expand credit and to contract credit through the buying and selling of bonds and securities is the broadest possible power and would be in my opinion sufficient. In my opinion the question of the rate of interest should be modeled upon that of Great Britain which now gives to the borrower a 2-percent rate per annum. Credit should be furnished for productive purposes in this country at as low a rate as any competing country furnishes to the producers of that country. It is true that the market rate for money now is very, very low, which only means that there is a congestion of credit not employed in industry, but in hoarding, that is available to transfer credit to the Government at an exceedingly low rate; but I do not approve of the Government selling bonds to the banks at all as a means of obtaining money, for the reason that the Constitution vests the exclusive power in the Congress to create money required for legitimate purposes in the United States. Abraham Lincoln was opposed to paying the banks an interest annually for the privilege of creating money. I put that statement from Abraham Lincoln in the book Stabilized Dollars, of which I sent a copy to every member who was on the committee on January 7, 1937.

Mr. LUCE. Those are——

Mr. OWEN. Answering your question—I have not forgotten it; it involved three points, the purchase and sale of securities, the interest rates, and the reserve requirements.

The reserve requirements in my opinion should be expanded to 100 percent—not as at present, to 26 percent in the central cities on demand bank deposits, but to 100 percent, for the reason that when you put the reserves at 100 percent, you take away from the banks the opportunity to expand credit unduly and to contract it unduly.

By that process that I am suggesting, you would remove the fear of the banks against a run by the demand bank depositors, because you would have on hand 100 percent of the demand bank deposits available for liquidation if all of the demand bank depositors wanted their money, but they won't want their money when they know that they can get it. That is a peculiarity about human nature.

But there is another way to do it, to which I wish to call the attention of the committee, that would not interfere with the banks expanding their loans, under the controlled plan that I am going to suggest, after they had 100 percent reserves. The bank could still make those loans, and although it would appear to create the money, it would not be creating money under the plan that I am going to suggest, and that is that the Federal Reserve banks shall expand the credit to the extent of 100-percent reserves, requiring the member banks to segregate and hold, earmark, the securities necessary to make the reserves of the bank entirely safe in the extension of such credit.

In other words, the member bank under the system I suggest would be in a position to say to its depositors, "We have 100-percent reserves in the Federal Reserve banks against the deposits which are in our bank."

In that contingency we would have a new system of government in the United States, in which fear of the depositor would be absolutely abolished, in which the power of the banks to expand and contract through optimism and pessimism would no longer be a menace to the country, because it would be under the control of the Federal Reserve banks and the Federal Reserve Board who could, by regulation, prevent the banks from going to excesses either one way or the other.

They would have no fear, and they would still be able to make more money than they made heretofore, because there are at present approximately 50 millions of individual accounts of depositors in the United States, and a dollar-a-month average for taking care of those accounts and keeping the books would produce $600,000,000 of revenue, and a reasonable charge on the larger checks, those of larger volume, of a dollar a thousand, would create a similar amount, and they still would have the opportunity of lending money which they hold for savings accounts and for time deposits, and for demand bank deposits that are inactive and not in circulation but they would have to be classified as time deposits in order to segregate them.

The banks ought to be allowed to make a reasonable return on their investments. I do not believe that anybody would begrudge them a generous return on their investments and services. They have about 7 billions in capital, surplus, and undistributed profits, so that under the management of a Federal Reserve Board having power, the banks would be perfectly safe.

But what is far more important than the safety of the banks is the continuance of the maximum productive power of the people of this country, and I call your attention again to the fact that in the very first year of the depression of 1921, there was a loss of products and services of $15,000,000,000, and in this last panic of 1929 and 1936, taking it as a total, it made over $164,000,000,000 of products and services which this country could have enjoyed if we had an intelligent banking system.

Mr. Luce. You have introduced a subject that is of great importance and interest, and that the committee may have occasion to consider later, but for the moment I am anxious to know, or to have your judgment, as to whether the Federal Reserve Board now has the power to require the adoption of 100-percent reserves.

Mr. Owen. It has not.

Mr. Luce. And that not being in this bill——

Mr. Owen. I do not know what this bill is to which the honorable Member refers.

Mr. LUCE. I am referring to the one for the reorganization of the Federal Reserve System and the taking over of the Federal Reserve banks by the Government.

Mr. OWEN. There are several bills here.

Mr. GOLDSBOROUGH. It is H. R. 7230, introduced by Mr. Patman, which is the bill which is now before the committee, Senator.

Mr. OWEN. Oh. I was present when Mr. Patman made his statement, and my recollection is that he not only proposed taking over the banks, but that he emphazised the need of a mandate.

Mr. GOLDSBOROUGH. There is no mandate in the bill, Senator.

Mr. OWEN. I should say that there should be.

Mr. PATMAN. There is in the first section, but it is not sufficient. I offered an amendment in the first statement that I made, to go in the bill as a specific mandate.

Mr. LUCE. Was that a mandate for the 100 percent reserve?

Mr. PATMAN. No, sir; for the 1926 prices.

Mr. LUCE. Well, then we are quite agreed that this bill does not touch that very important question.

Now, in the matter of the 1926 price level, it was explicitly used in the Goldsborough bill 6 years ago——

Mr. OWEN. It was substantially used. It used the average of from 1921 to 1929.

Mr. GOLDSBOROUGH. The reason that that was done was because in 1926 cotton was very low, and some members of this committee were apprehensive that their constituents might think that they wanted to reduce the price of cotton.

Mr. OWEN. Yes; I remember.

Mr. GOLDSBOROUGH. That is what happened.

Mr. LUCE. The President, in a press conference a few weeks ago, I think, pointed out that contracts—I cannot give his exact words, but the substance of it was that contracts affected the issue, in view of the fact that injustice might be done by taking a date too remote or perhaps one too near. That raised the question of the average life of contracts. Professor Irving Fisher, in one of his writings some years ago, said that he had found that the average life of a contract was 11 months, taking into consideration all of the outstanding obligations of the country. I asked the professor in a conversation later whether he was of the opinion that that was the correct figure, and he said no, that he had changed his mind as to the length of the contract, but he did not give me the figure which he then had in mind.

Mr. GOLDSBOROUGH. May I make an observation at that point?

Mr. LUCE. Yes.

Mr. GOLDSBOROUGH. Professor Fisher also on one occasion was asked to estimate the actual value of a child when born, and he made it $79.38, and some man who had a great many children said that if he had known that a young one was only worth that, he would not have spent the time he did walking the floor.

What I mean by that is that the accuracy of these estimates is open to very great dispute.

Mr. LUCE. But certainly it cannot be the fact that the average life of contracts today is 12 years.

Mr. OWEN. Mr. Luce, I would remark in that connection that the volume of indebtedness of this country, which is estimated at $250,000,000,000, has not changed very much from 1926; that the indebtedness of the United States, which was incurred during the

World War, was incurred on the basis that was down as low as 60 percent in the matter of the purchasing power of the dollar, and all the way from an index of 60 to an index of 70, 80, or 90 when the World War came on.

Now, you have got to have some standard, and for that reason 1926 was adopted by the Congress of the United States in 1932, as it appeared in the evidence at that time that it was approximately the average of 1921 to 1929, inclusive, and it also appeared that it is the same as the average if you take the years 1914 to 1930, inclusive, and it is quite a good deal lower than the average of 60 of the dollar of May 1920, and the dollar in February 1933, when it was 167. In that case it would make an amount of something over 113 as the normal, but 100 has generally been agreed upon by those who have studied the matter as a fair normal level, and for that reason it has been advocated by those who wanted to have some settled point to which they could move.

Mr. LUCE. That I understand and appreciate. I was simply inquiring whether you thought the President was justified in abandoning the use of 1926.

Mr. OWEN. I do not think he has abandoned it. I think the President has naturally relied upon Mr. Eccles, and Mr. Morgenthau, and their experts, and upon the Agricultural Department, I suppose—they have experts, too.

But you are face to face here with realities. Here we are at the bottom of a most serious depression. Here we are facing a case where the employment of the people has been rapidly diminishing. We are faced with an index of industrial production that has fallen 43 points in less than 1 year, and unless the Congress does something to correct it, we may have a cataclysm in this country that will not stop at mere financial distress, but in political turbulence.

I am very desirous myself of protecting the American capitalist system. The capitalist system of America, while it has some weak spots, has many points of great advantage—tremendously forceful organizations, great bureaus of research, wonderful productive power—and merely because we have some weak spots in our system, it would be very unwise, in my opinion, not to recognize the merits of our system. I think that we have a perfectly wonderful country, and if you compare the amount of consumption of products of this country with other countries, you will find that this country far surpasses any other country in the world, barring none, and for that reason I think we ought to cherish the institutions that we have, and protect them—protect all banks, the big banks as well as the little ones, but protect the little ones as well as the big ones, and give them the reserves through credit against securities which they have in their possession, and which will be honestly managed.

Taking it by and large, our banks have been honestly managed. The 16,000 that have been destroyed have not been destroyed through their willful mismanagement or through dishonesty; it has been because of a defective system, where we permitted the dollar, by which all things are measured, to violently expand and contract in volume, and therefore violently expand and contract purchasing power.

Mr. LUCE. We come then to the point of agreeing that the President's proposal to abandon 1926 as the standard is open to discussion.

Now, one more thing——

Mr. OWEN. I do not agree that there has been any abandonment of the matter. The 1926 price level was asserted practically by the Congress in the act referred to, of May 2, 1932.

Mr. LUCE. He certainly referred to 1926, and brought out this question of the life of contracts.

Mr. OWEN. You take the ordinary current value of a contract, and it is not very much affected by the fluctuations which normally take place in money, because the current values in day-by-day transactions or week-by-week transactions are not very serious in their changes and do not immediately reflect the changes which are forecast by those who are more expert.

Mr. LUCE. That question, of course, has received most careful consideration by the highest law court in England and by our own high court, and they differed in their conclusions.

Mr. OWEN. Yes.

Mr. LUCE. And certainly the discussion of the matter would indicate it was one of importance.

But now there is only one more thing that I want to ask you about, and that is, what advantage do you think would accrue from having the ownership of the Federal Reserve banks in the Government itself instead of in the member banks?

Mr. OWEN. The advantage of having it with the Government is that the member banks really and truly do not control through the directors that are chosen. Those directors are put on through a discreet little campaign engineered by those who are concerned with controlling the banks. Moreover, the United States has furnished to those banks over four and a half billion dollars of cash money without any consideration at all, and the banks have only contributed 132 million dollars in buying that stock, upon which they have heretofore received 6 percent, and the bill, as I understand it, proposes to give them 6 percent from the date of the last dividend to the passage of the act.

But the point is that these banks, so-called, are really institutions established not for the purpose of carrying on a banking business in the ordinary sense at all, but established as monetary banks with a view to regulating the value of money, and they ought to exercise the duty of regulating the value of money free from any interference by private business, no matter how respectable they are.

That was the position taken by Woodrow Wilson when the bankers came with a very important committee, representing billions of dollars of money, and urged upon him that the Reserve bill should contain an item authorizing a certain number of bankers to be put on the Federal Reserve Board, and he refused, for the reason that it was a governing business, and that private persons, however respectable, should not be permitted to conduct that governing business because of their financial power.

Mr. LUCE. Was it your judgment when you shared in framing the Federal Reserve Act that it was unwise in this particular?

Mr. OWEN. At that time I favored giving the Government a majority on the board of directors of the Reserve banks, but you may remember that there was a tremendous, concerted, powerful fight made by the banks against the passage of that bill. They wanted a central bank such as had been framed by Mr. Aldrich, which had its merits, and that bill had behind it some very powerful advocates, and it, I think, was very serviceable in helping to bring the attention of the country to the importance of a public control over the reserves of the banks and a public control or a centralized control over our money system. It was with a view to putting an end to panics that that bill was proposed, not just to give assistance to private persons, although it did it to that extent, but the purpose of the bill, after 4 years of study and 32 volumes of reports by the committee, was to give this country stability, and that was the purpose of the Reserve Act.

Mr. GOLDSBOROUGH. Senator Owen, Mr. Luce has questioned you about the length of contracts, and quoted Professor Fisher. As I understand the real utility of a stable price level insofar as the relation of debtor and creditor is concerned, it is to protect both sides in a long-term contract.

Mr. OWEN. Certainly.

Mr. GOLDSBOROUGH. You remember, I am sure, the condition between 1879 and 1900, when prices had continued falling, and mortgages and mortgage bonds could not be paid, but the condition from 1900 to 1914 was just the reverse. Prices were rising, and debtors paid their debts, so that I do not think we are particularly concerned in business contracts which run from 2 to 12 months. It seems to me it is these long-term obligations which will be assisted and made equitable by a stable price level; and, as I understand it, that is your view?

Mr. OWEN. It is. My point is that the most important thing in this bill, or one of the most important things in this bill and in proposed measures of a similar nature, is that businessmen in the United States can make long-time contracts with dependable security, but they cannot make long-term contracts with dependable security if we permit the condition to continue where private persons, through speculation in the stock exchange, can violently expand and contract the purchasing power of money and destroy the value of property. There is no dependable security for businessmen so long as that condition remains.

Mr. FORD. May I ask a question?

Senator Owen, if it were possible to devise a method through the mandate of Congress or otherwise to stabilize prices, would that not be a tremendous advantage to manufacturers, for instance, of flour, cotton goods, and so forth, and save them the expense of hedging on the exchange to protect large purchases?

Mr. OWEN. It would to a certain extent, but you cannot stabilize the price of a commodity which might double in volume due to a very favorable season, or which might be contracted to one-fourth of normal by a tremendous drought. You cannot stabilize individual items. The only thing that you can stabilize is the purchasing power of money, because you can absolutely control the volume.

Mr. FORD. Suppose that you had a production of 1,100,000,000 bushels of wheat in 1938, as we had in 1915. Where would wheat go?

Mr. OWEN. It would go down.

Mr. FORD. Suppose on the other hand that cotton, tobacco, and all of our products immediately doubled, or went up 25 to 35 percent? Where would our price level go?

Mr. OWEN. If they were all to be doubled in volume, they would go down in exchange value.

Mr. FORD. Then there is no device possible for the absolute stabilization of a general price level, where you have factors of that type?

Mr. OWEN. Do not use the words "general price."

Mr. FORD. General prices.

Mr. OWEN. Individual prices. You cannot stabilize an individual price.

Mr. FORD. I know, but these two, three, four, or five great commodities are so important, and they play such a part in the general index that their falling would immediately affect the general price level.

Mr. OWEN. Yes; it would, to a comparatively small extent, and in event there should be a world war, or in event there should be a disaster or drought in the United States, or any great change in the volume of commodities, you should in that event not change the volume of money at that time, because of those conditions, for the reason that those climatic conditions correct themselves within one season. Mr. Carl Strover deals with that quite at length, pointing out the importance of how to handle it, and it is easy enough to handle it by allowing the price level to remain unchanged by virtue of an enormous drought.

Mr. FORD. Then do I understand that you attribute the present recession or depression or whatever you want to call it purely to the handling of the monetary system, or do you attribute it partially to great surpluses that have accumulated in certain lines and to additional production in manufacture over and above what the market would absorb?

Mr. OWEN. You take the price of cotton, for example. Here we have 17,000,000 bales of cotton, a great oversupply. Now, that is due to the large amount of cotton produced, but in addition to that, when you have a contraction of the money supply such as we have, you make that disaster much worse. If you had money expanded to a norm, the price of cotton would not be so low as it is now, notwithstanding the fact that there are 17,000,000 bales.

There are four things that enter into the price of cotton. First comes the supply of money and the demand for money, that fixes the price of cotton, but in addition to that comes the supply of cotton and the demand for cotton, and those four factors enter into it.

Mr. FORD. I had always supposed that the demand for cotton entered into its price.

Mr. OWEN. Certainly it does.

Mr. FORD. There was a time in this country, for a number of years, when we exported up to 66⅔ of our entire cotton crop. That has been almost entirely, if not completely, wiped out, that export market.

Mr. OWEN. I take the liberty of calling to your attention the table on page 63, which I put in Dollar Stabilized in which it is shown that as the check money contracted from 1929 down to 1933, our exports and our imports contracted in corresponding ratio, and they fell to one-third of what they had been when our check money fell to one-third of what it had been.

(The tables referred to follow:)

CHART NO. 1.—*Monetary chart exhibiting expansion and contraction with results, 1913–24*

	Wilson administration								Harding and Coolidge administrations			
June 30 [1]	1913	1914	1915	1916	1917	1918	1919	1920	1921	1922	1923	1924
1. Total banks	25,993	26,7655	27,062	27,513	27,923	28,880	29,123	30,139	30,812	30,389	30,178	29,348
2. Total capital [2]	4.3	4.4	4.5	4.6	4.9	5.0	5.3	6.0	6.4	6.6	6.8	7.1
3. Total loans [2]		15.3	15.7	18.0	20.5	22.4	24.7	30.8	29.0	27.8	30.4	31.5
4. Total investments [2]		5.5	5.8	6.6	7.8	9.4	11.8	10.8	11.0	12.2	13.3	13.6
5. Total deposits [2]	17.2	18.1	18.8	22.3	25.8	27.5	32.4	37.0	34.5	36.8	39.3	42.1
6. Total demand bank deposits (excluding public funds) [3]												
7. United States currency in circulation [2]		3.2	3.0	3.4	3.8	4.2	4.6	5.2	4.6	4.2	4.5	4.6
8. Checks cashed (per annum) by all banks [2 4]							643	702	575	624	666	694
9. Commodity index (price level)	69.0	67.4	68.3	82.9	122.0	129.0	135.6	166.5	93.4	96.3	100.3	94.9
10. Dollar index	1.449	1.484	1.464	1.206	.820	.775	.737	.601	1.071	1.038	.997	1.054
11. Index, physical products	38.9	38.8	40.6	47.5	56.2	65.6	70.7	78.7	65.6	69.9	79.8	81.3
12. Unemployment [5]								1.4	4.2	3.4	1.5	2.3
13. Index carloadings							84	91	79	87	100	97
14. Construction contracts							63	63	56	79	84	94
15. Number of commercial failures		18,280	22,156	16,993	13,855	9,982	6,451	8,881	19,652	23,678	18,718	20,615
16. Exports [2]	2.5	2.1	3.6	5.5	6.2	6.1	7.9	8.2	4.5	3.8	4.2	4.6
17. Imports [2]	1.8	1.8	1.8	2.4	3.0	3.0	3.9	5.3	2.5	3.1	3.8	3.6
18. Total value common stocks [2 6]												
19. Index farm products	69.8	71.6	70.3	78.2	134.0	140.2	156.9	167.4	80.6	92.8	96.0	94.3
20. Value farm lands [2]	38.4	39.6	39.5	42.2	45.5	49.9	54.5	66.3	61.4	54.0	52.7	50.4
21. Treasury receipts [2]	.7	.7	.7	.8	1.1	3.7	5.2	6.7	5.6	4.1	4.0	4.0
22. Total reserve bank credit [2]					.6	1.6	2.5	3.3	2.1	1.2	1.2	.8

[1] The first 7 lines relate to June 30 only.
[2] Indicates billions and decimals thereof.
[3] This record begins in 1927.
[4] This record begins in 1929.
[5] Indicates millions or decimals thereof.
[6] This record begins in 1925.

The above figures are from Federal Reserve Board records.

CHART NO. 2.—*Monetary chart exhibiting expansion and contraction with results, 1925–36*

	Coolidge administration				Hoover administration				Roosevelt administration			
June 30	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
1. Total banks	28,841	28,146	27,061	26,213	25,330	24,079	22,071	19,163	14,624	15,894	16,053	15,803
2. Total capital [1]	7.4	7.8	8.3	8.9	9.5	10.0	9.5	8.1	6.9	7.4	7.3	-------
3. Total loans [1]	33.9	36.2	37.4	39.5	41.5	40.6	35.4	27.8	22.2	21.43	20.3	20.1
4. Total investments [1]	14.9	15.4	16.4	17.8	16.9	17.5	19.6	18.2	17.9	21.2	24.1	27.8
5. Total deposits [1]	45.9	47.9	49.4	51.4	50.5	50.5	47.6	38.5	34.2	36.9	41.3	45.9
6. Total demand bank deposits (excluding public funds)	-------	-------	23.4	23.3	22.4	22.2	19.5	14.9	14.0	15.5	18.9	22.5
7. United States currency in circulation [1]	4.5	4.6	4.6	4.5	4.5	4.2	4.5	5.4	5.4	5.4	5.6	6.2
8. Checks cashed (per annum) by all banks [1]	795	845	920	1,074	1,230	900	660	450	430	470	530	-------
9. Commodity index (price level)	103.0	100.4	94.1	96.7	95.2	86.8	72.1	63.9	65.0	74.6	79.8	80.6
10. Dollar index	.971	.996	1.063	1.034	1.050	1.152	1.387	1.565	1.538	1.340	1.253	1.241
11. Index, physical products	86.4	91.1	93.4	96.0	100.0	92.8	78.5	61.5	57.2	63.8	91.0	109.0
12. Unemployment [2]	1.7	1.6	2.0	2.2	1.8	4.7	8.7	13.1	13.7	12.3	12.2	10.5
13. Index carloadings	103	106	103	103	106	92	75	56	58	62	63	72
14. Construction contracts	122	129	129	135	117	92	63	28	25	32	37	61
15. Number of commercial failures	21,214	21,773	23,146	23,842	22,909	26,355	28,285	31,822	20,307	12,185	11,879	-------
16. Exports [1]	4.9	4.8	4.9	5.1	5.2	3.8	2.4	1.6	1.7	2.1	2.3	(3)
17. Imports [1]	4.2	4.4	4.2	4.1	4.4	3.1	2.1	1.3	1.4	1.7	2.0	(3)
18. Total value of common stocks [1]	29.7	35.6	42.0	52.9	77.3	63.9	47.4	15.6	36.3	34.4	36.2	46.9
19. Index farm products	109.3	100.9	96.5	106.7	103.3	88.9	65.4	45.7	53.2	63.3	78.3	78.2
20. Value farm lands [1]	49.4	49.0	47.6	47.4	47.8	47.8	43.7	36.8	30.3	31.6	32.8	-------
21. Treasury receipts [1]	3.8	4.0	4.1	4.0	4.0	4.2	3.3	2.1	2.2	3.3	4.0	-------
22. Total reserve bank credit [1]	1.1	1.2	1.1	1.6	1.4	1.0	.9	2.3	2.2	2.5	2.4	2.5

The above figures represent expansion and contraction of credit and currency—money.

[1] Indicates billions and decimals thereof.
[2] Indicates millions or decimals thereof.
The above figures are from Federal Reserve Board records.
[3] The imports for the month of September 1936 were 216 millions. The exports for the month of September 1936 were 220 millions. Below these lines, the index references are to the years involved, except 1936. The checks cashed per annum include from January to December as do the indexes for those years.

NOTE.—In July 1936 about 10.5 millions of persons out of 52 millions of employables were still unemployed (estimated).
Ordinarily, total bank deposits include public funds, but not in this chart.

Mr. FORD. I do not see how that affects cotton.

Mr. OWEN. It has an effect on cotton, for example, because it explains how that foreign demand for cotton is cut off when we have a contraction here at home of our money supply.

Mr. FORD. A contraction of the money supply ought to do what? Lower prices?

Mr. OWEN. A contraction of our money supply has the effect of making the dollar buy more and the commodity buy less.

Mr. FORD. It is a lowering in price?

Mr. OWEN. Yes.

Mr. FORD. Under those circumstances, why wouldn't it be attractive for foreign countries to buy all the stocks that they can buy at the lowered price?

Mr. TRANSUE. They have to buy dollars first.

Mr. OWEN. They have to buy dollars first, and the dollars are hard to get.

Mr. SPENCE. Why was it that the word "regulate" was used in the Constitution? Is there an historical reason for that?

Mr. OWEN. Yes.

Mr. SPENCE. What was that?

Mr. OWEN. The reason was that you could fix weights and measures. You can fix a yardstick. You can fix a bushel basket. You can fix a pound avoirdupois, but you cannot fix the value of money, which changes with the demand for money and the supply for money. Therefore you have to regulate it by regulating the supply to correspond with the demand.

Mr. SPENCE. I am a great believer in the wisdom of the Constitution.

Mr. OWEN. I am a great believer in the wisdom of the Constitution, too, and what I am praying for now is that it will be carried out.

Mr. SPENCE. Was there a reason for it? Was there a historical reason?

Mr. OWEN. I have just given you the reason.

Mr. SPENCE. Was there fluctuating money at that time?

Mr. OWEN. Why, certainly. You had as many as 50 different pounds used; the word "pound" meant 50 different pounds, and so it was necessary to fix the pound, to fix the yard, to fix the bushel, to fix the gallon and the barrel, because these terms were used loosely by different groups of people with different meanings. You had, therefore, under the Constitution, to charge the Central Government with the duty of fixing weights and measures, but you could not fix the purchasing power of money. That had to be done by regulation, because you had to regulate the supply in relation to the demand in order to give it a stable purchasing power.

Mr. GOLDSBOROUGH. Mr. Reilly wants to ask you a question.

Mr. REILLY. Senator Owen, your theory is that a stable price level of all commodities can be maintained if the Government will manage and regulate the currency?

Mr. OWEN. Why, certainly.

Mr. REILLY. How generally is that theory held by bankers and by men who are students of the monetary question?

Mr. OWEN. I should say that in recent times, in the last 20 or 30 years, all informed monetary students know that the value of money depends upon the supply of money in relation to the demand for money. That was the subject of a text by Gustave Cassel when he appeared before Columbia University and delivered his lectures on post-war monetary stabilization, and he illustrated that by giving the experience of every country in Europe. He made the same lectures at the University of Chicago. His book was published by the Columbia Press in New York.

Then, when Professor King came down here from the University of New York, he confirmed that in his testimony recently given. Of course, nobody understands that better than Irving Fisher or Robert Hemphill, or any number of men who appeared before the committee.

Mr. GOLDSBOROUGH. Mr. Reilly makes the point, I presume, that these 60 gentlemen whose names appeared on the back of letterheads do not agree with that propostion.

Mr. OWEN. No; they do not, and I will explain that, if I may be permitted to do so.

Mr. REILLY. Well, now, Senator Owen——

Mr. OWEN. May I explain that?

Mr. REILLY. Is it not a fact——

Mr. GOLDSBOROUGH. He wants to explain it.

Mr. REILLY. Yes, sir.

Mr. GOLDSBOROUGH. Proceed, Senator.

Mr. OWEN. The 60 gentlemen who were organized by the activity, I think, of Mr. H. Parker Willis, representing economists in various universities organized what is called the Economists National Committee on Monetary Policy, and they recommended that the means of restoring prosperity in this country was to go back to the old domestic gold standard which we had previous to 1933; that was their recommendation, and their contention was, broadly, that prices are not affected by the supply of money, that if you take money and examine it, you will find that the money in circulation, outside of the Treasury from 1929 was four and a half billions, roundly, and it increased to over six billions, and yet commodity prices went down while the money supply was rising; ergo, money does not affect commodity prices.

The only difficulty that we have about that is that they are dealing with pocket currency when they refer to money, and they ignore the fact that 95 percent of our national business is transacted by check money, and they ignore the fact that when these prices went down, they went down correspondingly with a contraction of check money, which fell from 1,230 billions in 1929 to 430 billions in 1933, showing that they were juggling with the word "money," meaning by money currency only, and that argument is repeated in a clipping that I received this morning from the Wall Street Journal, that the only thing that affects prices is currency.

Nobody who has any monetary intelligence will maintain that any longer, and I do not mean to say that disrespectfully. I say it descriptively.

Mr. REILLY. Senator Owen, somebody has suggested that the way to solve the cotton problem was to take about 15,000,000 bales out into the Atlantic Ocean and drown them.

Mr. OWEN. I think that it would be a good deal better for the United States Government to take the surplus cotton and to give a bed to every man in this country who has no good bed.

Mr. REILLY. But you have to do something to cotton before you could give them that bed.

Mr. OWEN. I would have the Government buy the cotton.

Mr. REILLY. Assuming that you bought in all the excess cotton, would the price of cotton go up?

Mr. OWEN. The price of cotton will be affected by the supply and demand, just as is the case with any other commodity. All commodities depend for their price upon supply and demand, and the demand also must cover substitutes, because people can substitute other things, for instance.

Mr. TRANSUE. We have a call of the House, and I wonder if Senator Owen can come back tomorrow.

Mr. OWEN. I would be delighted to come.

Mr. PATMAN. There are several members who would like to interrogate him.

Mr. OWEN. I would be glad to come back.

Mr. GOLDSBOROUGH. The committee will adjourn until tomorrow morning at half past 10, when Senator Owen will resume.

I would like to ask that, if there are any other members who desire to question the witness, that they confine themselves to the issues involved in H. R. 7230.

Mr. PATMAN. Except, Mr. Chairman, that Mr. Binderup will offer an amendment to this bill, which I think is a germane amendment.

Mr. GOLDSBOROUGH. Mr. Patman, it was understood, and I am acting under the instructions of the chairman, that the assurances of a hearing which were given in June 1937 on this bill were not on amendments to the bill which changed the issues in the bill, and I must insist that the discussion be confined to the issues involved in H. R. 7230.

Mr. BINDERUP. May I take the freedom to ask you if it is a fact that when I am before this committee, I can only talk about taking over the 12 Federal Reserve banks, and cannot say anything about that which leads up to that, and that which goes further than that, which makes it feasible to propose the amendment suggested?

Mr. GOLDSBOROUGH. The idea is this, that there are certain issues involved in this bill. The one issue that you refer to is not the only one involved in this bill. There is the issue of increasing the number of directors of the Federal Reserve System, but I do not think that we should go outside of the issues involved in this bill.

Mr. MCKEOUGH. We have to go to the House. Let us decide those matters as they are presented.

(After further discussion on this point among the members as they were leaving the bench, the committee recessed, to meet again at 10:30 o'clock Tuesday morning, March 15, 1938.)

GOVERNMENT OWNERSHIP OF THE 12 FEDERAL RESERVE BANKS

TUESDAY, MARCH 15, 1938

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

Hearings on H. R. 7230 were resumed at 11 o'clock a. m., Hon. T Alan Goldsborough presiding.

Other members of the committee present: Mr. Reilly, Mr. Williams, Mr. Spence, Mr. Meeks, Mr. Ford, Mr. Brown, Mr. Patman, Mr. McKeough, Mr. Evans, Mr. Transue, Mr. Gifford, Mr. White, and Mr. Crawford.

Mr. Goldsborough. The committee will come to order.

Gentlemen of the committee, Senator Owen will now proceed, and, when he concludes, without objection, the committee will hold an executive session for just a few minutes.

Mr. Patman. I did not hear that, Mr. Chairman.

Mr. Goldsborough. Senator Owen will now proceed, and when he concludes, without objection on the part of the committee, the committee will hold an executive session.

Mr. Patman. That does not contemplate forcing him to finish today?

Mr. Goldsborough. Oh, no.

Mr. Patman. But when he does get through?

Mr. Goldsborough. Yes. It may not be today, but if he does get through today, the committee will hold an executive session for a few minutes. I do not know that it will be necessary to hold it some other time, but, as far as the Chair is concerned, the gentleman may continue until he completes his statement, today, tomorrow, or the next day.

Mr. Patman. That is satisfactory to me.

STATEMENT OF HON. ROBERT L. OWEN—Resumed

Mr. Owen. Mr. Chairman and gentlemen of the committee, before answering questions I would like to be permitted for a few moments to point out the manner in which the experience of Great Britain and the United States has disclosed the importance of correcting contractions of credit or money by immediate expansion of credit or money.

I pointed out in my previous testimony the experience of Great Britain in giving a ministerial permit to the Bank of England to issue legal tender money against bankable assets in 1847 and immediately correcting the panic of that date, and they had an automatic contraction, because the ministerial permit disregarded the statute law fixing the charter rights of the Bank of England, and therefore as rapidly as they could contract they did it, because the expansion was at variance with the law itself and had to be approved by an act of Parliament which always followed the ministerial permit.

The same thing was done in 1857 and stopped the panic then by quickly expanding legal-tender money or credit against bankable assets, and again the contraction took place because it was at variance with the statute law fixing the charter rights of the Bank of England. The same thing took place in 1866. The same thing took place in 1890, as I previously pointed out, with contraction taking place automatically under the law. In other words, the English had automatic expansion and contraction by a ministerial permit and by force of statute law.

I venture to remind the committee that in 1907, when we had the panic in New York, in the fall of 1907, and when call money went up to over 100 percent, Theodore Roosevelt gave his approval to the issuance of $100,000,000 of clearing-house certificates. That functioned as money, and they were based upon bankable assets, and served a useful purpose.

At that time I had just been elected as a Senator from Oklahoma, and he was assailed in a public meeting held by the Southern Congress at Muskogee, and I defended Theodore Roosevelt on that occasion because he had done a thing which served the public interest, and served to abate the panic, which had reached very dangerous proportions.

I call your attention again to what was done on the 4th of August, 1914——

Mr. GOLDSBOROUGH. Will you permit an interruption?

Upon what theory was Mr. Roosevelt assailed at the meeting at Muskogee in 1907 to which you have referred?

Mr. OWEN. He was assailed by Democrats on the ground that he had violated the law in giving his approval to clearing-house certificates, and I defended him on the ground that it was like assailing a a fireman for using water that had not been filtered in a fire and putting out the fire even if the water was not absolutely approved as it ought to have been.

Now, in 1914, when the German Emperor, through his ambassador at St. Petersburg, notified Sozonoff, the head of foreign affairs of the Russian Empire, that the German Emperor regarded that a state of war existed, it sent a shock throughout the world, and Frank Vanderlip, of the National City Bank of New York, called me up on the long-distance phone and told me that on the following Monday we would have a dangerous panic in New York unless the administration would do something about it, and I thereuopn immediately framed an amendment to the Vreeland-Aldrich bill, which had been made a part of the Federal Reserve Act in 1913, so that an immediate use could be made of the money issued, under the Vreeland-Aldrich authority, based on bankable assets, and the Treasury sent over, at the beginning of the week, about 300 million dollars of notes based on the Vreeland-Aldrich Act, all of which were afterward redeemed. There was no loss about it, but the fact that $300,000,000 at that time was poured into New York to meet the shock to credit served to prevent the panic.

When in 1932 a run was made upon the Loop banks in Chicago, there were sent $300,000,000 of Federal Reserve notes to Chicago, which were paid out readily to the depositors who demanded their money from the banks. That $300,000,000 stopped that panic and remove the fear that the people had that they would not be able to get their deposits, and in that way they stopped the run on the Loop banks. It did not stop the destruction of the small banks throughout the suburbs of Chicago.

In 1933, January or February, when the banks were subjected to extraordinary pressure, there was issued about $2,000,000,000 of Federal Reserve notes, and except for the issuance of those $2,000,000,000 of Federal Reserve notes sent to the banks of the country upon their request, and against assets, of course, the destruction of our banks would have been very much more serious.

I call attention to these things because here we have a series of events, and I could enumerate others, but that is sufficient, it seems to me, and it has now been recognized by the students of monetary science throughout the world that you can regulate the value of money by regulating the flow of money or credit which functions as money.

This has been put into effect with great advantage by the English people, and during the last 6 years they have increased the index of physical production 50 percent, as explained by Sir Reginald McKenna in his report to the stockholders of the London City and Midland Bank last February, a copy of which was put in the record with my testimony on the 4th of March, and it has stabilized the pound sterling throughout the so-called sterling area, which covers 500,000,000 people.

But Great Britain is not the only one that has done that. That was done also in Greece and Turkey, which transact their business through London, and the same thing has been done, substantially, by Sweden, under the advice of Gustav Cassel, to whose lectures I made reference a few days ago, one of the greatest monetary experts in the world, the man who is responsible for what is now known as the international gold standard. He was the man responsible for doing away with the gold standard in domestic circulation throughout the world. His advice first put that into effect in India, but it was the collapse of the gold standard through the defective system of the United States that caused the nations of the world to go off the gold standard in domestic issue. What we did in the United States was to increase the purchasing power of gold 176 percent from May 1920 to February 1933, with the effect that it impaired to that extent the purchasing value, the exchange value of commodities throughout the world where the nations of the world used gold as a metal of redemption and as a basis for their currency, and as a consequence of that they were compelled to go off the gold standard and did go off the gold standard, Great Britain beginning in September 1931. A table of the manner in which they went off the gold standard, with the dates, I furnished to the members of this committee in a book called Money which I wrote and presented to every single Member of the House of Representatives in March 1933.

We now have the use of gold internationally as a medium of settling international balances, but I wanted to emphasize on the minds of the committee the extent to which the principles I have referred to, of the contraction of credit, are corrected by an expansion of credit, and how many important cases have taken place in the world's history, some of which I have recited this morning, and the consequence that the world has discovered how to regulate the value of money by regulating the flow of money and credit.

That is not only true with regard to Great Britain, but Sweden. It is also true with regard to the Argentine, and New Zealand, and Australia. Of course, South Africa and India followed the suit of Great Britain.

I mention this as a thing which ought to be of record and ought to be clearly in the minds of the members of this committee and the Members of this Congress in dealing with this question. I thought it a deplorable thing this morning to read in the public press a statement from one of our highest officials in the Government, that we had the best currency in the world. Yet that currency, and the purchasing power of that currency, have gone through violent changes in the last year, due to the failure of our officials to realize the truths of monetary science to which I have been referring, and which I have been expounding before the committee. The statement was that our currency was the best in the world, and yet that currency has increased in purchasing power in terms of commodities, 784 commodities, from 113 to 125. What kind of currency is that, that changes its purchasing power in that manner?

But the change in purchasing power is very much greater in other fields. Take the field of United States Steel stock, for instance; there the purchasing power of money increased 150 percent from January to October, 1937, and so with all of the securities, our gilt-edge securities, the best form of property, perhaps, in the United States.

We have been in the habit of thinking of the property changing value. But the dollar has changed in its value in relation to those properties, because in the field where those properties are subjects of merchandise, the volume of dollars has decreased violently, and therefore the purchasing power of the dollars in those fields has increased correspondingly.

I wanted to emphasize that because there was a release given out this morning by the so-called Economist National Committee on Monetary Policy, over the authority of some 90 gentlemen who are professors of economy——

Mr. GOLDSBOROUGH. They were the same "statesmen" that we were referring to yesterday.

Mr. OWEN. Well, we have an addition of about 30 to that number this morning.

Mr. GOLDSBOROUGH. I did not notice that, but it is the same group.

Mr. OWEN. I had my attention called to it just before the committee met, and I wish to remind the committee of what the policy of those gentlemen has been, when they urged upon Mr. Roosevelt in a round robin that the real remedy for all of our troubles was to go back to the 1900 gold standard. I take the liberty of reminding you also that they represent all of the endowed universities in this country, and these universities are not afraid of an endowment, and they know where endowments come from. They remind me of our very good President, whom I loved, President Taft, who was described by one of his opponents as a most excellent gentleman, surrounded by other excellent gentlemen who knew exactly what they wanted.

I do not have to debate with the National Committee on Monetary Policy. I urged them to debate with me when I was acting as chairman of the Sound Money League in New York, and I was unable to get any response from them to appoint a champion on their behalf and debate this matter in public. They cannot stand debate, because they are fundamentally wrong, and they are attempting to use personal prestige and the prestige of the universities of this country as a means of controlling public opinion. It is time for them to appear and present the reasons which influence them, and present them where they can be subject to cross-examination. You will remember that Professor Spahr appeared before this committee, and you will remember the cross-examination to which he was subjected and the impression that he made upon this committee.

Mr. GOLDSBOROUGH. He is their bellwether, you know.

Mr. GIFFORD. Are there any honest men?

Mr. OWEN. Pardon?

Mr. GIFFORD. Have we doubts about everyone else but ourselves? It is possible that that indictment of yours can be that broad, so who is there left?

Mr. OWEN. I could not quite hear the gentleman's statement.

Mr. GIFFORD. Is there anybody left who is sincere and honest? That is such a broad indictment that I begin to fear that there is no one left but ourselves.

For instance, you referred to the 160 names on this paper here.

Mr. OWEN. I thought that there were 90, but I am commenting upon the argument which they made and upon the connections which they have. I am not impugning the individual honesty of any one of them, but I have a right to point out what their affiliations are in connection with their testimony.

Mr. GIFFORD. Harvard now boasts of their absolute freedom of expression, and it certainly is turning out some people who may be classed as Bolshevists, and who have a viewpoint absolutely contrary to the viewpoints of people of wealth.

Mr. OWEN. I will make the observation that I was referring to individuals who signed this round robin, and I was not referring to Harvard College nor to other colleges, which are of the greatest importance in this country, to which we are deeply indebted, and for which I have the highest honor and respect, and I have said nothing that should be interpreted as any desire or wish on my part, or purpose, or will, to discredit any of the great universities. For them I have the highest admiration and respect.

But when an economist is controlled by the economic views that were current 100 years ago, and does not accept modern conditions which have been entirely changed since these old textbooks were written, when we have gone into a period where currency only transacts 5 percent of our business, and where check money transacts 95 percent of our business, and they ignore that, I have a right to point it out, and I have a right to criticize the individuals and I do criticize their view on this matter without impugning personal honesty, and without setting up for myself any standard of superiority to any other honest man.

Mr. PATMAN. I think the committee appreciates your views, Senator Owen. As one member of the committee, I do.

Mr. OWEN. I feel abundantly able to defend myself.

Mr. GIFFORD. I am not going to sit here and listen to blanket indictments——

Mr. OWEN. There has been no blanket indictment. I indict their views as untrustworthy, misleading, and unintelligent. I am opposed to the advice that they give, for reasons which I have submitted to this committee.

Mr. PATMAN. Do the people who have charge of these large endownment funds have anything to do with the selection of these professors?

Mr. OWEN. Oh, I don't know, and I don't wish to go into that. I have said all that I wish to say with regard to that. I regret very much indeed that I was allowed to be led off to make such a comment, because I avoid always as far as I possibly can, severe criticism, of anybody else, knowing my own frailty.

Mr. GOLDSBOROUGH. Senator Owen, when Professor Spahr was here about 2 years ago, he said openly more than once before this committee that this economic group to which he belonged knew all about the subject. That was his statement before this committee, that they were the final, absolute authority.

Mr. MCKEOUGH. He admitted it; did he?

Mr. PATMAN. Or confessed it.

Mr. REILLY. That is not an unusual position for groups to take.

Mr. GOLDSBOROUGH. Some of them are a little more modest in expressing it openly than he was.

Mr. REILLY. I want to ask the Senator a question.

Mr. OWEN. All right. I am ready for questions.

Mr. REILLY. You had a conference with Mr. Hoover in the spring of 1929, when you saw the panic coming?

Mr. OWEN. Yes, sir.

Mr. REILLY. And he did nothing, when you urged him to do something?

Mr. OWEN. Well, he thought that if he attempted to use his power with the Federal Reserve Board, he would be charged with political interference with the Board, and I said to him that he was charged with the duty of seeing that the law is faithfully executed, and if the panic turned out badly, he would he held responsible for it and the party which he headed would be held responsible for it, and I asked him to give this matter express study. I was not attempting to tell him the final solution, but was only giving him a warning of what I thought was going to happen, and as to how he could correct it when it did happen, because I knew how it had been treated in Great Britain and I thought he could do the same thing by quickly expanding credits in case of a violent contraction of credit. But I had to be content with giving him counsel, and I gave a copy of the memorandum that I had given to Mr. Hoover to the chairman of this committee some years ago, just for historical curiosity and that is all. I was not making any political point about it, because I was only trying to help Hoover and to help the country, and I did not succeed, but I referred to it the other day in my testimony——

Mr. REILLY. What would you have done at that time, if you had been President of the United States?

Mr. OWEN. The first thing that I would have done would have been to stop the Federal Reserve Board from raising the rate of interest to the businessmen of this country to a point where they could not get any help or relief from the Federal Reserve banks in the way of credit. When they raised the rate to 6 percent, it meant that the ordinary bank would have to charge 7.30 percent at least, in order to lend money without loss. That meant cutting off the businessmen of this country, who were engaged in production, transportation, and in commerce, of the facilities of the money supply.

I protested against it, and I asked the Reserve Board to permit me to appear before them and argue it, and they refused.

Mr. REILLY. In other words, your judgment is that the Federal Reserve Board, in trying to control Wall Street, hamstrung the manufacturing and other interests of the country?

Mr. OWEN. They were apparently under the impression that raising the rate of interest would stop speculation in Wall Street, and I answered that by showing them the researches which had been made by Harding and Owens of the Brookings Institute, which demonstrated in six major and six minor bull-and-bear movements that raising the rate of interest did not stop speculation in Wall Street and did not end the depression when it took place, did not cause a prompt restoration when it took place of normal conditions, and that book is a valuable contribution, and that book I called to their attention, and I called it to Mr. Hoover's attention in that memorandum.

Mr. REILLY. So that, Senator, all that was necessary at that time, in your judgment, was to have the Federal Reserve Board lower interest rates to businessmen?

Mr. OWEN. It is my opinion that at that time they should have lowered the rate to the people who were transacting the business of this country, and that they should have cut down the interest rate on call loans in New York, that they should not have allowed the high call rate in New York to take the money away from every little bank in this country and thereby starve the people at home of the money that they needed to transact the business of the country, in order to make a profit out of it by a high call rate in New York.

Mr. GOLDSBOROUGH. Is it not a fact that since England went off of the gold standard in 1931, not only the Bank of England, but every one of the Big Five, as they are called over there, have been able to maintain a rate of 2 percent per annum, which has been very greatly in the interest of the people of Great Britain?

Mr. OWEN. That is so reported in the report of Sir Reginald McKenna to the stockholders of the Midland Bank, a copy of which I presented in my testimony on the 4th of March. It has been 2 percent now for a little over 5 years, without a change, and to the great benefit of the industry and the commerce of Great Britain.

That is the report, as I said, make by Sir Reginald McKenna, former Chancellor of the British Exchequer, a man who for 25 years has had a controlling hand in the affairs of the Midland Bank, one of the greatest banks in the world, having 3,000 branches and over two billion in deposits.

Mr. REILLY. The panic having begun, and prices having begun to fall, what would you have done if you had been President at that time?

Mr. OWEN. Immediately expanded credit.

Mr. REILLY. How would you have done it?

Mr. OWENS. Buy bonds.

Mr. REILLY. How many?

Mr. OWEN. To the extent necessary.

Mr. REILLY. What do you think would have been the extent of the purchases which would have been necessary?

Mr. OWEN. I should think four or five billions, probably, because then the money which was running into hiding would turn around and come out, and not be hoarded in demand bank deposits, but would then have been invested in property.

Mr. REILLY. Mr. Hoover bought some bonds, didn't he?

Mr. OWEN. I do not know.

Mr. REILLY. Yes; he bought several hundred million.

Mr. GOLDSBOROUGH. He bought them until the agitation was over. Upon the passage of the Goldsborough bill, he stopped.

Mr. REILLY. He bought them, and they found out in New York that the money went back to the banks.

Mr. GOLDSBOROUGH. That is exactly what happened, that they began to buy bonds for the purpose of trying to forestall the passage of the Goldsborough bill in 1932, and as soon as Senator Glass was able to block it in the Senate, they stopped.

Mr. OWEN. Let me——

Mr. REILLY. I am not dealing with the reason.

Mr. GOLDSBOROUGH. That is what happened.

Mr. REILLY. I am dealing with the result. They bought several hundred million dollars worth of bonds, but it did not have any effect at all and the money found its way back to the banks.

Mr. GOLDSBOROUGH. They bought at the rate of $50,000,000 a week. It did not mean anything. It was not intended to mean anything.

Mr. OWEN. May I answer Mr. Reilly?

Mr. GOLDSBOROUGH. Proceed, Senator. Excuse me.

Mr. OWEN. Mr. Reilly——

Mr. REILLY. What in your opinion——

Mr. OWEN. Pardon me; let me answer.

If you will examine the record, you will find that while the Reserve banks bought bonds under the demand of Mr. Hoover, they sold other credits correspondingly and betrayed Mr. Hoover's desire for expansion.

Look at the record.

Mr. REILLY. I take it that they had to sell bonds to get money to run the Government, so that they had to buy bonds and they sold bonds at the same time.

Mr. OWEN. If you will examine the record, you will find what I stated to be true, that they did not expand credit.

Mr. REILLY. I am not asking these questions in criticism. I want information.

Mr. OWEN. I am giving you information. I am calling your attention to the record as shown by the weekly bulletin of the Federal Reserve banks.

Mr. REILLY. It is your judgment that if you had issued about $4,000,000,000 of new money, it would have cured the situation?

Mr. OWEN. I would have bought bonds.

Mr. REILLY. I mean putting the money out.

Mr. OWEN. That creates the money.

Mr. REILLY. You would have to get new money to buy the bonds.

Mr. OWEN. Not at all.

Mr. REILLY. Where would you get it?

Mr. OWEN. Create it.

Mr. REILLY. That is new money, isn't it?

Mr. OWEN. Yes, but you create it. You do not borrow it.

Mr. REILLY. I did not say borrow it. You would put the printing presses to work, to print Federal Reserve notes to buy bonds?

Mr. OWEN. No.

Mr. REILLY. What would you do?
Mr. OWEN. Buy them on credit.
Mr. REILLY. You would have to give the man something when you bought his bonds.
Mr. OWEN. You would give him credit.
Mr. REILLY. If you bought $10,000 of bonds from me, would you not have to give me $10,000 in money?
Mr. OWEN. No.
Mr. REILLY. What would you give me?
Mr. OWEN. Credit.
Mr. REILLY. The fact of the matter is that they did issue the money for those bonds when they bought them.
Mr. OWEN. You state that to be a fact.
Mr. REILLY. I said it, that the Government did issue Treasury notes or Federal Reserve notes to buy these bonds.
Mr. OWEN. In my opinion, they bought them with credit only.
Mr. REILLY. But that credit won't last. The bonds are used up after a while, aren't they?
Mr. OWEN. No. They are put into a vault of the Federal Reserve bank against the credit which they emit.
Mr. REILLY. It is your contention that the Government could go on buying billions of bonds without issuing any new money?
Mr. OWEN. You have not got to issue currency when you create this credit, because the credit functions as money.
Mr. REILLY. What do you give the people when you buy their bonds?
Mr. OWEN. When you buy the bonds from the public through the Federal Reserve banks, you buy those bonds with credit.
Mr. REILLY. All right. Now——
Mr. OWEN. Wait just a minute. That is identically the thing which is done by the Chase National Bank when it buys Government bonds. They do not pay for them in paper money, in currency. They pay for them with a cash credit on the books of the Chase National Bank, subject to check, and that is all they pay for them with. It is with credit, a credit entered on one side as a liability against the bonds and on the other side as an asset in the bank.
Mr. REILLY. All right, Senator. Then, if you put out 4 billion dollars of bonds, would any more currency go out into the world?
Mr. OWEN. No, sir.
Mr. REILLY. Not at all?
Mr. OWEN. Not necessarily. If you wanted it, you could get it.
Mr. REILLY. You put money out because of the quantitative theory of money, don't you, and raise the price level?
Mr. OWEN. Do not confound currency with money.
Mr. REILLY. Currency acts as money, doesn't it?
Mr. OWEN. Yes, it does, but that is not the only thing. Credit acts as money.
Mr. REILLY. Let us get clear on this thing: If you were President now, and wanted to issue money, you would go out and buy bonds, would you?
Mr. OWEN. Yes.
Mr. REILLY. And there would not be any great amount of money or currency go into circulation at all?
Mr. OWEN. No, not unless the people wanted it.
Mr. REILLY. And that would automatically bring prices down?

Mr. OWEN. No. Bring prices up.

Mr. REILLY. What is the cause of this panic?

Mr. OWEN. The cause of this panic is the hoarding of demand bank deposits, chiefly.

Mr. REILLY. What do you mean by hoarding?

Mr. OWEN. Using the money unemployed, and holding it as a storage of value for the purpose of buying United States Steel stock back when it goes down to the bottom. That is what I mean.

Mr. REILLY. I have talked to quite a few bankers, and they are perfectly willing to lend any amount of this hoarded money that they have on deposit.

Mr. OWEN. They cannot lend this hoarded money that does not belong to them. It belongs to the depositors in the banks.

Mr. REILLY. Do you mean to say that a bank cannot loan depositors' money?

Mr. OWEN. I am sure that a hoarded bank deposit belongs to the man who owns the deposit, and not to the bank.

Mr. REILLY. But he puts it in the bank for the purpose of letting the bank use it.

Mr. OWEN. No.

Mr. REILLY. Does he put it in there as a cold storage proposition?

Mr. OWEN. Yes.

Mr. REILLY. What would you do now if you were in President Roosevelt's position, to relieve the conditions of panic?

Mr. OWEN. I would direct the Reserve banks to buy bonds until the hoarded deposits went back into action and bought property.

Mr. REILLY. You will admit that that is a theory that not very many authorities on money and finance agree with.

Mr. OWEN. I have asserted before this committee, and made it plain, I thought, that those who think in terms of money as being currency only confound their own thinking and confound the thinking of the public, because they ignore the fact that credit in the bank subject to check is money, and because it is money, it must be dealt with as if it were money. The term "money" means anything having a conventional use and employed as a medium of exchange and measure of value. Money is only a medium of exchange when used as currency or credit, when it is in circulation. When it is used as a means of hoarding, the currency can be locked up in a tin box or hoarded in a vault in Kentucky, as gold, and credit can be hoarded by being left in the bank unemployed, waiting for a convenient occasion to buy United States Steel stock at 50.

Mr. MCKEOUGH. Mr. Reilly, will you yield right there, please?

Mr. REILLY. Yes.

Mr. MCKEOUGH. Senator, is it your opinion that those who control the now frozen demand deposits can by reason of the present policies of government keep them frozen, even though the Government may, as did Mr. Hoover, at least gesture in that direction to unfreeze those demand deposits?

If I have not made my point clear——

Mr. OWEN. You involve several different questions, and you bring in Mr. Hoover. I wish that you would take just one plain question, and let me answer that.

Mr. MCKEOUGH. Let me ask you this—and may I introduce this question by this statement, that I share your view entirely—but what I am getting at is, how can we unfreeze by governmental action the now frozen demand deposits?

Mr. OWEN. A most excellent question, which I welcome.

Mr. McKEOUGH. I——

Mr. OWEN. Let me answer it, please.

How shall we unfreeze these hoarded demand bank deposits that have destroyed the money of the country? Is that the question?

Mr. McKEOUGH. Exactly. That is the question.

Mr. OWEN. Here is the answer: The reason that they hoard money is because they know that the money or believe that the money is going to rise in purchasing power in terms of stocks——

Mr. McKEOUGH. And other property?

Mr. OWEN. Wait a minute, please. That is the reason. They hold the money because they think that that money is going to rise in value. That is why they hold it, but when you have the Government buying bonds and increasing the money supply, they know that money is going to fall in value in terms of stocks and in terms of other forms of property, and, therefore, having the profit motive, they will invest that money in stock or real estate or property of some kind rather than hold it where it is going to lose its value.

Mr. McKEOUGH. Senator, thank you for that answer I share that view absolutely.

Mr. OWEN. That is the way to unfreeze the frozen demand bank deposits, and what this committee needs to do is to lay down a mandate providing a method and giving instructions to the executive officers of the United States to pursue that policy of stabilizing the purchasing power of money, so that men will not sell their stocks and property in order to get money for the purpose of having the money increase in value through a panic. They can create a panic without deliberately intending to do it.

My opinion is that those who have sold their securities have been absolutely within their rights. I do not criticize them a particle. I do not charge them with any intent to create a panic. I only charge them with having done what their sagacious advisers suggested to them to do, that they had better sell their stocks, because stocks would probably go down in market price and they would be able, with that money, to buy back the same stocks at a profit. That advice was sound economically and financially, and has proven to be so, and I am not disposed to criticize them or to impugn their motives. I think that they were within their rights.

Mr. McKEOUGH. I think that you are very charitable.

Mr. OWEN. No, no; just.

Mr. McKEOUGH. I am not willing to be that charitable.

Mr. OWEN. It is merely being just to other men.

Mr. McKEOUGH. You say that when these sagacious gentlemen know that the prices of stocks, based on the value of money, are too high, and that it is time to sell, by reason of their ability to sell in large volume, they can bring the price structure down on the New York Stock Exchange?

Mr. OWEN. That naturally obtains, when that advice is taken.

Mr. McKEOUGH. Right. Having done that, it is obvious that the price level of the Stock Exchange has to fall.

Mr. OWEN. Yes.

Mr. McKEOUGH. Then, when in the judgment of the sagacious gentlemen to whom you have referred, I will say, in charity, it is felt that the prices have been reduced to a level that, in the judgment of those sagacious gentlemen, represents a good buying point based on money values converted into stock prices, they buy the stocks?

Mr. OWEN. Yes; or buy real estate or other things.

Mr. McKEOUGH. What I would like to have from you is this: What would you suggest that the Congress now do to better control that operation, with its resultant ups and downs in industrial activity, other than to adopt the provisions of the Patman bill, with such amendments as are necessary to insure, at least to a small degree, control of that activity on the part of these so-called sagacious gentlemen, and I share your view that they are sagacious?

Mr. OWEN. I think that all that is necessary to be done is to have a mandate drawn in such a manner as to completely meet the need which has been pointed out, that the members of the Reserve Board should be required to give some assurance to the Congress that they believe in the policy of Congress, and that they will undertake to carry it out. I think that they should take an obligation to do that, or else they should get off the Federal Reserve Board, and I think the law should require them to get off unless they are in sympathy with Congress.

Mr. McKEOUGH. Senator——

Mr. OWEN. There is one thing in connection with that form of a mandate, and that is that the taking over of the Reserve banks will have the effect of making that agency free from the interference of those who have a different point of view and who follow the point of view of the distinguished gentlemen who sent out their circular letter this morning, 160 of them, or whatever the number was——

Mr. PATMAN. Ninety of them.

Mr. OWEN. One hundred and ninety? It would not make any difference if there were 190,000 of them.

Mr. PATMAN. Just 90 of them.

Mr. McKEOUGH. May I finish this line of questioning?

I take it, then, Senator, from your contributions and observations, that if such action as you now suggest were taken, the present slump in industrial activity would immediately shift into a beginning of activity?

Mr. OWEN. This depression could be ended inside of 30 days, absolutely. Of that I have not the slightest doubt.

Mr. McKEOUGH. I share your conclusion.

Mr. OWEN. I have not the slightest doubt. Other countries have demonstrated it. We have demonstrated it in our own experience in the instance that I have cited to you, where Theodore Roosevelt stopped the panic of 1907 with $100,000,000 of clearing-house certificates, where we stopped the panic of 1914 with $300,000,000 of cash, where we abated and prevented a collapse in 1933 by issuing two thousand millions of Federal Reserve notes.

We have the power. The responsibility under the Constitution of the United States to create money and regulate the value of it is on this committee and is on the Congress of the United States, and I come here merely as a citizen of the United States deeply concerned in the welfare of the little people of this country, who have served me all my life, who when I came into the world as a tender child received me and fed me and clothed me and sheltered me, and if I should desert them now I would regard myself as a traitor.

Mr. Chairman and gentlemen of the committee, I have finished.

Mr. Ford. Might I ask just one question with respect to the situation in England regarding the low interest rate?

Is it a fair observation to say that the low interest rate granted in England by the banking facilities at the instigation of the exchequer is in a measure a sort of a subsidy to their industries, because England happens to be an exporting nation, and with a low interest rate they can produce goods cheaper and therefore sell them in the world markets cheaper?

Is that a fair observation?

Mr. Owen. I think so, but I think Abraham Lincoln's observation is still fairer when he said that the power to create money is the greatest creative opportunity of the Government of the United States.

Mr. Ford. Pardon me, but I think that is a little aside from my observation. But there is another thing that I would like to ask you a question about. It has been pointed out by you and other witnesses who have come before the committee that Britain has been prosperous for the last couple of years, and I am wondering whether the tremendous naval program that Britain inaugurated about 2 years ago has anything to do with that, and if that is not something special to England and not comparable to or attributable to any situation existing in the United States?

Mr. Owen. It employed a certain additional number of men in naval construction who otherwise might have been idle. Britain has been prosperous for over 5 years.

Mr. Ford. It is a factor?

Mr. Owen. Yes.

Mr. Transue. Senator Owen, I would like to ask you a few questions, and one is this, about the buying of bonds that you have described. The mechanics of that are not clear in my mind. What is necessary to be done to start things going again? You say the buying of bonds, and I would like to have you go over that again for me, have you describe the operation for me a little more in detail.

Mr. Owen. The Federal Reserve banks, in buying bonds, buy them through member banks, and when a citizen wishes to sell bonds that he has, this is what happens: Supposing that a citizen has $10,000 of Government bonds that he wishes to sell to the Government. He would take them to the Riggs Bank in Washington and say, "I have $10,000 of these bonds which I wish to sell to the Reserve bank at Richmond; please sell them for me and credit my account with the proceeds." Thereupon he gets a deposit account with the Riggs Bank to the value of the bonds, subject to his check. The Riggs Bank transmits the bonds to the Federal Reserve bank at Richmond, and the bank at Richmond credits the Riggs Bank on its books with the value of the bonds, and then places the bonds in its vaults as a security, as an asset against the liability of the additional bank deposit, subject to the check of the Riggs Bank.

That is the transaction, and if you multiply it a million times, you do not change it.

Mr. Transue. Now, does that affect unemployment? How does that relieve unemployment?

Mr. Owen. It relieves unemployment in this manner, as it has been demonstrated by the table to which I referred in my previous remarks, and with your consent I will now put that in as an exhibit to this evidence, if you wish it done.

Mr. Goldsborough. Without objection, it may be done.

(The table referred to is as follows:)

Prices	Employment	Pay roll
1920:		
154.4	114.9	117.2
153.9	113.7	115.5
156.0	116.0	123.7
161.9	114.5	120.9
165.0	112.0	122.4
160.7	111.1	124.2
159.4	108.5	119.3
153.9	108.8	121.6
150.0	107.5	119.8
140.6	103.7	115.8
130.0	97.4	107.0
118.7	89.7	98.0
1921:		
112.4	81.0	82.8
106.0	82.6	81.3
102.9	83.2	81.7
99.0	82.1	79.0
96.3	81.9	77.3
93.8	81.0	75.4
93.3	79.8	71.7
93.8	81.2	73.9
93.8	83.4	73.4
93.8	84.1	72.6
93.2	84.2	71.7
92.6	83.3	73.3
1922:		
91.6	82.5	69.6
93.6	84.6	72.4
95.5	85.9	74.9
95.6	85.8	73.8
98.8	87.9	77.2
99.0	89.8	80.5
102.5	88.2	78.5
102.6	91.4	83.0
101.2	94.5	87.0
102.0	97.0	89.5
103.0	99.0	93.4
10.34	100.5	95.7
1923:		
103.1	100.7	94.6
103.8	102.5	97.9
105.0	104.6	102.5
105.0	105.0	103.8
103.5	105.3	107.3
101.7	106.0	107.5
99.8	104.9	103.3
99.4	105.2	103.8
101.8	105.7	104.3
101.4	104.5	106.6
100.7	103.2	104.5
100.0	101.4	102.9
1924:		
100.0	100.2	98.8
100.5	101.5	104.1
99.3	101.7	104.1
98.3	99.9	101.8
97.3	96.8	97.5
95.7	93.8	92.4
97.3	91.0	85.7
99.1	92.1	89.3
98.5	94.4	92.5
100.6	95.3	95.1
101.1	94.8	93.7
103.9	96.1	97.6
1925:		
106.0	96.3	95.4
106.4	98.1	100.8
106.6	98.8	102.4
103.4	98.7	100.0
102.6	98.1	100.7
104.2	98.0	98.7
106.3	97.8	96.8
106.5	99.5	99.3
105.8	101.5	98.8
104.3	102.2	104.6
104.4	101.8	104.6
103.4	101.5	105.2
1926:		
103.2	100.5	100.9
102.5	101.5	105.0
100.5	102.1	106.5
100.0	101.4	104.4
100.5	100.4	103.1
100.8	100.3	103.3
99.7	99.4	99.0
98.7	101.4	103.4
99.6	103.4	104.4
99.1	103.1	107.6
98.0	101.4	104.1
97.4	100.0	103.5
1927:		
96.6	98.2	98.4
95.9	99.7	104.4
94.5	100.2	105.7
93.7	99.6	104.5
93.7	99.1	104.0
93.8	99.1	102.4
94.1	98.1	98.5
95.2	99.3	101.9
96.5	100.5	101.4
97.0	99.6	102.1
96.7	97.4	98.5
96.8	96.1	99.5
1928:		
96.3	95.0	96.0
96.4	96.5	101.2
96.0	97.6	102.5
97.4	97.1	100.5
98.6	97.0	101.3
97.6	97.8	101.7
98.3	97.7	99.0
98.9	100.1	103.3
100.1	102.2	104.7
97.8	102.6	108.2
96.7	101.7	105.0
96.7	101.2	105.6
1929:		
97.2	100.8	102.3
96.7	102.9	109.3
97.5	104.1	111.6
96.8	105.3	112.6
95.8	105.3	112.9
96.4	105.6	111.2
98.0	106.1	107.2
97.7	107.9	112.0
97.5	109.0	112.9
96.3	107.7	112.4
94.4	103.6	104.1
94.2	99.8	100.7
1930:		
92.5	97.3	95.9
91.4	97.3	98.8
90.2	96.9	98.8
90.0	96.3	97.7
88.8	94.8	95.4
86.8	92.9	92.3
84.4	89.5	84.3
84.3	88.8	83.3
84.4	89.6	84.1
83.0	87.7	82.2
91.3	84.6	76.8
79.6	82.3	75.2
1931:		
78.2	79.6	70.0
76.8	80.3	74.3
76.0	80.7	75.6
78.4	80.7	74.4
73.2	80.1	73.4
72.1	78.4	69.7
72.0	77.0	66.2
72.1	77.1	65.9
71.2	77.4	63.4
70.3	74.4	61.3
70.2	71.8	58.1
68.6	71.0	57.6

Prices	Employment	Pay roll
1932:		
67.3	68.7	53.5
66.3	69.5	54.6
66.0	68.4	53.1
65.5	66.1	49.5
64.4	63.4	46.8
63.9	61.2	43.4
64.5	58.9	39.8
65.2	60.1	40.6
65.3	63.3	42.9
64.4	64.4	44.7
63.9	63.4	42.9
62.6	62.1	41.5
1933:		
62.0	60.2	39.5
59.8	61.1	40.2
60.2	58.8	37.1
60.4	59.9	38.8
62.7	62.6	42.7
65.0	66.9	47.2
68.9	71.5	50.8
69.5	76.4	56.8
70.8	80.0	59.1
71.2	79.6	59.4
71.1	76.2	55.5
70.8	74.4	54.5
1934:		
72.2	73.3	54.0
73.6	77.7	60.6
73.7	80.8	64.8
73.3	82.3	67.3
73.7	82.4	67.1
74.6	81.1	64.9
74.8	78.6	60.4
76.4	79.4	62.3
77.6	75.8	59.1
76.5	78.4	61.0
76.5	76.8	59.5
76.9	78.1	63.2
1935:		
78.8	78.6	64.1
79.5	81.2	69.1
79.4	82.4	70.8
80.1	82.4	70.7
80.2	81.1	68.5
79.8	79.7	66.5
79.4	79.5	65.3
80.5	------	------
80.7	83.5	72.1
80.5	85.3	75.1
80.6	84.8	74.5
80.9	84.6	72.2
1936:		
80.6	83.1	72.2
80.6	83.2	72.3
79.6	84.2	75.7

Mr. Owen. You will observe that just in degree as the all-commodity index rises, factory employment and factory wages also increase, and invariably employment and wages go up with a rising index and go down with a falling index. The all-commodity index merely reflects the quantity of money in circulation in the purchase of 784 commodities annually or monthly.

Mr. Transue. Senator, will you tell me why that is so?

Mr. Owen. That is so because the all-commodity index represents a standard. Taking 1926 as a standard, it took 54.7 billions of dollars of money to buy all the commodities made in the United States by labor, sold through the wholesale markets. That was taken as the standard, 100. It was 100 representing the all-commodity index; it was 100 representing the purchasing power of money, and it took 54.7 billions of dollars to buy all the products sold through the wholesale-commodity markets of the United States for the year 1926.

It was assumed that if in the next year the people produced the same substantial amount of products, and that is a reasonable estimate to make, that it would take the same amount of money, but if you increased that money without increasing the commodities, you would cheapen the money and the commodities would go up. If you contracted the money, the commodities would go down in exchange for money, and if you cut that money down to one-half it would go down to one-half, as it was in 1932, when we had contracted our money supply and our demand bank deposits by nearly half and the commodity index went down to about 60, and when——

Mr. Transue. Senator——.

Mr. Owen. All right.

Mr. Transue. It seems to me that this money must go out into the hands of consumers to buy consumers' goods in order to raise the commodity index. Just how does the buying of bonds and the consequent getting of credit in the hands of individuals who are now hoarding do that?

Mr. OWEN. Money flows like water to the ends of the country seeking profit, and when you increase the money supply, that money seeking profit will flow into all sorts of operations where the property is exchanging hands from one set of people to another set of people. That is just like the case that Mr. Cameron, Ford's manager, referred to some time ago in his radio address, when he was making a review of the $270,000,000 that they paid out, and he said that he found it went to over 6,000 different manufacturing and distributing concerns in 46 States, going out from the city of Detroit. The same thing takes place everywhere, and you need not concern yourself with exactly the detail as to how money finds its way into the hands of the individual citizen. It does do it, and when you raise employment, you then give to each individual who is employed the power to buy, because he will be getting his wages or salary and will be able to buy things with those wages and salaries received, and when you observe systematically through the years, month by month, that employment rises and falls with the all-commodity index, and that the all-commodity index rises and falls with the supply of money, you have the problem that employment and wages rise and fall with the volume of money.

Now, if you go beyond the point where you have all the people who are willing to work and able to work employed, you cannot profitably expand money beyond that point. If you do, you would then be guilty of inflation, which is a harmful experience, almost as harmful as the violent contraction of credit which throws people out of employment.

Mr. TRANSUE. Senator, there are now vast sums of idle funds in the banks—is that correct or not?

Mr. OWEN. Yes.

Mr. TRANSUE. Why are those funds not used in private enterprise to give employment?

Mr. OWEN. I explained that a few minutes ago by saying that when you made it profitable for such deposits to be invested in property such as real estate, such as commodity values, such as in various enterprises that might be engaged in, such as in the buying of stocks and bonds in the stock market, when they know that the value of money is not going to increase by hoarding, they will then have the profit motive to induce them to employ that money in exchange for property which other citizens have.

Mr. TRANSUE. Then the process that you describe is known as managing our currency? Is that right?

Mr. OWEN. Some people use the words "managed currency."

Mr. TRANSUE. All right. As you understand——

Mr. OWEN. I do not approve of the use of the words "managed currency." I prefer to use the terms of the Constitution of the United States, which will be the regulation of the value of money, a duty which is imposed upon the Congress.

Mr. TRANSUE. In England, are they regulating the value of their money at the present time?

Mr. OWEN. Yes.

Mr. TRANSUE. Are the authorities in the United States, with the power that is vested in them, regulating the value of our money at the present time?

Mr. OWEN. Most emphatically not. Everything else but that.

Mr. TRANSUE. Then, and I am probably going over old ground here, but I would like to have you state to me and to the committee what it is necessary for us to do to regulate the value of money or to regulate our currency and thus increase employment and relieve this depression.

Mr. OWEN. Finish the perfecting of the Federal Reserve Act by adding to the law as it now is the authority in the Reserve Board to do the things you instruct them to do. Then instruct them in a manner that cannot be misunderstood, and require them to come before the Clerk of the House of Representatives and take an oath that they will obey your law.

Mr. TRANSUE. Senator, have they the power to do the things you would require them to do at the present time?

Mr. OWEN. They could if they had the will, in my opinion, to do it, but they can also plead an alibi, and I would not leave them any alibi to plead.

Mr. SPENCE. You are in favor of charging the agencies of Government with administrative instead of with legislative duties? Isn't that true?

Mr. OWEN. Why, certainly. I do not think that Congress has any right, constitutionally speaking, to vest vast powers in the Federal Reserve Board without any instruction to the Federal Reserve Board how to use those powers, which is in effect leaving the legislative function in the hands of persons you do not know.

Mr. SPENCE. I have always thought that, that it was an abandoning of our duty and a delegation of legislative power.

Mr. OWEN. I read a speech that you once delivered that I thought was absolutely conclusive on that point.

Mr. SPENCE. As a practical matter, how would you draft that mandate so that you would only delegate administrative powers?

Mr. OWEN. I would lay down the policy, the objectives, the manner in which the objectives could be achieved, and I would direct the Board to carry out that policy according to the methods laid down in the law for achieving those objectives, and I would require them to take an oath that they would obey the law.

Mr. SPENCE. The Board ought to have some discretion as to how the objectives would be attained, don't you think?

Mr. OWEN. Not outside of the instruction of Congress; within the instruction, yes, but they should not have the power to legislate on this vital matter. This is the most important power that can be exercised by mortal man. Upon it hinges life and death in this country. Upon this issue bolshevism was born in Russia. It was when the Romanoff family accumulated 60 billions of property and did not know how to use their power that finally their people overthrew them.

I want to see the capitalist system preserved in this country, and I am doing my utmost to preserve the capitalist system now, without apology for it, either.

Mr. TRANSUE. Will you yield, Mr. Spence?

Mr. SPENCE. Yes.

Mr. TRANSUE. In your testimony the other day, you spoke of using the credit of the country in production, for productive use.

Mr. OWEN. Yes.

Mr. TRANSUE. What use of credit or money would you eliminate when you made your prescription?

Mr. OWEN. I was eliminating the expansion of credit through the agencies of the United States for the purpose of speculation or gambling, either in stock-exchange values or in real estate or in any other well-known means of gambling. As I told the committee on March 4, when I first came into the Congress on the 25th of February 1908, I introduced a bill forbidding the banks to lend money for the purpose of speculating in stocks on the stock exchanges.

Mr. TRANSUE. How would you do that? How would you prohibit them from lending money for that purpose?

Mr. OWEN. I would prohibit it by law. They are within the control of Congress, and not only are the national banks within the control of Congress, receiving their charters from the Congress of the United States, but under the decision of the Supreme Court in the *Associated Press case*, all banks transacting an interstate business are within the authority of Congress in relation to the question of money and the creation of money by the member banks or by banks that are not members.

Mr. TRANSUE. Is it always clear what is speculation and what is production?

Mr. OWEN. I think it is clear enough, but I think that at present, with the important amendments which have been provided, you won't have to be troubled with that question. You will practically solve the question of stability in this country when you stabilize the purchasing power of money, because when you stabilize the purchasing power of money the opportunities for creating a boom and for creating a depression will cease, and therefore the gambling which is based upon the expansion or boom or the contraction or depression will be absent.

Mr. TRANSUE. But then, Senator Owen, to describe the 1929 situation, the credit and money of this country was being to a great extent used for a speculative purpose, and the values of stocks on the stock exchange had little bearing on their actual investment values.

Mr. OWEN. Yes, that is true; the stocks had been skyrocketed in market prices to such a point that many of them would not pay any interest on the amount invested in the purchase of the stocks.

Mr. TRANSUE. And that money, under your theory, should have been permitted to be used by persons using their credit for production or investment, instead of——

Mr. OWEN. The available credits of the country should be employed in production, transportation, merchandising, in the vital affairs of life, not in gambling and speculation. Those who have idle money, who want to speculate and to buy stocks, hoping that they will rise for other reasons than booms and depressions, would still be at complete liberty and ought to be at complete liberty to do so, and I think there ought to be a free market; I think the stock exchange of New York is a very valuable agency, and for which I have the highest respect.

Mr. TRANSUE. But not in jeopardizing values?

Mr. OWEN. But the buying and selling of stocks should depend upon the excellence of management, upon faith in the capacity of the corporation and its opportunity to earn money by creating values, and the buying and selling of stocks on that basis is altogether commendable. There is no reason to criticize that. It is only where men are gambling in a true sense that I think the public power should not be used in supporting such a process.

Mr. MEEKS. Are you through?

Mr. TRANSUE. Yes.

Mr. MEEKS. Senator Owen, I would like to ask a question or two. Part of the time I have not attended the hearings, I regret to say.

My first question is, Have you explained here about the ownership of the Bank of England and its functions? If you have, I will get it out of the record. I do not ask you to repeat.

Mr. OWEN. I have been fully occupied with the affairs of the United States. I have not had any opportunity of going into the Bank of England. What I did do was to put into the record a report by Sir Reginald McKenna, former Chancellor of the British Exchequer, who is the chairman of the board of the Midland Bank, a report to his stockholders, in which he pointed out the manner in which they had been managing credit in the last 6 years.

Mr. MEEKS. The Bank of England has been mentioned, and some of its affairs.

Mr. OWEN. Yes.

Mr. MEEKS. What I would like to ask briefly is, who owns the Bank of England?

Mr. OWEN. Private stockholders.

Mr. MEEKS. The banks are not in the owning class?

Mr. OWEN. They could, if they chose to do so, but it is all private owners, and the ownership of that stock has been refused to the public. I suppose you know that, do you not?

Mr. MEEKS. Well, I have been so informed.

Mr. OWEN. And there is a reason.

Mr. MEEKS. Will you give the reason?

Mr. OWEN. I haven't it in my command; otherwise I would answer it.

Mr. MEEKS. When you put in this report of Sir Reginald McKenna, will you go into that, please, a little?

Mr. OWEN. Sir Reginald McKenna reported that under the system existing previously to their managed currency of 6 years ago, when England went off the gold standard in September 1931, that they were suffering very severely from unemployment, and that under the new system they had increased the number of employed 2,100,000, and that they had increased the index of physical production 50 percent in the last 5 and a fraction years, and that they had furnished their business people an interest rate of 2 percent per annum which had been unbroken during that period of time, the longest time they had had an unbroken money rate in Great Britain.

Mr. MEEKS. Now, in your view, as to the proper functions of the Federal Reserve System, do their activities parallel those of the Bank of England, or are they similar to them?

Mr. OWEN. In my view the Federal Reserve Act properly amended as I have suggested would set a standard of stability in the debt-paying purchasing power of money. That would be a standard for the whole world to follow, and it would be an act so magnificent that there are hardly any persons living who could realize at this time its very important consequences of stabilizing property throughout the world, stabilizing the value of labor throughout the world, stabilizing the importance of production and consumption throughout the world, and thereby bring a peace to the whole world through giving mankind an abundance of the necessities, luxuries, enjoyment, and leisure in life.

Mr. MEEKS. You have covered the ground that I desired covered in connection with my question. I have no further questions.

Mr. OWEN. I thank you.

Mr. Chairman and gentlemen, if there be no further questions——

Mr. GOLDSBOROUGH. I think Mr. Williams wanted ask you some questions.

Mr. WILLIAMS. No; I think not.

I will ask you this, Senator, if you would care to be more specific, at least from my standpoint and my understanding of what you suggest as to what the mandate of Congress should be to the Federal Reserve Board.

Mr. OWEN. It should instruct the Federal Reserve Board to regulate the value of money in such a way as to provide, first, an amount of money sufficient to fully meet the exchange of products and services of all of the people willing to work in the United States, and when they have achieved that point, they should maintain the purchasing power of money at that point through the processes of expanding and contracting credit through reserve banks to be owned exclusively and controlled exclusively by the United States.

Mr. WILLIAMS. Would you say anything about the general level of commodity prices?

Mr. OWEN. Yes; I would regard it as desirable to take the level of 1926, because that appears to be the average of the years 1914 to 1930, and it appears to be the same average as that of the years 1921 to 1929, inclusive, and it is under the level which would be obtained by taking the lowest point of May 1920, and the highest point of the purchasing power of money of February 1933. If you took the difference between those two, it would be about 113.

Mr. WILLIAMS. From your knowledge and observation and association with the members of the Board since that institution has been established, have they ever believed that they could, by control of credit policies, fix the general commodity price level? Have we ever had a Board that believed that? I am not talking only about the present one.

Mr. OWEN. Yes; you had such a Board prior to the time when Mr. Paul Warburg records in his book on the Federal Reserve Act that he and the conservative elements got control of the Federal Reserve Board. He tells about it, and I put that in the book which I sent you; I put his words in there that you might read them so as to see exactly what happened.

Mr. WILLIAMS. Has the Bank of England, going back to that again, any fixed standard, or has it been left entirely to the judgment and discretion of the management of the bank? Have they had any legal mandate to control their action?

Mr. OWEN. No; they have only had the legal mandate that I have referred to. At present they are practically being advised by the Treasury Department of Great Britain, and they are cooperating sympathetically with it, because it is comparatively easy to achieve that end since there are only a dozen or so men who control the five great banking chain systems of Great Britain.

Mr. WILLIAMS. Am I right in reading in the Federal Reserve bulletin that they have had no greater success in Great Britain in regulating, fixing, and maintaining the commodity price level than the Federal Reserve Board has had here during the last 6 years?

Mr. OWEN. I do not know what you are reading from.

Mr. WILLIAMS. The Federal Reserve bulletin. It is my understanding from their figures that in the last 6 years the fluctuation in commodity prices in England has been as great as it has been in this country.

Mr. OWEN. It is a favorite theme of those who are opposed to the public control of money to show that commodity prices continually fluctuate, and in order to prove that they deal with the individual commodities, which of course fluctuate according to climatic conditions and other conditions, but when you speak of the all-commodity index, it is an entirely different thing——

Mr. WILLIAMS. Yes, I understand that.

Mr. OWEN (continuing). From the prices of cotton, wheat, or tobacco.

Mr. WILLIAMS. I understand that, Senator. That is not what I am talking about, and, as I understand it, that is not what they are talking about. They are taking the wholesale commodity price index, the Bureau of Labor statistics index of 784 commodities, I believe it is, and if I am mistaken about the way I read their bulletin, I would like to know it.

Mr. OWEN. I should have to read the bulletin in order to intelligently comment upon what they have been saying.

Mr. WILLIAMS. In the very last issue, this month, according to the figures that they give in their bulletin, as I understand it, the general commodity price in England during the last 6 years has fluctuated as much or more in some cases than it has in this country.

I want to call that to your attention, and if I am not correct in that, I would like to be corrected.

Mr. OWEN. I do not know what the facts are with regard to that.

Mr. WILLIAMS. If that is true, I was just wondering whether they have had any more success in controlling the price of commodities than we have.

Mr. OWEN. Their success has been demonstrated by the prosperity which is now prevalent in England, and it is a question of prosperity rather than cold figures that you might consider there.

Mr. WILLIAMS. Well, I think that that is correct, but that raises the question in my mind whether there is not something else outside of the general commodity price level involved in it.

Mr. OWEN. Yes; there is. The employment of the people of a country, and the full employment of all of the people who are able and willing to work, the maximum employment, and their being engaged in productive industry, is the great factor to be achieved regardless of the index, but the index is important because it is a standard by which maximum employment can be achieved, and when I speak of maximum employment, I do not mean to say the employment of every person in the United States, because there are some who are sick, and there are some who are blind, and there are some who would not be able to work and some who are unwilling to work; I am only referring to those who are employable and willing to work when I speak of a maximum employment.

Mr. WILLIAMS. I think that that is all for the present. I have many more questions, but it is getting late.

Mr. CRAWFORD. Will Senator Owen be back tomorrow?

Mr. OWEN. It would not be convenient for me to be here tomorrow. I will be glad to come back, if the committee should ever want me, and do anything that I can to be of service to you and of service to the country.

I hope that my intensity at times will not be misinterpreted, because I feel very strongly about this matter.

Mr. GOLDSBOROUGH. Would you care to come back on Thursday?

Mr. OWEN. I do not think that I will be able to do so. I have some private matters that require my attention.

Mr. CRAWFORD. I had several questions to ask you, but I do not want to keep the committee here now; it is 12:25. But there are two or three short ones that I will ask you, if you think you can answer them briefly.

Mr. OWEN. I will answer them with such brevity as I can.

Mr. CRAWFORD. Though I think I ought to let the committee go. When you referred to a commodity index, did you have in mind the 550 or the 784 commodities?

Mr. OWEN. Seven hundred and eighty-four is the present number. I think that that is not very material one way or the other, whether it is 500 or whether it is 784 or whether it is composed of the basic commodities. Any index that is substantial would serve the purpose.

But the real thing which I desire is to have maximum production, and the real thing desired is stability in the medium of exchange so as to stop all merchandising in the medium of exchange which takes the form of speculative manias and which have been so harmful in interfering with the steady employment of labor.

Mr. CRAWFORD. Do you think H. R. 7230——

Mr. OWEN. I do not know these bills by number.

Mr. CRAWFORD. That is the Patman bill that is before us. Do you think that it carries provisions which give this mandate that you feel is so necessary?

Mr. OWEN. No; I do not think it does. I think that the declaration of policy, as I remember it, is not the same as a positive instruction, and I think that in dealing with this matter you will have to be very plain and very direct and give the instruction in a manner that it cannot be misinterpreted and cannot be disobeyed with impunity.

Mr. GOLDSBOROUGH. There is not any declaration of policy in the bill itself.

Mr. OWEN. No; it is only a declaration of policy.

Mr. GOLDSBOROUGH. But is there even a declaration of policy in the bill?

Mr. OWEN. But I am not advocating any particular bill. I am merely talking about fundamental principles here, and the Patman bill certainly takes over the Reserve banks, and I think that is very important, and it does declare its objectives, and I think that that can be amended so as to cover that point, but I think it is up to the committee to take this matter under the most careful scrutiny and perfect a bill that shall represent the views of the committee, and not just accept some bill that may be brought in by a member that may or may not be completely acceptable.

Mr. GOLDSBOROUGH. But the question that the Congress and the country are interested in is whether or not there is anything in the bill outside of the preamble which has any legislative force whatever, which declares a policy or expresses a direction to the Federal Reserve Board or any other body to stabilize the currency or the price level.

Mr. PATMAN. Mr. Chairman——

Mr. GOLDSBOROUGH. Wait a minute. Let Senator Owen answer that question.

Mr. OWEN. I think that what the country is interested in is in perfecting this system, and that Mr. Patman's bill, if it does not meet that objective, if it is going to be used as a basis, should be made to meet it.

I agree with what the chairman says, that a declaration of a policy in the preamble is not sufficient.

Mr. PATMAN. Mr. Chairman——

Mr. CRAWFORD. May I ask one more question there?

Mr. PATMAN. Yes.

Mr. CRAWFORD. Senator Owen, in going over your testimony, I am impressed with the statement you made with reference to either the House or the Senate having the power to emit a resolution calling for the removal of these officers who fail to carry out a mandate, if one has been provided.

Do you feel that the Patman bill carries such provisions and would enable the House and Senate to so remove such an officer?

Mr. OWEN. I do not remember anything in it that would accomplish that end.

Mr. CRAWFORD. You do feel that that is very vital and necessary?

Mr. OWEN. I think that it is very necessary and vital, and that we have proved that after 25 years. We have been relying on these gentlemen for 25 years to give us stability, and look what we have today—1921, 1929–32, 1937—how much more do you want of that?

Mr. CRAWFORD. Personally I do not want any more, but I do want to have a clear understanding of just how far you want to go with them.

Mr. OWEN. I want to go the whole way, so that the people of the United States shall have stability and peace, and that the world shall have peace, and the way to end war in the world is to have commercial stability and peace built upon wisdom and knowledge and the actual labor of the people who are willing to work and who are secure in their opportunity to work by a stabilized government and a dollar of uniform debt-paying purchasing power.

Mr. CRAWFORD. In other words, you do not feel that the appointment of these commissioners, we will call them, by the President and their confirmation by the Senate would at all suffice?

Mr. OWEN. It is not enough. They should be subject to recall by a simple resolution of no confidence, either of the House or of the Senate in my opinion. Then they would behave themselves.

Mr. CRAWFORD. And without the House or Senate having to explain?

Mr. OWEN. Yes; without any explanation whatever except that you prefer somebody else.

Mr. PATMAN. One suggestion about this price level business.

Here is a statement in opposition to the Patman bill, signed by 71 members of the Economists' National Committee on Monetary Policy, Educational Building, 70 Fifth Avenue, New York City, and the names are given. They think that this bill has a mandate in it, for the last clause in that statement says——

> Furthermore, the bill would charge this Government-owned banking agency with a responsibility for maintaining a stable average of prices which in all probability could not be fulfilled.

So they think it is in there, but the object is to put it in, and if the gentleman wants to sponsor it as he has favored heretofore, it will meet with my approval.

Mr. GOLDSBOROUGH. The interesting question is this, that this bill has been publicized throughout the country and the Members of Congress have been importuned to vote for this measure as being a very beneficial measure, and it is very necessary that the Congress and the country should understand what the measure was when it was presented to the Congress and whether or not it carries the virtues which its proponents contended it carried at the time the Congress and the country were asked to adopt it.

Mr. PATMAN. Its opponents think so, but if the proponents feel that it is not sufficient, they can quickly change it.

Mr. GOLDSBOROUGH. Anything that was put in this bill which would amount to a mandate to the Federal Reserve System to stabilize the price level would be subject to a point of order, because it is not in the nature of a perfecting amendment.

Mr. PATMAN. Let the gentleman introduce the bill.

Mr. GOLDSBOROUGH. That is not the question, but whether there is here before the Congress a bill to do exactly the thing that Senator Owen has been talking about, and the Congress and the country are entitled to know what this particular bill contained which the gentleman has said on the floor of the House the chairman refused a hearing on and which he has been urging the country to adopt as a beneficial measure ever since last June. They are entitled to know what is in this bill.

Mr. PATMAN. That is all right. When the bill comes up for consideration under the 5-minute rule in committee, we will discuss that, but I do not think it is germane now. If the bill is not sufficient, we will make it sufficient.

Mr. GOLDSBOROUGH. You undertook to say what the opponents of the bill contend the bill contains.

Mr. PATMAN. They admit this.

Mr. GOLDSBOROUGH. Naturally the opponents of the bill are going to say that the bill contains everything that they do not want.

Mr. PATMAN. Senator Owen, as one of the authors of our bill, I appreciate your appearing here to testify. I have never known a time in this House, and I have been here almost 10 years, when there was more interest manifested in anyone's testimony than has been mainifested in your testimony. Yesterday not only did we have 15 members of the committee here, which is very unusual, but we had at least 30 or 40 Members of the House at different times listening to your testimony, and as many comments on Capitol Hill about the value of it, and I personally appreciate very much the great service you have rendered the public.

Mr. CRAWFORD. Mr. Chairman, I want to submit a unanimous request, and put it that way, so that anyone can object to it if they want to.

I have very carefully reviewed all of the testimony of Senator Owen, back to 1932, and this 10-point memorandum which he referred to I have read with great interest and found it is so fitting as compared to the conditions today that, if the Senator is agreeable, I should like to ask unanimous consent that that memorandum of May 27, 1929, be put in his testimony now, in such manner as he might desire, but, if the Senator has any objection to it, let us leave it out.

Mr. OWEN. I do not understand what memorandum you refer to.

Mr. CRAWFORD. The memorandum of May 27, 1929, is the memorandum which you submitted at that time to the administration.

Mr. OWEN. To Mr. Hoover, you mean?

Mr. CRAWFORD. Yes; and it is covered in your 1932 testimony.

Of course, if you do not feel that it should go in at this time, I certainly would not want to make that request.

Mr. OWEN. I do not believe I have a copy of it. I gave a copy of it to the Chairman of the Committee some years ago.

Mr. CRAWFORD. I will furnish you with a copy of it out of an official document, if you care to put it in.

Mr. OWEN. Out of an official document?

Mr. CRAWFORD. Yes, sir.

Mr. OWEN. I did not know it was printed.

Mr. CRAWFORD. It was printed in the hearings.

Mr. OWEN. I did not know it.

Mr. CRAWFORD. In 1932, under your testimony.

Mr. OWEN. Yes; I have no objection to it going in.

Mr. GOLDSBOROUGH. Is there objection?

(There was none, and the memorandum referred to is attached as an appendix to the testimony of Senator Owen.)

(1) By refusing or failing to replace the $500,000,000 of gold released to Europe in 1927 by substituting therefor Federal Reserve notes as Gov. Roy A. Young very honestly stated on March 16 last at Cincinnati, Ohio.

(2) By selling Government securities and thus withholding money from the open market where it would be normally used for commerce, as Governor Young also stated.

(3) By ceasing to buy open-market paper and thus absorbing money from the market by allowing these bills to be paid to the bank without reinvesting, as Governor Young also stated.

(4) By passing out gold certificates as a circulating medium in lieu of Federal Reserve notes and thus diminishing their own powers of emission of Reserve notes (money).

(5) It retired $214,000,000 of Reserve bank notes issued against bonds.

(6) It is now interfering with the rights of commerce and business to sell corporate stocks as a means of getting money and doing this by obstructing the credits required by members of the stock exchange for the orderly selling of stocks and bonds.

(7) They raised the rate of interest on rediscounts in 1928 three separate times, knowing that raising such rates of interest would exercise, did exercise, and does exercise a dominating influence on acceptance rates, on prime commercial paper, on time collateral loans and on call rates to the serious injury of business throughout the country, compelling businessmen to pay artificial rates without cause, and submit to very excessive reorganization charges and commissions.

(8) By a 5-percent rate for rediscounts, they well know that banks borrowing at 5 percent have an overhead charge of $1.35 per $100 for handling loans, and that banks lending money at the legal rate of 6 percent must suffer loss and are thus denied the accommodation the law intended.

(9) They are freezing national credit by a vast publicity of the unsound claim of a great stringency of credit, when there is no stringency.

We are actually extending foreign credits to the extent of $2,000,000,000 per annum, while the Reserve Board makes this unreasonable claim.

The Reserve banks having nearly three billions of gold, could expand their gold holdings 600 millions in a few months by the simple process of exchanging Reserve notes for gold certificates passed over their counters and against three and one-half billions of gold they could emit Reserve notes to the extent of two and one-half times, without going below the 40-percent gold reserve, thus creating an available primary credit of over eight billions, and a secondary credit based on such currency very much larger. The fiction of the sellers of credit that there is a credit stringency in this enormously rich country, and with a banking system capable of extending all the credit commerce could possibly require, should deceive nobody.

(10) The Reserve banks are browbeating the member banks and interfering with their right to make call loans or time loans on New York stock collateral which is a usurpation of power not authorized by the Reserve act.

Mr. Owen. I would like to make this observation that anybody in giving testimony through a period of years will sometimes meet himself coming where he thought he was going, and I wish it to be clearly understood that I do not claim any credit for omniscience, but I have tried to understand this matter, and I have tried to be useful to the committees as occasion required, and have sometimes given testimony that was not perhaps entirely accurate, but it has had at least the value of good will and a desire to serve the country.

Mr. Goldsborough. Senator Owen, through a long period of years, 40 years at least, of congressional service, and service since you left Congress, you have been enlightening the people of this country on a matter which of course concerns the very life blood of every individual in it, a question which, as you have indicated, is the most important question that people can obtain knowledge upon. In doing that you have naturally incurred the displeasure of powerful interests. You have never wavered in the slightest degree.

Nobody can appreciate that service that you rendered more than I do, or the service that you rendered during these hearings, and as acting chairman of the committee, on behalf of all the members of the committee, I wish to thank you very sincerely for having given us the benefit of the information and knowledge here imparted to us.

Mr. Luce saw me last night in the Mayflower Hotel, and asked me to tell you that he had a subcommittee hearing, in the Committee on Patents, this morning, and for that reason he could not attend, and he expressed his great regret at not being able to attend.

The committee will adjourn.

Mr. McKeough. Before we adjourn, do I understand that Mr. Crawford will have that testimony of 1932 introduced into the hearing here?

Mr. Goldsborough. That is my understanding.

Mr. Patman. I presume that it would not be objectionable, since this testimony has been finished, to insert it into the Congressional Record——

Mr. Owen. That is the testimony I gave before this committee?

Mr. Crawford In 1932.

Mr. Goldsborough. I would rather that you took that up with the chairman. He will be here tomorrow.

Mr. Patman. We will meet tomorrow morning?

Mr. Goldsborough. At half past 10; that is, unless there is some reason why you do not want to meet tomorrow.

Mr. Owen. I have no objection to the matter going in at all.

I wish to state that I appreciate the kindness of the committee in listening to my discourse in this matter.

Mr. Goldsborough. It has been a great pleasure, sir.

(Thereupon, at 12:40 p. m., an adjournment was taken until Wednesday morning, March 16, 1938, at 10:30 o'clock.)

GOVERNMENT OWNERSHIP OF THE 12 FEDERAL RESERVE BANKS

WEDNESDAY, MARCH 16, 1938

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

The committee resumed hearings on H. R. 7230 at 11 a. m., Hon. Henry B. Steagall (chairman) presiding.

Other members of the committee present:

Mr. Goldsborough, Mr. Reilly, Mr. Spence, Mr. Farley, Mr. Ford, Mr. Brown, Mr. Patman, Mr. McKeough, Mr. Transue, Mr. Gifford, and Mr. Crawford.

The Chairman. The committee will come to order.

Mr. Patman. Mr. Chairman, Mr. Binderup wanted to be heard first this morning.

The Chairman. All right.

Mr. Patman. Mr. Binderup is one of the authors of this bill H. R. 7230, and he assisted in the organization of the steering committee which later approved this bill. He is one of the proponents of the bill, of course. He is a Member of Congress from Nebraska, and would like to be heard now.

STATEMENT OF HON. CHARLES G. BINDERUP, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mr. Binderup. Mr. Chairman and members of the committee, I was greatly disappointed, of course, when I found I was not able to include my bill, H. R. 9800, under the Patman bill, as an amendment to the Patman bill, because I had always thought that that was the proper procedure.

The Chairman. Mr. Binderup——

Mr. Binderup. But, of course——

The Chairman. All right; you may proceed.

Mr. Binderup. Being now made familiar with the fact that that would not be acceptable to the committee, and also for the reason that I realize so well that to sell an idea, or to sell a plan, or to convey an idea to a committee, it is first necessary that that committee is of an acceptable mood, and feeling that if I should try to force my way in here under the Patman bill, as I had intended to do, frankly speaking—that is exactly what I had intended to do—you would have discovered what I was doing, and if I should come in in that way, unfavorable to the committee, I realize the impossibility of succeeding in the righteous cause to which I have devoted a lifetime and spent a great deal of money.

I want to add, however, that my surprise even exceeds my disappointment. Having spent years in the study of this monetary question, and traveled considerably over the United States to contact writers of books and students on the monetary question, to invite their criticism, in order that I could be able to build a structure that is worth while for your consideration, and then, not even satisfied with traveling over the United States and visiting these writers and students, I decided to spend my own money to go to Europe in order to contact the great students of the monetary question in Europe, as well as the big bankers in Europe, that I might get their reflex action so that I might be able to come to you as an able man, so that I might be able to explain the principles involved, that I might be able to bring something to you that is constructive.

So I say that my surprise in being denied the privilege of coming before you in 3 years exceeds my disappointment.

Mr. PATMAN. Will the gentleman yield?

Mr. BINDERUP. Yes, sir.

Mr. BINDERUP. Now, Mr. Chairman, through reading the Congressional Record, I knew you men long before I came here, because of your great work in this monetary program. You were privileged to study this question under the dome of the Nation's Capitol; I had to study it under another dome; I was under the dome of God Almighty's blue sky, in the great outdoors of the West, where I studied with you, and I benefited from your remarks. The two schools of thought were far apart, and under different conditions, but if I should bring you the views that I developed out there, I believe—I know that they would be helpful. I know definitely that I am going to bring information before this committee that will be acceptable—not alone that it is going to show the disastrous conditions, not alone the history of the 25 panics we have had in the United States, and not alone dwelling briefly on that to show definitely what causes panics, but my program is built on the fundamental principle of cause and effect, and the cure, but the cure especially.

I said to President Roosevelt in our conference about 3 weeks ago, when he asked me a certain question: "You and I have long since gotten tired of listening to men. Surely certain men do understand the situation, and they make wonderful statements, but when we ask them what their plan is, what their procedure is, how are we going to get out of this depression that we are in, they shake their heads and say that they do not know, that they are still studying the situation."

For thousands of years, and this Nation for 150 years, this thing has been studied, and they are still studying it when our Nation is on the brink of a precipice, tottering and trembling at the present time, because we have not brought about the solution.

Now, with these few preliminary remarks, if you will let me go on, and if I do get away from the Patman bill——

Mr. MCKEOUGH. Go ahead.

Mr. PATMAN. Wait until the question is raised.

Mr. BINDERUP. I would like to go ahead, but I am hardly in a position to do so this morning. My charts are not arranged. Would it be agreeable to have somebody else go on, and let me go on tomorrow morning?

Mr. MCKEOUGH. I think it would save the time of this committee if we got this out of the way. Certainly we do not want to take an attitude of an arbitrary nature against Mr. Binderup. Apparently he suffered some misunderstanding. He is not prepared to proceed today.

I presume that you could finish in a day or so?

Mr. BINDERUP. No; I could not.

Mr. MCKEOUGH. How long?

Mr. BINDERUP. I think it will take a long time, because I expect you men to ask me a lot of those questions that you asked other people, and I expect to have the proof, so as to give you a conclusive and definite answer, and I think it will take much time—I hope it will. I hope that we will get into all of these things in detail, and that we will have, when we get through, not a bill that is just merely a suggestion, that is just merely a policy, but that we will have a bill with mandatory legislation in it, that will say to the agencies of government, to the Federal Reserve Board or the Federal Reserve banks, definitely—

> Here is your plan. We, as Members of Congress, have set out this plan in detail, and we ask you, as agents and servants of the United States Government, to fulfill it.

So when you suggest a day or so, it would be just impossible.

Mr. TRANSUE. Where are your charts?

Mr. BINDERUP. They are here.

Mr. TRANSUE. Can they not be arranged now?

Mr. BINDERUP. If I might, I would prefer to begin later. This is a climax in my life. I would prefer to go through this in my own way, fundamentally, from the bottom up, go back to the Constitution and show why this Government ought to get out of the banking business, and why the banks ought to get out of the money creating business. Let the banks run the banking business and let the Government control the velocity of money.

The CHAIRMAN. Can't you discuss what you want today on the Patman bill?

Mr. BINDERUP. Oh, no. Many men——

The CHAIRMAN. Mr. Patman has a question.

Mr. PATMAN. May I make a suggestion?

I do not think it will take me over 3 or 4 days to finish, and after we have finished, I do want the bill to be taken up under the 5-minute rule, which should not take long, and then I would like to see you give Mr. Binderup a hearing. He was led to believe, I understand from him, that he would not be permitted to testify this morning.

Is that right?

Mr. BINDERUP. That is correct.

Mr. PATMAN. And he did not prepare himself to testify this morning. He was led to believe by a member of this committee that he would not be permitted to testify.

The CHAIRMAN. Of course, we cannot make him proceed now, if he does not see fit to do so, and I am sure that nobody wants to make him proceed.

Mr. PATMAN. What do you think about letting us finish on our bill, H. R. 7230, and then having either the whole committee or a subcommittee take up his bill, and give him a complete and full hearing?

The CHAIRMAN. I do not care to deal with that at just this moment.

Mr. FORD. Mr. Binderup, may I ask you a question?

Perhaps while we were off of the record, you touched on a subject that I am deeply interested in, and that is the 100 percent reserve. Couldn't you take that up as an isolated subject and discuss it this morning in the half hour that we have?

Mr. BINDERUP. There is no greater subject; that is the fundamental thing. Without a 100 percent reserve back of demand deposits the whole plan is a failure, and consequently it is woven into my whole program, on which I spent hours, in order to weave a chain of thought so that you might understand it constructively, and in that chain of thought comes a method of creating a 100-percent reserve, without the slightest disturbance to our monetary and banking system, which is very essential, and for that reason, Congressman Ford, I would like very much to go at this in my own way and not in a piecemeal way, to go at it fundamentally from the bottom up, and show the history and the causes of depressions, briefly, and the effect, and then the remedy for the prevention of panics.

I want to mention one more thing before I go, because it is constructive and to the point. When I was called to speak before the Secretary of the Treasury, Mr. Morgenthau, and his economists, there was a little remark that was of importance. It was Mr. Morgenthau who said to me "You haven't got anything new in your bill. This price level, this 100-percent reserve back of demand deposits, are old," and he said, "Your principles are old to us," and I said, "Truly, the plan and the thought of monetary control are old, but the plan I have got, of the easy, practical way of doing this, without building up new bureaus, without additional government, and weaving it into our present situation, is a new thing."

And then Mr. White, one of his economists, spoke up and he said, "Mr. Binderup has something new in his bill. He has part of the Goldsborough bill"—he did not say that, but I am saying it, that he said that I had that fundamental principle in my bill that you cannot control the monetary situation at the top.

Mr. PATMAN. You referred to the Goldsborough bill. Do you mean this 15-percent bill?

Mr. BINDERUP. I mean this part of the Goldsborough bill that plans for creating a purchasing and consuming power, and he said, "He has got that, for one thing; that is new."

Mr. GOLDSBOROUGH. Mr. Patman referred to the 15-percent reserve in the Goldsborough bill.

Mr. PATMAN. No; discount.

Mr. GOLDSBOROUGH. You said "reserve."

Mr. BINDERUP. I understand your bill very well.

Mr. GOLDSBOROUGH. I want to get the record straight. There is nothing in the Goldsborough bill about a 15-percent reserve.

Mr. PATMAN. But there is a discount.

Mr. GOLDSBOROUGH. That is a very different matter.

Mr. PATMAN. I appreciate your calling that to my attention.

Mr. GOLDSBOROUGH. It should be, because the record will be printed.

Mr. BINDERUP. The only thing new about my bill is a constructive plan for discontinuing that absolutely impossible theory of controlling the price level and the monetary supply by your open-market operations, where they are at the present time standing on their heads, for we are selling bonds to put money into circulation, where the plan was to sell bonds to take it out of circulation. We have it standing upside down. It is an impossibility, and the increased reserves back of demand bank deposits in the plan which has been pursued is absolutely disastrous.

My banker said to me when I left home, "For heaven's sake, when you get back, don't authorize the Federal Reserve any more to raise the reserves back of demand bank deposits," and he said, "Your 100-percent reserve is right, because that establishes the 100-percent reserve by the Government itself, and that makes it easy for the banks."

Well, now, you know, I did not expect to discuss my bill before you now, for I realize that we are going into that feature of the bill, and now I will ask you again for the privilege, if I may have it granted, that Congressman Patman suggested, that he go on with his bill, and then let me come in with my bill tomorrow, or whenever it is convenient for you, so that I can go at it in a constructive, acceptable, understandable way.

Mr. GOLDSBOROUGH. That question ought to be raised when the chairman comes back.

Mr. TRANSUE. Some of the members of the committee would like to hear what you have to say in connection with what we are trying to do here now, and if you can do that, I would be very pleased to have you go ahead and do it, and I am sure that if you have something of interest to the committee, the other members would like to hear it.

Mr. GOLDSBOROUGH. Mr. Binderup, the Patman bill permits the Federal Reserve Board to raise and lower the bank reserves, and therefore any discussion on the 100-percent reserve would certainly be relevant to the Patman bill, and the committee, I am certain, would be glad to hear you on that subject if you care to discuss it.

Mr. PATMAN. I personally would like to have information on that. I do not entirely agree with you, Mr. Binderup, but I would be glad to be sold.

Mr. TRANSUE. I think that you should go ahead and begin your discussion, because the committee wants to hear what you have to say.

Mr. BINDERUP. I must only say this——

Mr. GOLDSBOROUGH. I would like to say this, that there has been some discussion here this morning about some member of the committee telling you that you could not proceed on anything else except H. R. 7230. You came to my office yesterday afternoon, and I endeavored to advise in the most kindly manner on what I would do if I were in your place. I told you that the chairman of the committee would be here this morning. I was not unkind to you in any way whatever. I did say this to you yesterday, that I would no more go before a standing committee of the House which was considering a bill and ask them to break in and hear my bill than I would think of jumping off the top of this building.

I said that to you, didn't I?

Mr. BINDERUP. Yes; you did.

Mr. GOLDSBOROUGH. And I advised you against it?

Mr. BINDERUP. Yes; you did.

Mr. GOLDSBOROUGH. But whatever you do is your own business and not mine.

Mr. BINDERUP. No; but let me say this, that I appreciate your advice. That is the reason that this morning I did not want to testify, because I recognized the fact that if I went before your committee in a way which was not acceptable to the committee, and in an irregular manner, that I would be creating some kind of animosity against myself before I started, and that I wanted an honest, open-minded committee, where we could cooperate.

Mr. GOLDSBOROUGH. I do not think there is anything in the world in this committee except the kindliest feeling toward you. I am sure that there is not.

Mr. BINDERUP. And since that is the situation, and since this matter is of such intense value to me, then let me be diplomatic, let me be considerate, and not destroy the most essential thing for me, an acceptable mind on the part of the members of the committee. That is the most important thing in the world for me, and that is one reason why I am going to ask you, if you please, to let me go on in my own way, coming from a different school than you men came from, for I noticed sometimes when I looked you up in the Congressional Directory that some of you had a lot of letters back of your names, and I have not any back of mine. We went to different schools. Let me go on in my own simple way. Senator Owen called it "the kindergarten way," and that is the only way that I can address you on; so let me go on in my own way, if you will, starting tomorrow morning, but not today, because I want to start from the bottom in a constructive way and have everything rightly arranged.

This is an important time for me, and, I believe, for the Nation, and I do not want to even make any disturbance in the line or chain of thought that I have prepared in my program, which was broken into just a little bit this morning.

Mr. GOLDSBOROUGH. I said to you also yesterday, Mr. Binderup, which was true, that I had pending before this committee bills on group, chain, and branch banking since 1931, and I have had a stabilization plan which has been reintroduced for years and years, and another bill which I do not remember right now which I have been trying to get hearings on. So your position is no different from the position of members of this committee.

Mr. BINDERUP. Then there is something wrong; that is all.

Mr. GOLDSBOROUGH. Not at all.

Mr. BINDERUP. That does not justify the situation.

Mr. GOLDSBOROUGH. I do not say there is anything wrong, but I do say that there are members of this committee, and I am one of them, who have been trying to get hearings on bills——

Mr. BINDERUP. What is that strange, peculiar, hidden power that prevents you from getting a hearing on a righteous bill and prevents me?

Mr. GOLDSBOROUGH. I want to add this: Take this question of chain and branch banking; session after session I have been visited and communicated with by advocates of branch banking and I have brought this bill out and said, "If you undertake to pursue any such course as that, or introduce the bill, or have a bill introduced extending branch banking in the United States, I will immediately bring this bill of mine up in the committee, whether the chairman likes it or not, and ask for a hearing." I believe in that way I have stopped the increase of branch banking in the United States for years and years, but insofar as being able to have hearings before this committee is concerned, you are in no different position than the members of this committee.

Mr. BINDERUP. Is it possible, may I ask my dear Congressman—is it possible that the only thing that is holding back that disastrous thing of branch banking is your life and yourself; that it depends on you?

Mr. GOLDSBOROUGH. I do not say that.

Mr. BINDERUP. And if you thought your prestige as a Congressman has been able to hold back that disastrous thing, isn't there something more powerful that can hold back such a thing as branch banking in this Nation? For in all these years you tell me—and it discourages me—that you have been trying to get a hearing. A Member of Congress and a member of the committee has been trying to get a hearing on a righteous bill, and you have been denied that hearing; and then I will say to you once more, to a man that has been here for 16 years, what is that hidden, peculiar power that stops you from coming in with a righteous bill?

Mr. BROWN. I want to say that we have met every day this year, which I think is too much, because we have something else to do. I have always maintained that if we met every other day it would be sufficient. We meet more regularly than any other committee in Congress.

Mr. GIFFORD. May I suggest something there?

I want to say to Mr. Binderup that I am the ranking man on the Committee on Expenditures of the Government, which is supposed to be a very important committee, and I have been unable to get the committee to meet one single day this year, although I have constantly urged a meeting. I cannot even get a meeting.

Now, what unseen, hidden power is there there?

Mr. BINDERUP. Your question answers my question entirely, when you tell me these things that you have told me. I asked openly and not in criticism, "What is that strange, peculiar power that prevents us from getting a righteous bill before Congress?" and you answer the question by saying that it was because of the busy life in many committees.

Mr. GIFFORD. Not in my case.

Mr. BINDERUP. It is in the case of this committee, because you have met every day, and that is the reason why, I am told, this happens.

That answers the question.

Mr. GIFFORD. You said that you wanted several days. You have sent us a great deal of material, and I have read quite a little bit of it. Have you an array of economists back of you that need to be heard?

Mr. BINDERUP. No. I have a few. I have four that want to be heard.

Mr. GIFFORD. Might I ask you still further—you mentioned Senator Owen. Have you gone over it with him?

Mr. BINDERUP. Have I what?

Mr. GIFFORD. Has he approved your bill?

Mr. BINDERUP. Yes; he has. He approved it by saying that it was the greatest bill that has ever been introduced in the Congress. That is the letter that he wrote to me before I knew Senator Owen very well. I had only met him once or twice.

Mr. PATMAN. If I understand it right, in our meeting of the steering committee we had, you had a bill and I had a bill, and the committee decided after discussion that it would be best to present this bill—H. R. 7230—the one that is pending before the committee now.

Mr. BINDERUP. Yes, sir.

Mr. PATMAN. And it was the understanding that you would go along with it, but you did reserve the right to offer an amendment for a 100-percent reserve—that was the reservation, and then when the question came up about a hearing, Mr. Steagall correctly stated our understanding, and at that time I told you that when this bill came up, if I were permitted to testify you would be permitted to testify, because this bill contains what you are in favor of. There is only one thing you want to add to it; you want to go further and have a 100-percent reserve, and under this bill that is germane. Therefore you will get in your discussion, everything that you want to get in you will get, and so, since you have everything you want, and the chairman says go ahead, why, then, go ahead on it.

Mr. BINDERUP. That suits me all right; only I want to go ahead tomorrow morning or Monday morning.

Mr. PATMAN. But you discuss this bill, with the 100-percent reserve.

Mr. BINDERUP. And the price level?

Mr. PATMAN. Surely. That is part of the bill.

The CHAIRMAN. I suppose that this discussion has led us to the point where we are ready to adjourn.

Mr. PATMAN. Yes, sir; and let him be heard on those points, and let it be understood that the 100-percent reserve applies to this bill.

Mr. CRAWFORD. I may have to attend to some other matters, but do I understand that tomorrow morning we will start hearings on the Binderup bill?

The CHAIRMAN. No; on the Patman bill.

Mr. REILLY. On the two points of it?

Mr. PATMAN. Three points; Federal Reserve, price level, and 100-percent reserve, and I am anxious to hear Mr. Binderup on the 100-percent reserve. I am not with him now, but I am willing to be sold on it.

The CHAIRMAN. All right. We will meet tomorrow morning.

(Thereupon, at 12 noon, an adjournment was taken until Thursday morning, March 17, 1938, at 10:30 o'clock.)

GOVERNMENT OWNERSHIP OF THE 12 FEDERAL RESERVE BANKS

THURSDAY, MARCH 17, 1938

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

Hearings on H. R. 7230 were resumed at 11 a. m., Hon. Henry B. Steagall (chairman) presiding.

Other members of the committee present: Mr. Goldsborough, Mr. Reilly, Mr. Spence, Mr. Meeks, Mr. Ford, Mr. Brown, Mr. Patman, Mr. McKeough, Mr. Evans, Mr. Transue, and Mr. Crawford.

The Chairman. The committee will come to order, please.

Mr. Patman. Mr. Chairman, as I understand it, Mr. Binderup wants to make his statement without being interrupted, and I suggest that he be allowed to finish his statement before being interrogated.

Mr. Binderup, suppose that you fix a time that you would like to proceed, say 30 minutes; would that be all right?

STATEMENT OF HON. CHARLES G. BINDERUP—Resumed

Mr. Binderup. Yes; that is perfectly all right. Of course, I welcome questions; I do like questions very much. However, right in the middle of a program or an explanation I would like to wait until I finish at some place, when I would be glad to stop when there is anyone who desires to ask anything to clarify the subject on which I have been speaking.

My hope and object in coming before you is to make the subject matter clear, and I know that on a subject like this a man is liable to skip something, so I will be under obligation to those who ask questions.

(At this point there was an informal discussion off of the record as to how much time Mr. Binderup would require.)

The Chairman. Before you proceed, Mr. Binderup, just one question, and that is—this is to be a discussion of the Patman bill?

Mr. Binderup. Yes, sir; I understand.

The Chairman. All right; proceed.

Mr. Binderup. And in the discussion of the Patman bill, or any other bill, gentlemen, it would, of course, be presumptive on my part if I should presume to be able to tell you something that is entirely new to all of you on the plan of monetary control. There is no question in my mind but what in discussing this subject some of you will become a little impatient at times, because you probably have known it for years, but I have to go through a regular program, and I trust you will bear with me.

Mr. TRANSUE. Let us get started.

Mr. BINDERUP. The principles of the whole set-up are naturally for monetary control, the thing that we have been striving for for a great many years. There are three outstanding principles in the bill. The most emphatic one is one that reverses the whole program of the entire Nation and the world, and that provides for creating a consuming and a purchasing power at the bottom by expanding your money supply at the bottom, so that it expands in the same proportion and in the same degree——

Mr. GOLDSBOROUGH. Do you mean that that is in the Patman bill?

Mr. BINDERUP. Yes; that is part of the Patman bill.

Mr. PATMAN. I do not think that you ought to interrupt him.

Mr. BINDERUP. There are three principles on which I am speaking——

Mr. GOLDSBOROUGH. I do not know why that is not a proper question.

Mr. BINDERUP. The whole monetary theory is involved in this bill. It is changing the system——

Mr. GOLDSBOROUGH (to Mr. Patman). There is nothing in your bill on that.

Mr. PATMAN. I do not think that you should be technical.

Mr. GOLDSBOROUGH. That is not technical. I am asking if there is anything in the Patman bill which involves feeding money in at the bottom.

Mr. BINDERUP. Yes; there is this where it is germane to the Patman bill, and to your bill, and to any other bill——

Mr. GOLDSBOROUGH. That is in my bill.

Mr. BINDERUP (continuing). In that it provides for a price level; it is attaining a price level by expansion from the bottom instead of the top. It comes under the category of price level.

I do not know of any committee where I have been more discouraged than here, to come before a group of men where it seems to me there is so much friction. How could we ever hope to sell this proposition unless we can get some cooperation.

But let me go on with my program.

Mr. GOLDSBOROUGH. One minute.

Mr. Binderup, any friction that may exist in this committee is in your imagination as far as that is concerned, but if it did exist, it would be the business of the committee and not of an outsider, and as far as I am concerned, I am not presiding this morning and you can talk about what you please. It is up to the chairman. But in my opinion you should discuss the bill that is before us, and that was understood yesterday afternoon.

Mr. BINDERUP. I thank you for the suggestion.

Mr. GOLDSBOROUGH. I am not going to make any more suggestions. Just go ahead and talk all you please.

Mr. BINDERUP. I know, but for 5 days you have talked about the 12 Federal Reserve banks, and while my bill goes in with the Patman bill, it takes over the 12 Federal Reserve banks and starts in earlier and stops later, but it also includes a price level as well as the Patman bill, that protects the rich as well as the poor. The soul of every monetary bill is the price level, and I was trying to tell you how to attain it, by, in place of inflating it at the top by selling bonds to the big banks, maintaining that price level and controlling it by expanding your money supply at the bottom, and creating a consuming power and a purchasing power at the bottom. That, in time, will raise the price level to the 1926 level.

The second principle of that bill is the 100-percent reserve. That is absolutely necessary.

Mr. GOLDSBOROUGH. Which bill are you talking about?

Mr. BINDERUP. The Patman bill, and that does provide for raising and lowering the reserves back of demand deposits. I go the limit—not advocating the fractional reserves, but I go to the entire 100-percent reserve that is established by the Government in this plan, by taking over bonds as reserves now held by the banks, plus the cash that the banks have, plus the assistance of the Government in either taking slow paper off the bank's hands or perhaps by preferred stock in the bank, and there is very little necessary; the banks are at this time almost able themselves to stabilize 100-percent reserves back of demand deposits, if we include the Government bonds that they are holding in the commercial banks.

The third thing was the price level that I have referred to, controlling it from the bottom, and the 100-percent reserves. That takes the banks out of the money-creating business, and it takes the Government out of the banking business, as was the original intention when the Constitution was written, that Congress should control the volume and velocity of money, and that the banks should do the lending, but we have reversed the situation until at the present time the banks do the creating of money and the Government is doing the lending.

So I say the basic principle of the bill is that it makes that feature straight cut, that the Government creates all of the money, and that the banks do the lending of the money.

The CHAIRMAN. Will you let me interrupt you for just one moment?

(At this point there was a conference at the bench off the record.)

Mr. BINDERUP. If I may continue in a low voice, and improve the valuable time that we have here——

The CHAIRMAN. We will give you sufficient time, as far as that is concerned.

Mr. Goldsborough hesitates to preside during the brief time when I am compelled to be away from the committee, but I think that he should preside, because it is the custom and the practice.

Mr. GOLDSBOROUGH. I just do not know how to preside in this situation; that is the trouble; and I do not want to do so, unless you want me to.

The CHAIRMAN. I want you to do just what I have indicated, to have Mr. Binderup discuss the bill.

Mr. PATMAN. With the understanding that it includes the price level and the 100-percent reserves.

Mr. GOLDSBOROUGH. It does not make a particle of difference what he discusses, just so the Chairman tells me what he wants me to do. He can discuss the North Pole as far as I am concerned, if you want him to do that.

The CHAIRMAN. No; I have indicated very clearly that this discussion shall be confined to the Patman bill, because that——

Mr. PATMAN. Or anything germane to it.

The CHAIRMAN. Why, certainly; or involved in the bill, because that is what this hearing is on. As I explained to you yesterday, there was an agreement about what this hearing is on, which is on the Patman bill, and I have no hesitancy in making the statement that Mr. Binderup's remarks should be confined to the Patman bill, and shall so rule if I am called upon to do it.

I will be back in just a few minutes.

(At this point Mr. Goldsborough became the presiding member.)

Mr. GOLDSBOROUGH. Proceed.

Mr. BINDERUP. I would like to stop at this point here and say that on my trips to Europe, with these three principles incorporated definitely and mandatorily for the control of the monetary situation, I visited a number of men who are students and authorities on this question, and I want to stop just a minute on each one of them and tell you what they said. The bill had been sent to them earlier.

I was a guest first in the home of Dr. Cassel, of Stockholm, Sweden. I want to tell you a few words about the recitation I had with him. When I shook hands with him, he said, "Mr. Binderup, so you have come to Europe. You have come from your great Nation to learn"——

Mr. CRAWFORD. Mr. Binderup, pardon me for making this observation. I am a member of this committee, and my district is very much interested in the Patman bill, and when you say "the bill," when you refer to someone approving "the bill," will you at all times please be specific and say whether or not you are referring to the Patman bill or your bill, and state the number, please, for the record, so that I will be prepared——

Mr. BINDERUP. All right, but might it be agreeable for me to talk of principles rather than numbers? There are those three principles that are outstanding.

Mr. CRAWFORD. I want that to be made clear, because while I am very friendly to your proposition, I do not propose to have my part of this committee gummed up by someone referring to two or three bills and never specifying in the record what the bill is.

I am speaking for my people in the Eighth District of Michigan, and I have tried to get the chairman to protect me in that, and the protection has failed to be given so far. So I will appreciate it if, when you refer to "the bill," you will say whether it is your bill or the Patman bill.

Mr. BINDERUP. I did not have the Patman bill with me in Europe.

Mr. CRAWFORD. That is all right, just so you say which one it is.

Mr. BINDERUP. It is my bill.

Mr. GOLDSBOROUGH. You are discussing bill number what?

Mr. BINDERUP. No. 9800.

Mr. GOLDSBOROUGH. And it is the same bill, practically, as the Cutting bill of 1934, is it not?

Mr. BINDERUP. I am not so familiar with the Cutting bill, but it is quite, not exactly.

Mr. GOLDSBOROUGH. You are discussing bill No. 9800?

Mr. BINDERUP. Bill No. 9800.

Mr. GOLDSBOROUGH. And not discussing the Patman bill?

Mr. BINDERUP. I am discussing not the number of the bill, but the principles that are in the bill.

Mr. GOLDSBOROUGH. There is one thing that I am going to do. You must tell the committee what bill you are discussing. I am going to rule that you must tell the committee which bill you are discussing, and I will tell you the reason for it, that we have all been propagandized by our constituents about these bills, and our constituents must not be misled about the matter that is in the bills, and therefore we must at least know what bills you are talking about.

Mr. BINDERUP. May I ask, to enlighten myself, if the constituents at home of whom you speak are familiar with the number of the bill, or are they interested in the principles of the bill?

Mr. GOLDSBOROUGH. Mr. Binderup, are you talking about your bill, or Mr. Patman's bill?

Mr. BINDERUP. I am talking about the principles of my bill, which happen to be the same as the principles in Mr. Patman's bill.

Mr. GOLDSBOROUGH. Unless you are willing to tell the committee which bill you are discussing, the committee is going to adjourn.

Mr. PATMAN. I want to say a word there.

Mr. Binderup, it is true, has a bill of his own. Let me suggest to Mr. Binderup that he state how he stands on this bill, and then if he wants to go further and say that he would like to have certain changes, on the price level, for instance, and state what the changes are that he thinks are desirable, he may do so, and then if he wants to go further on the Reserve requirements and state that he would like to go further than my bill, and then state what the changes are that are desired by him, I think that that gives the gentleman all the latitude in the world.

Mr. GOLDSBOROUGH. No.

Mr. PATMAN. Just because he technically refers to a number of a bill does not, in my opinion, disqualify him as a witness before this committee at this time.

Mr. GOLDSBOROUGH. No; that does not touch the point that I have in mind. There are 127,000,000 people in this country interested in this monetary question, and they have been told by somebody what the Patman bill contains. The issue ought to be clear before this committee as to what is being discussed before the committee, for the protection of 127,000,000 people, to whom this monetary question is vastly more important than anything else that is being done on the Hill.

This committee, while I preside, is not going to be made a circus, and I must know from Mr. Binderup whether he is discussing the Binderup bill or the Patman bill before he proceeds.

Mr. PATMAN. He has told you repeatedly.

Mr. GOLDSBOROUGH. I am asking Mr. Binderup which bill he is discussing, and I expect him in good faith to tell me what bill he is discussing.

Mr. TRANSUE. Mr. Binderup is trying to testify here, it seems to me, under the very adverse circumstances of this discussion here. He has indicated that he is trying to discuss the Patman bill.

Mr. GOLDSBOROUGH. No. The last thing he said was that he was discussing bill No. 9800.

Mr. PATMAN. At that particular point, showing the difference between them.

Mr. TRANSUE. He was making comparisons between the principles that he advocates and the principles in this bill. It seems to me that that is permissible, in testifying with regard to a bill. If he thinks it does not meet the situation and it should be amplified, he can say so in his testimony.

Mr. BINDERUP. May I just——

Mr. TRANSUE. That is all that he is trying to do.

Mr. BINDERUP. I naturally do not know all the rules of this committee, but I spent considerable time—and I say this with moderation—in the hope that something might be done to harmonize the unpleasantness——

Mr. GOLDSBOROUGH. There is no disharmony here.

Mr. BINDERUP. That is all right——

Mr. GOLDSBOROUGH. You are out of order.

Mr. BINDERUP. I said that I am not familiar with the rules, so probably this is another thing that I am not familiar with.

Mr. GOLDSBOROUGH. You are absolutely out of order, and you have no right when you come here to tell this committee that there is disharmony in this committee. There is no disharmony in this committee. This is an important matter for us and the country, to know what is going on.

Mr. PATMAN. Let me appeal to you to give this gentleman an opportunity to be heard, for this reason, that we have had a hearing on Mr. Goldsborough's bill, and Tom Cromwell discussed his own bill—no doubt about that—and Major Angas hardly touched Mr. Goldsborough's bill.

Mr. GOLDSBOROUGH. He talked all the time about it.

Mr. PATMAN. And Mr. Goldsborough himself did not talk about his own bill, but just wandered all over the lot about the monetary problem, and I think since so much latitude has been given previously, if this gentleman wants to mention his proposal, although I do not agree with him, he is entitled to do it, but I just hope that the chairman will be lenient with him.

Mr. GOLDSBOROUGH. It is not a question of leniency, and, so far as my bill is concerned, I will leave it to the committee if there was a a question asked by me or a statement made by me when I was on the stand that did not bear directly on my bill.

Mr. BROWN. I think he has a perfect right to come in and tell what his reasons are for being for the principles of the Patman bill, and I think that he was leading up to that. I think that calling that number was a mistake. I think that he and any other witness has a right to give a history of why he is for a bill. I think he did not go far enough.

Mr. CRAWFORD. May I make another observation, so that you will see what I mean?

The chairman has repeatedly held that the committee is sitting in connection with the hearing on the Patman bill, and the witness in going along has been referring to "the bill." The record will show that the remarks that he has been making are not on the Patman bill, and the only request that I make, and I think that I am entitled to it, is that when you say that so-and-so approved the bill, you make it specific which bill they approved, so that when I go home my people will not say that Mr. So-and-So in Europe approved the Patman bill when something else was meant.

I am entitled to that protection, and I will insist upon it.

Mr. MCKEOUGH. May I suggest that the record be all stricken out from the beginning and let us proceed.

Mr. GOLDSBOROUGH. Mr. McKeough, I think that there is a misunderstanding in the committee about this situation. Just as Mr. Crawford suggests, Mr. Binderup said that Professor Cassel, of Sweden, had approved "the bill"——

Mr. McKeough. Wipe all of that out, and I suggest that we start anew.

Mr. Goldsborough. And Mr. Crawford takes the position that his constituents have a right to know whether Professor Cassel approved the Binderup bill or the Patman bill, and I think he is entitled to that protection, and I think that I am also.

Mr. McKeough. I think so, and that is why I suggest that we strike out everything and proceed from here. I think that Mr. Binderup understands what the attitude of the committee is now.

Mr. Goldsborough. No. Mr. Binderup has said specifically that he did not have the Patman bill in Europe. He was talking about his own bill; and that is the reason, gentlemen, why I told Mr. Steagall that I did not want to preside, because just as sure as we are all living this sort of discussion is going to cause confusion among our constituents. A great many of our constituents, not as many in my district as in others, have importuned us to vote for the Patman bill on the theory that it contained the principle of the Government issuance of money, that it contained the principle of the 100-percent reserve, and the issue ought to be clear as to what the bill contains. For that reason that bill has been publicized all over the United States.

Mr. Ford. Might I make an observation?

Mr. Goldsborough. Certainly.

Mr. Ford. We all know that Mr. Binderup has been to Europe. We all know that he has given this matter long and careful study. Will he kindly proceed and discuss the three elements in the Patman bill on which he wants to talk? The background we all know. Let us get down to cases. We have spent 20 minutes, and we have not gotten one step toward a discussion of the bill.

Mr. Patman. I do not think we should be technical with him.

Mr. Goldsborough. We are not technical, Mr. Patman, and you ought to be willing to defend your own bill.

Mr. Patman. Certainly I am willing.

Mr. Goldsborough. And not something else altogether different from it.

Mr. Patman. I am defending Members of Congress, too, and I think that they are entitled to a square deal.

Mr. Goldsborough. I know. I cannot understand your statement. Your bill has been publicized all over the United States, and we have had to write to constituents and tell them what the bill was.

Mr. Patman. The Goldsborough bill was publicized, and they talked about everything else.

Mr. Goldsborough. They did not do anything of the kind. There was not a statement made by me in the 7 or 8 days when I was a witness, nor a question asked by me, that did not bear directly on the bill; and, furthermore, there was no amendment suggested, except a perfecting amendment, and I will leave it to the members of the committee if I have not made a correct statement.

Mr. Transue. It seems to me that if we could have an understanding and get it in the record that Mr. Binderup has a bill which is on some points similar to the Patman bill, and in other ways takes on a different philosophy, attempts to do other things, that no one will be misled by Mr. Binderup's testimony, and I can see that it is pretty hard for a man to testify if he wonders whether this is permissible or that is admissible; but, with that general understanding, it seems to me that there are some members of this committee who would like to hear what he has to say.

Mr. GOLDSBOROUGH. This is not as embarrassing to any other member of the committee as it is to me. This is the most embarrassing position I have ever been placed in in my life. The whole situation has been explained to Mr. Binderup time and time again, but he is over here evidently discussing his own bill and not the Patman bill. That is perfectly evident; and if that is done, it will confuse the public mind as to what is involved in the bill that we are supposed to be having a hearing on today.

Mr. CRAWFORD. That is particularly true in view of the statement made by the chairman of the committee a few minutes ago, when he left, and I had hoped that we would have a full hearing on the Binderup bill, and I am not so sure but that I will support either one that is voted out of this committee, but at the same time we are entitled to know when a specific remark is made with reference to a given bill, which bill is being referred to, and that is the only point that I was making. It is entirely agreeable to me for him to talk on either bill, but the record should show which bill he is talking on when he makes a specific remark with reference to an approval of the bill.

Mr. McKEOUGH. May I suggest that if that situation develops, any member of the committee can interrupt him and keep the record straight. Let us proceed and hear from Mr. Binderup.

Mr. CRAWFORD. The reason I made that remark is because there was an understanding that he was not to be interrupted by a question.

Mr. McKEOUGH. You could still clarify that when he had finished.

Mr. BROWN. I move that he be allowed to proceed for 30 minutes, and if he talks about some other bill, that will be stricken from the record.

Mr. McKEOUGH. I second that.

Mr. GOLDSBOROUGH. How can we decide whether it is relevant? You cannot put it up to any one man.

Mr. PATMAN. After it is over, you can decide.

Mr. McKEOUGH. Question.

Mr. PATMAN. Question.

Mr. GOLDSBOROUGH. Mr. Patman, a motion of that kind is too general in its terms.

Mr. PATMAN. Too general? When you say that he can proceed for 30 minutes without interruption, that is not general. That is specific. Then, when it is over, if the committee decides that he has said something that should not be in the record, it can be stricken out.

Mr. BROWN. I will modify my motion, and move that he be allowed to proceed for 30 minutes under the bill.

Mr. FORD. I second that.

Mr. CRAWFORD. Does that mean that he can refer to these bills without making any designation of what bill it is?

Mr. TRANSUE. Let him say whatever he wants to say.

Mr. McKEOUGH. Question.

Mr. GOLDSBOROUGH. If some of the members want to discuss it, I will wait until they get through.

Mr. REILLY. Mr. Binderup, may I ask a question?

How long will it take to finish your case?

Mr. BINDERUP. Two days.

Mr. REILLY. You do not want us to stop in the midst of the Patman bill and give you 2 days to consider another bill? Your bill does not touch the Patman bill at all?

Mr. BINDERUP. I agree with you; I think I agree with you. You have already listened 5 days to taking over the 12 Federal Reserve banks, and if that is all the committee wants to hear, I cannot add anything to what Senator Owen has said for 3 days and what Mr. Patman has said for 2 days, if all that you want to talk about is taking over the 12 Federal Reserve banks; and I am absolutely through now, if that is all you want.

Mr. GOLDSBOROUGH. You were told yesterday by the chairman, before you left, that you could only discuss the Patman bill.

Mr. PATMAN. But the price level and the 100-percent reserves were admissible, because they are germane; and I insist that this gentleman be allowed the privileges of a Member of the House.

Mr. GOLDSBOROUGH. He has not been refused the privileges.

Mr. PATMAN. A motion has been made and seconded.

Mr. GOLDSBOROUGH. That is all right. The question will be put.

Mr. MCKEOUGH. Let us have it.

Mr. GOLDSBOROUGH. Just one minute. Mr. Reilly is not through.

Mr. PATMAN. He is asking something else, that is not germane to the motion.

Mr. GOLDSBOROUGH. It has been moved and seconded that Mr. Binderup be allowed to proceed in his own way, without interruption, for 30 minutes. All in favor of the motion will say aye.

(There were a number of ayes.)

Mr. GOLDSBOROUGH. The motion is carried.

Mr. BINDERUP. That was a privilege, wasn't it? That was supposed to be a privilege?

Mr. TRANSUE. Let us get down to business.

Mr. GOLDSBOROUGH. You are doing the very thing that you moved should not be done. You voted to let this man proceed for 30 minutes, and you stop him the moment he opens his mouth.

Mr. CRAWFORD. Absolutely.

Mr. BINDERUP. Gentlemen, I am much obliged to you for the kindness you have extended to me, and for the motion you just passed. It was supposed to be a privilege, but I cannot accept the privilege. I do not want the privilege. I understand just exactly what this most important subject means. The Nation is tottering today because of this very thing. I could not sell a plan, or an idea, or a thought to a committee that has the dissention among themselves, and I wanted to say that gently, that there is in this committee.

Then there is another thing——

Mr. GOLDSBOROUGH. You are out of order.

Mr. PATMAN. The chairman is out of order. He is supposed to proceed 30 minutes uninterruptedly.

Mr. GOLDSBOROUGH. No; he is not proceeding in order when he says that, because there is no dissention in the committee that I know anything about.

Mr. BINDERUP. There is no dissention? Well, there is a little disagreement, and perhaps I am the cause of it. I cannot contribute anything, my good friends, to you under those conditions.

Mr. FORD. There are several members of the committee that would like to hear you. For God's sake proceed.

Mr. BINDERUP. If I can be heard in my own way——

Mr. FORD. That is what you have been given the privilege of doing.

Mr. BINDERUP. Yes; for 30 minutes.

Mr. PATMAN. Then we will ask you questions.

(Several Members of Congress in the audience.) Go ahead.

Mr. PATMAN. You will be given plenty of time, I am sure. You have the unanimous vote of the committee to proceed 30 minutes in your own way, and then we can ask you questions.

Mr. BINDERUP. Frankly speaking, I don't know how to proceed. I don't know how to proceed. If I mention my own bill, I can see where it is not——

Mr. GOLDSBOROUGH. The committee has voted that you can proceed in your own way for 30 minutes, and the 30 minutes have not begun. The 30 minutes begin now. You have a full 30 minutes to proceed in your own way, and you can say anything that you please, except that you cannot insult the committee. If you do that, you are out of order, of course.

Mr. LEAVY of Washington. Go right ahead.

Mr. BINDERUP. I want to say that there is not anything new about the bill that I am presenting here to you this morning. It is merely catching up with the Constitution of the United States, and that is all it is, which says that the Congress shall coin its own money and regulate the value thereof.

I wanted to mention the relation it has to the Patman bill; that is part of my program at this particular place; but it does contain those three things of the Patman bill, as I mentioned a while ago, the 100 percent reserve, the price level, and the creation of money and creating consuming power and purchasing power at the bottom, which perhaps resembles the Goldsborough bill, because you cannot have a bill unless it has part of the Goldsborough bill in it, because we must create a consuming power and a purchasing power at the bottom, like the Goldsborough bill, except that Mr. Goldsborough wanted to give it to all of them, to every citizen of the United States, but my bill provides that it go to the lower-income group, to that class of people that President Roosevelt speaks of as the ill-fed, ill-housed, and ill-clothed, and he referred to that class as one-third of the people, whereas he might have said two-thirds.

I want to read the preamble to my bill, and I understand now that while the preamble in my bill does not include the same principles entirely as the Patman bill, I do not know whether I am allowed to read that.

Mr. GOLDSBOROUGH. You are allowed to say anything for 30 minutes.

Mr. PATMAN. Anything you want to say, except to insult the committee.

Mr. BINDERUP. This is the preamble to my bill:

> Whereas there has developed in the method of conducting commercial banks in the United States the custom of lending the private credit of such institutions under the pretense of lending money; and
>
> Whereas such credit transferable from one depositor to another upon the books of the bank or through clearing houses or otherwise to books of other banks upon the check or order of the borrower or subsequent depositor is now generally accepted in payment of private debts the said practice in fact provides an uncontrolled and privately created circulating medium of exchange

which performs substantially every monetary function in violation of and practical nullification of article I, section 8, of the Constitution of the United States, which vests in Congress the sole power to issue the money of the Nation and regulate its value; and

Whereas this practice places in private hands, and deprives Congress of, the monetary control of the Nation, and confers upon certain individuals an unfair advantage over their fellow men, through which they may and do acquire unearned wealth to the end that the product of labor and genius is consecutively concentrated in the hands of the few who have this unfair advantage, in violation of the fundamental principles upon which this Nation is founded; and

Whereas in effect there is no difference between the issue of this uncontrolled credit and the unsound and thoroughly discredited wildcat bank notes of our earlier history; and

Whereas the uncontrolled alternate expansion and contraction of this synthetic medium of exchange induces recurrent periods of uncontrolled and disorganizing inflation, invariably followed by disastrous periods of equally uncontrolled contraction, bankruptcy, and distress:

Now, therefore, in order to restore to Congress the sole power to issue money and to regulate its value, and to promote and control the economic welfare of the Nation to the end that unemployment and poverty may forever be controlled, and full and profitable employment and production, and continued and uninterrupted prosperity be restored to the people of these United States.

Then I want to read briefly the fundamental principles of this bill.

It amplifies the velocity of our money—and that is an important thing, when you stop to think how today our money is lying dormant, for we know that in 1929 the clearing houses of the United States cleared 1,230,000,000,000 worth of dollar checks, and we know that in 1933 it went down to 400,000,000,000, and we know that it has gone back again to 600,000,000,000. We know that the velocity of money is so very essential that any bill that will answer this purpose must do two things. It must provide for volume, but it must create the velocity of the money already in existence.

This bill amplifies the velocity of our money supply by creating a purchasing and consuming power at the bottom, among the ill-fed, ill-clad, and ill-housed portion of our population, in exactly the same proportion and in the same degree as money expansion takes place, thus avoiding any possible inflation.

It establishes the plan whereby banks become merely the custodian of demand bank deposits, thereby preventing the banks from minting and unminting our money supply; thus avoiding booms and depressions, bankers' inflation and deflation. It reestablishes the constitutional provision that "Congress shall have power to coin (issue) all money and regulate the value thereof."

It establishes, for the first time in the history of civilization, a measure of value that measures all values for the purpose of equitable exchange, the same yesterday, today, and tomorrow; a dollar with the same purchasing and debt-paying power a year ago or a generation hence that it has today; that definitely protects the creditor as well as the debtor.

It creates a lasting prosperity by reestablishing and maintaining the great American market for American goods and American services.

It provides for the increase of our national income to $108,000,000,000 in the first 18 months of its operation by increasing the purchasing and consuming power in and among the lower-income group and thereafter an annual increase of national income of from 8 to 12 percent (governed by the ceiling of prices—based on the average of 1926—at 100 percent) to keep pace with the physical increase of all commodities, increased business, and new industries (based on 25 years' statistics), including increased population—1,000,000 yearly average—increased prices to 1926 level, money exported to foreign countries, money lost or used in the arts.

It recognizes that our needed yearly increase in money supply—and here let me say this, that we have 15,000 little mints, banks, in our country. They talked about tinkering with the money supply. These banks tinker with our money system from the time they open their doors in the morning until they close the bank in the evening, by expanding credit and contracting credit. Through our existing banking system, we have 15,000 tinkerers with the monetary system, and this bill prevents positively a continuation of that uncontrollable method of money control.

This bill recognizes that our needed yearly increase in money supply must be earned and forced in circulation from the bottom and up, rather than being bribed or coaxed into circulation from the top and down through mortgages and interest charges on a people who have been depleted of equities by money monopoly and man-made booms and depressions. It positively prohibits a ransom being extracted from the people for the creation of their own money.

Here I want to pause a moment. In the chart that Mr. Patman provided us the other day, it seems to me that he overlooked one important fact when he showed how those 24 banks controlled billions of dollars in these various industries. He did not stop to tell how these large corporations own and control all of those industries. I want to dwell just a moment on that issue.

I know about how that system works, and let me cite one case to you, to show exactly how it works.

In 1929 I signed a contract with a large chain-store company involving the leasing of a building to be erected in Minden, Nebr., for a consideration of $75,000 annually, for 20 years. That was in the early part of 1929. I signed the preliminary specifications covering the building, and then I signed the lease contract, but things happened and in the final specifications they put in additional material and provisions that raised the price of the building to almost twice the original cost. A little later I thought it wise to get a financial report on this company, and when I went to the bank I was assured that this company's contract was as good as a United States Government bond, just as secure; but, this being a big investment for me to make, I determined to get that financial report and finally got it, and took it to the bank and wanted them to analyze it, but they could not do it. Then I took it to experts in Omaha, and they could not figure it out. In the meantime, a man I knew in South Dakota, who had been a credit manager for that company for many years, told me a lot of inside information and he said that in New York they had taken that lease, that promise to pay me $75,000 in 20 years, and that they had reappraised it according to the usual method, deposited it in their bank, that they own themselves, and decided that the appraisal showed the lease was worth $50,000 more than I received, and they called this difference an asset of the company, and on the credit side of their ledger for that particular store they had credited the Minden store with $50,000 more, against which they could draw up checks, a sufficient amount to buy all fixtures and stock; in other words, their bank created an asset there of $50,000, against which they drew checks. They created their own money, competing against privately owned stores that had to earn or borrow their own capital.

This bill provides for liquidation of the entire national debt without taxing the people and without the issuing of a dollar by the Government or the creation of a single bankers' printing-press dollar, but by a simple switching of credits, exactly the same plan used by the big banks when they bought our Uncle Sam's bonds.

It takes away from the trusts their greatest instrument of monopoly, that of allowing them through their banks to create their own money. There is a question whether the banks own the trusts or whether the trusts own the banks, but it takes away from the banks the right to create money, and that is on the principle under which those 24 banks are operating today; they buy these interests in these large corporations and create their own money in order to buy these interests in those big concerns.

It makes the smallest bank as safe as the largest bank, eliminating entirely any argument for the dangerous chain-banking system.

It prevents bank failures by automatically insuring demand deposits, 100 percnt, free of charge to the banks and free of expense to the Government, leaving only the slight risk on time deposits for the Federal Deposit Insurance Corporation.

It balances the Budget automatically; it makes Uncle Sam a creditor in place of a debtor; a lender in place of a borrower; a master of finance in place of a servant; the guardian of his own soul; the captain of his destiny.

That is what the bill does, and I challenge the world. Now let me explain the plan, and show you how simple and easy the plan is all the way through, but it is impossible to giv you a very comprehensive understanding in the short time allotted me. Having devloped a chain of thought in my own mind, asking me to develop it in this short time is just as though someone were to come to you and say, "I wish you would put chapter 10 ahead of chapter 5 in your book." You would destroy your book, and if, in connection with my entire plan, you ask me to jump in and give you a little of it here and there, it is an utter impossibility and I should not start to do it.

I want to mention, too, because it is important, that this is not a partisan issue. I wish sometimes that I could say that this is a great Democratic issue, because I have always been Democratic, but when I read of the other noble men that have lived, both Republicans and Democrats, who have consecrated their lives to this important monetary question, I realize that it is not a partisan issue.

I was once asked by the members of a Democratic central committee: "Are you a Democrat or a Republican?" And I said: "I do not know. I have been studying that matter myself." The other day I read the history of Thomas Jefferson's political life, and afterward I felt that I was a good Democrat, as I agreed so thoroughly with his political philosophy. Then I read Abraham Lincoln, and said to myself: "No; surely I must be a Republican." Take Jackson—Jackson was a wonderful man, a Democrat; but then there was James A. Garfield; no man was clearer in his analysis of the monetary situation of the United States than Garfield, and he was a good Republican. I want to read just a few words of his. He said:

> Whoever controls the volume of money in any country is absolute master of industry and commerce.

No man could have made a stronger statement than that—"Whoever owns the monetary control in any country is absolute master of industry and commerce."

Then I want to read a striking statement that Abraham Lincoln made at one time, which was [reading]:

If the people or a government contracted a debt with a certain amount of money in circulation and they reduced the money volume before the debt was paid, it would be the most heinous crime a government could commit against its people.

And the chart shows that 26 times we have done that very thing that Lincoln condemned. Debts were created, and then we contracted our monetary supply and bankrupted our Nation 26 times, and we are today doing it the twenty-seventh time.

But I am getting a little ahead of my story. On the floor of the House I have several times given information that I received from a certain banker in Chicago, who is a personal friend of mine. In his letter of recent date he writes me as follows:

Last month the heads of the 12 Federal Reserve banks met in secret conclave during the American Bankers Association convention in Boston, where they plotted another depression, not too big to arouse the ire of the people, but big enough to discredit the administration in the eyes of the people and make them more willing to trust the private bankers with the management of their money supply.

Mr. Binderup, banking action will bear watching; so will the bankers' legislation.

Every panic there ever was, every depression there ever was, was created by private monetary control, and I challenge the world or any man to deny that statement, and I will verify it by statistics and history, that these panics are all man-made, made usually by the contraction of money—but not always. No; sometimes it is a little bit different. Sometimes they forget this part of our program right in here [referring to a chart], covering 50 years of statistics, showing that Uncle Sam grows 4 percent in population and in new industries, and sometimes when our Nation was growing very fast, as in the eighties, the panic was caused because we did not keep up with the money supply.

Now, if our Nation grows 4 percent every year—and England in the last 5 years has grown 10 percent annually—with this increase in physical commodities and this growth, sometimes panics are caused because we do not create sufficient money or circulating medium, and turn the money into the veins and arteries of trade and commerce, which is necessary to support Uncle Sam's growth. Our Nation should grow in money volume, which is the lifeblood of trade and commerce, the same as we grow physically. I find that in 1927 we should have added $1,013,213,000 to our money supply, and each year we should have added a little more. It would mean that in 1927 every individual in the United States would have to spend 2.3 cents more per day, and that could not possibly be inflation, especially if you put it into circulation from the bottom. By 1936 we should have added to our money supply $1,552,000,000 in order to keep up with the average growth of Uncle Sam, of 4 percent.

In place of doing that we went back. We decreased our money supply. In the last 60 days we have decreased the money supply of the United States, bank credit or demand bank deposits, $1,114,000,000, and during the year 1937 over 2 billion dollars.

There was an interesting thing that happened a few days ago. When I was talking with someone quite important in our Government I said: "You have always been so favorable to the Democratic Party reviving an industry, the liquor traffic, that has been dead for 16 years, and so I took pains the other day, before I sought this interview with you, to find out what the liquor traffic has done. It has actually created transactions in the last year, 1937, amounting to between four and five billions," and he said, "Isn't that wonderful? That is fine." I said, "That is a calamity. Why? Because we did not supply additional money for this revived industry in an amount sufficient to maintain this vast turn-over. And when we turned loose this industry, we robbed that four or five billion dollars from other industries in order to maintain this new one; and so, whenever a new industry starts, it is not a blessing but a curse, unless you supply the necessary amount of money to maintain it."

Last summer, while I was in Europe, I had a conference with some bankers, and one of the three executives of one of the banks told me how wonderful the development had been in Denmark, that they were increasing the number of new industries all the time, and he asked me what I thought about it. I only said that we have so much in America to take care of that I hesitate to say what should be done in Denmark, but I did say: "Isn't there some way to stop your nation from starting new industries? Isn't there some provision in your constitution that could prevent this catastrophe?" The bankers looked at me in surprise and wondered what I really meant until I explained: "Because you have linked your money to gold. You have gone the limit. You tell me you cannot issue another krone; consequently every industry that comes into Denmark is robbing other industries, and that is the reason your farmers are starving to death. That is the reason you are destroying the greatest agricultural country in the world. By increasing industry and refusing to issue more money you are robbing the farmers so that they cannot live—until they now have three or four mortgages on every farm, and are paying as high as 7-percent interest."

They told me it was so wonderful the way industry was increasing in Denmark, when it was a calamity. They have blanket mortgages on their farms, and at the price that they are selling their products, and with their processing tax, they are squeezing production down, down, down. I said: "I can easily see that with your processing tax continually reducing the number of hogs, and adding more tax, reducing consumption, with higher prices and fewer hogs, you are trying the impossible plan of creating prosperity by scarcity."

A cousin of mine had just received word that he had to reduce his cowherd. He used to have 50 cows, and was commanded by his government to reduce to 33 cows, and now again to reduce 5 cows. He used to have 126 fat hogs per year, but they have been reduced to 43. I said to him: "With this situation, and with these processing credit cards, the time will soon come when you will have only one single hog in Denmark, because of the plan of contraction in place of expansion. It is just as easy to balance production with millions of commodities and more billions of money, as with one commodity and less money. And one means misery and the other starvation."

I want to read from just three more of those outstanding quotations from our great statesmen. I wish they could be with us today. They are with us, my friends, in spirit.

I want to read what Andrew Jackson said about the question with which we are today confronted:

Now the battle is to be fought between the aristocracy of the few and the democracy of numbers. The question is whether the people are to continue the sovereign power in their own hands, or whether we shall be governed by the combined money power of the aristocracy through their own paper banking system. All who wish to hand down to their children that happy system bequeathed to them by their Revolutionary fathers must now take their stand against this consolidated, corrupting money power and put it down, or their children will become hewers of wood and drawers of water to this aristocratic oligarchy through the corrupting power of the modern banking swindling system.

He was a man with great foresight, who saw exactly how it would destroy our great Nation, this control of money in private hands.

And then there are those words that you have heard so often, and we ought to read them every day, because there was no greater statesman than Thomas Jefferson:

If the American people ever allow private banks to control the issue of their money, first by inflation and then by deflation, the banks and the corporations that will grow up around them will deprive the people of their prosperity until their children will wake up homeless on the continent their fathers conquered.

That reminds me of a letter I received from my district, a very fine district, in Nebraska. Mr. Keifer, one of our prominent men, sent in a report on three agricultural districts, from three counties. I live in a district that used be very prosperous, but in 1937, in one county, 10 percent of the farms were foreclosed; in another county, 14 percent, and in the third, 22 percent; and Thomas Jefferson's statement that "your children will wake up homeless" is absolutely taking place at this time in my district, and in every district of the United States.

Then he went on and said:

The issuing power should be taken from the banks and restored to the Government and the people, to whom it rightfully belongs.

The fundamentals of my bill I would love to explain to you in a constructive manner, rather than rambling as I have today, but that is impossible in so short a time as 30 minutes.

The Government must get out of the banking business, lending money, and the banks must get out of the Government business, creating money, or there will never be any success. The Nation will never live. It is threatened today. Every nation that ever was and is no more died of exactly the same malady that is affecting and threatening the United States today. It is not our foreign enemies, my good friends, that will destroy our Nation. Nations rot at the core. They rot inside, through the centralization of wealth, that destroys the people. And whenever the people are destroyed the Nation is destroyed. It develops one class in luxury and overabundance, and another class in misery and starvation, and a nation thus divided cannot live.

It was the great statesman James G. Blaine who said:

The money question should be approached in no spirit of partisan bitterness. Firmly attached to one political party myself, firmly believing that parties in free government are as healthful as they are inevitable, I still think there are questions about which parties should agree never to disagree, and of these are the essential nature and value of the circulating medium of exchange.

Yes; it was James G. Blaine who said that. And so the great men who have gone before us, whether they were Republicans or Democrats, have all agreed about the importance of the monetary system.

President Wilson said: "The tyrannies of business lie within the field of credit."

He was in a more modern time. He was speaking in a time when bankers' credit, check-book money, was beginning to function as money, and he recognized that—

The tyrannies of business lie within the field of credit. Hence it is imperative that we should give to business a banking system by means of which they can make use of freedom of enterprise, and the control of the system must be public, not private, so that the banks may be the instruments, not the masters, of individual initiative.

That is one fundamental principle which is as real as sunlight, which is as true as the law of gravity, and that is the basis on which this bill is constituted and built up. It is the quantitative theory or the quantitative philosophy of money.

It was Adam Smith—they call him the father of political economy—who said, in his simple words, in his primer or kindergarten book, that—

money measures things, and things measure money; each measures the other according to its own abundance. If you retard or reduce the supply of money in circulation, you lower the price structure, and by lowering the price of everything you double your debt, because your debt is a fixed charge, and it will consequently take twice as much of labor and of the commodities of labor to pay the same debt.

Adam Smith went on to say, like Jefferson, Jackson, Blaine, Garfield, and all the rest of these great statesmen, that money is the lifeblood of trade and industry, a circulating medium of exchange that measures value by and according to its own supply and demand as compared with the supply and demand of commodities going into exchange or consumption, that it—money—must flow freely and unmolested through the veins and artieries of trade and commerce, and if at any time it is hindered in its flow or reduced in its volume, it coagulates in the money channels of the Nation and the wheels of industry are retarded and the factories are closed down, and when the factories are closed down, labor loses its employment and consequently loses its purchasing and consuming power, and that reflects immediately on agriculture, the largest industry we have. Why? Because agriculture is one industry that has no trust protection whatever. It responds immediately to the law of supply and demand, and when labor discontinues buying from the farmer, the prices of farm commodities come down below the cost of production, and then you have sacrificed the farm purchasing power, together with the farmer; then you have crucified the American market for goods—you have crucified labor's 31 percent and agriculture's 50 or 55 percent demand for goods, because you stopped the flow of money and because you did not see to it that the flow of money was ample to take care of industry and agriculture.

There are many others who have spoken on this question, but that is enough. The bill and the charts I have were builded on that irrevocable foundation of all analysis, the history and the cause and effect of depressions, and the cure and prevention of further depressions. I will not take the time of the committee to go into the history of the causes of these depressions, but I will take the one of 1920 and give you some startling information as to how the panic of 1920 happened, and show you the men who caused that panic, and what those men said that caused that panic, and step by step show you how the Nation was destroyed because 52 men (bankers) met in secret conclave and decided to take money out of circulation, because they were interested in money being scarce, in order to get more interest; and they met for that purpose.

I suppose I have taken up my half hour in rambling to you—rambling to you in reference to this very important matter because I could not have the privilege of going through my program and showing you step by step how these things have developed in our Nation, in a way that would crystallize in the minds of everyone just what happened. And when I read this to a group of Congressmen lately, one of them said, "Read that again. That reads to me like a crime. Where did you get that?" I said, "Carter Glass." "Here are the minutes of the meeting that they had at that particular time."

I also read it to our good Speaker, Mr. Bankhead, and to Mr. Rayburn, and when I had the privilege of reading it to them, it was Mr. Rayburn who said to me, "Read that over again. Where did you get that information?"

It was the minutes of the meeting they held on the 18th day of May 1920, the crime of 1920. The 1929 panic was absolutely and definitely the result of the panic of 1920. It started at 9 o'clock in the morning, on the 18th day of May 1920, and I challenge the world to deny it, because I hold in my hand the minutes of the meeting, the records of which were held back for 3 years, and (according to my banker friend in Chicago) a great deal of the incriminating testimony deleted. But there is plenty left.

When W. P. G. Harding held this meeting, what happened? He started the meeting off with these words, "It is a fortunate thing that when there is anything wrong with the monetary system, the banks can get together and settle it." He did not stop to consider that there were 135 million people that suffered untold misery as the result of what these bankers did. He evidently forgot that the Constitution provides that the people should settle the matters pertaining to money. In his opening statement, continuing, he said, "The fact must be recognized that, however desirable on general principles continued prosperity, expansion of trade and industry may be, such developments must accommodate themselves to the actual supply of capital and credit made available by the banks. Again let us pause and consider the words of James A. Garfield, "Whoever controls the money supply of a country is absolute master of all trade and industry." Could you imagine anything that is a more clear-cut declaration of the usurpation of power, deliberately planning a panic or depression just so their interest and dollars could buy more? No matter how much you love prosperity, a continuance of the prosperity that we had at that time, such things must adapt themselves to the will of the bankers. It is a most astounding statement, and I want to read it again to you, and then I will close:

> The fact must be recognized that, however desirable on general principles continued prosperity, expansion of trade and industry may be, such develop-

ments must accommodate themselves to the actual supply of capital and credit made available by the banks.

That is the history of every one of our panics. It was because the banks were interested in having money made scarce, because of the interest feature. They wanted money scarce so that interest would have a greater purchasing power. We had had a great war and in this war the price level of all commodities had been raised very high, in 1917–20, but there was one thing that had not raised, and that was interest. They had billions of dollars invested in securities and they knew that they could not change that interest rate. But Adam Smith told them how to do it. He told them about the quantitative theory of money, that if they wanted 4 percent to equal 12 percent, all they had to do was to make money scarce, and then they could make 4 percent interest have a purchasing power of 12, 15, or 20 percent, as high as they wanted it, by reducing the amount of money in circulation.

Mr. CRAWFORD. Was this the bill which you took to Europe, No. 7627?

Mr. BINDERUP. Yes; it was. I wish to add, however, that at the close of the second of the 2 days, when I was a house guest of Dr. Cassell, he said, "You have one little weakness in your bill. You are trying to stabilize all United States bonds; that is an unnecessary burden to place in your bill; you are trying to do too much. In case of war, you might fail, and if you failed in your bill, in your great America, posterity will have to wait 100 years until we have another chance." And Professor Fisher had suggested the same thing. Therefore I did change that part of the bill, but I merely changed that one part only.

Mr. CRAWFORD. And the preamble that you read was from H. R. 7627?

Mr. BINDERUP. Yes, sir. That has never been changed.

Mr. CRAWFORD. And it is to H. R. 8585 that you directed your remarks?

Mr. BINDERUP. I had H. R. 7627 at first, and then I reintroduced it under the new number, H. R. 8585. Later I again changed the wording of this bill; I eliminated the part that pertained to the stabilization fund, providing for stabilizing the price of the pound sterling and the franc. I wanted my bill to be more simplified, to merely take the banks out of the money-creating business and to take the Government out of the banking system. So I introduced the same bill again, eliminating this provision. This is the present bill, H. R. 9800.

Mr. CRAWFORD. Then the preamble which you read was from H. R. 9800?

Mr. BINDERUP. The preamble was never changed.

The CHAIRMAN. We will have to answer the roll call.

(Thereupon, at 12:15 p. m., an adjournment was taken until Friday morning, March 18, 1938, at 10:30.)

GOVERNMENT OWNERSHIP OF THE 12 FEDERAL RESERVE BANKS

MONDAY, MARCH 21, 1938

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

Hearings were resumed on H. R. 7230 at 11:55 a. m., Hon. T. Alan Goldsborough presiding.

Other members of the committee present:

Mr. Reilly, Mr. Williams, Mr. Spencer, Mr. Farley, Mr. Meeks, Mr. Ford, Mr. Brown, Mr. Patman, Mr. McKeough, Mr. Transue, Mr. Gifford, Mr. Luce, and Mr. Crawford.

Mr. Goldsborough. The committee will be in order.

Gentlemen of the committee, if it is satisfactory to Mr. Patman, any hearings that we have after today will begin at half past 10, whether there is anybody here but the chairman or not.

That is the only way I know of to start at half past 10.

Mr. Patman. That is the way I would like to do it.

Mr. Goldsborough. If it meets with your approval, the hearing will begin tomorrow morning at half past 10.

Mr. Patman. I certainly commend the chairman for taking this step. I believe, though, that it will be Thursday before I will be able to have another hearing, and I expect to finish then; and, as far as I am concerned, I expect to finish in a few minutes, and after I finish I want Senator Owen to explain one or two proposals to the committee, and then finish up this week, and I think that on Thursday we will be able to finish it, and then I expect the committee to bear with us in reading the bill under the 5-minute rule.

Mr. Goldsborough. I understand that Mr. Steagall called up on Saturday and requested that the bill be not read until he got back.

Mr. Patman. That is right. He said that when he got back it would be all right to take it up under the 5-minute rule.

Mr. Goldsborough. I do not know when he is coming back.

Mr. Patman. I think it depends on the political situation down there, and I join in expressing the hope that he will take care of it first, if it is serious for him.

Mr. Goldsborough. Very well; you may proceed, Mr. Patman.

STATEMENT OF HON. WRIGHT PATMAN—Resumed

Mr. Patman. Over the week end, Mr. McKeough of Illinois, Mr. Crawford of Michigan, and myself, members of the Banking and Currency Committee, considered all the objections that were urged against H. R. 7230, a bill providing for the Government ownership of the 12 Federal Reserve banks, and agreed upon amendments which we expect to propose to the bill to meet those objections. We considered the suggestions made by Mr. Transue although he could not be present at the meeting.

We recognized, of course, that the objection that the chairman of the committee urged, that the declaration of policy was not sufficient, was not only a proper objection, but a serious objection, and we concede, and the friends of the measure concede, that we must have a mandate that is sufficient and one that can be enforced.

PROPOSED AMENDMENTS

So, having those objections in mind, we tried to work out an amendment that we expect to propose when the bill is read under the 5-minute rule that will meet that particular objection. The amendment is as follows:

> It shall be the duty of the Federal Reserve Board to raise the all-commodity index, or the so-called price level, until full employment of all persons able and willing to work shall have been achieved, and until the price level shall at least reach the all-commodity index of 100 as established by the Department of Labor for the year of 1926, which is the same as the average for the years 1914–30, inclusive.

Mr. GOLDSBOROUGH. Is a fair interpretation of that that the all-commodity price index shall be raised indefinitely until there is full employment, but that in any event it shall be raised to the 1926 100?

Mr. PATMAN. That is right.

Continuing with the amendment:

> Thenceforth such price level shall be standardized and maintained at a variation not to exceed 2 percent above or below the standard reached as aforesaid. It shall be the duty of the Federal Reserve Board in accomplishing these ends to expand demand bank deposits by the purchase of United States bonds and notes, or bonds secured by the United States, or bonds of States and subdivisions thereof, or other sound bankable assets; and to contract demand bank deposits by the sale of the securities aforesaid.

Second, in order to make sure that Congress may have charge of regulating the value of money at all times provided in the Constitution, the following amendment is proposed——

Mr. WILLIAMS. Will the gentleman yield?

Mr. PATMAN. I yield to the gentleman.

Mr. WILLIAMS. In connection with their duties there, in expanding and contracting the currency, is that giving them any powers additional to what they have now?

Mr. PATMAN. Well, I think that under the present laws they could do this, but they will not do it, and we want to place a mandate in here that they should do it, make it their duty to do it, and then in the next amendment we have a way to compel them to do it.

Mr. WILLIAMS. All right.

Mr. PATMAN. That is this amendment—let me read it.

> The Board of Governors of the Federal Reserve System is hereby declared to be the agency of the Congress to create money and regulate the value thereof as authorized by the Constitution of the United States and the individual members of such Board shall hold office subject to the will of the Congress of the United States; and either the Senate or the House by resolution may authorize and request the President of the United States to nominate a successor to a member of the Board from any Federal Reserve district regardless of the term for which he was appointed, whereupon, the office of such member upon the passage of such resolution shall be vacated.

You see, the first is establishing a duty that the Board must perform, and the next is providing a way that the Board can be dealt with in the event of a failure of the Board to carry out that duty, a failure either of the Board or of any member of the Board. It seems to me that is placing the power in Congress where the Constitution says that power should be placed. It keeps Congress in charge of the Board, and that Board is delegated the power to carry out the will of Congress in regulating the value of money.

Mr. WILLIAMS. That Board is still to be appointed by the President?

Mr. PATMAN. It may be, but any member or all may be removed by either house of Congress if they do not carry out the mandate that the Congress gives to them.

Mr. WILLIAMS. Have you considered the possibility of running into a conflict between the legislative and the executive branches of the Government there?

Mr. PATMAN. No, because the Constitution says Congress shall regulate the value of money, and Congress has not done it. This bill is to carry out the constitutional mandate, and we are establishing, as an agency of the Congress, the Board of Governors of the Federal Reserve banks, to carry out that mandate.

Mr. WILLIAMS. As I see it, Congress has done what your bill provides for; Congress has, upon the adoption of this bill, given them the power to do that very thing.

Mr. PATMAN. Yes, but we have less control over them; we have no control over them in the world. The law has been changed and amended.

Mr. WILLIAMS. Do you think it is purely a matter of administration?

Mr. PATMAN. I think it is; yes, sir.

Mr. WILLIAMS. And they do not need any additional powers?

Mr. PATMAN. Well, of course, if additional powers are needed—yes; they need some additional powers.

Mr. WILLIAMS. Have you any suggestion along that line?

Mr. PATMAN. Yes, sir; it is in the bill.

Next we suggest——

Mr. GIFFORD. Do you want any questions?

Mr. PATMAN. Let me finish, and I will be glad to answer questions, or, if it is on this particular point, all right.

Mr. GIFFORD. Your remarks seem to indicate that the Congress is omniscient in its judgment.

Mr. PATMAN. No; but Congress has the duly elected representatives of the people, whereas the bankers are selfishly interested, and I think it is in the interest of the general welfare for the representatives of the people to be trustees, rather than the bankers who are selfishly interested.

Mr. GIFFORD. I remember that we passed the Neutrality Act.

Mr. PATMAN. I do not think that this has anything to do with that.

Mr. GIFFORD. Congress spoke violently and forcibly and to the point in the Neutrality Act.

Mr. PATMAN. This places a mandate, and the way to deal with the people who refuse to carry out that mandate.

Mr. Goldsborough. Mr. Patman, as I remember it, in the last amendment you read, it was provided that Congress can request the President to replace the incumbent. Did you use the word "request"?

Mr. Patman. Well, it means this, that a resolution passed by either body may create a vacancy on the Board, and then the President will be, of course, expected to suggest and name someone to fill that vacancy.

Mr. Gifford. May I ask some questions here?

Mr. Ford. You would have the Senate passing a resolution, when the House had nothing to do with it?

Mr. Patman. Yes; either body.

Mr. Ford. I do not know about that. Those two bodies are too far apart.

Mr. Patman. That is something that we could consider in the way of an amendment, but, as we have it here, either House, if it passes a resolution, can vacate one of those places. And why should not either House have that much power? Its Members are from all of the States.

Mr. Williams. Do you consider this Board now a legislative or an executive branch of the Government?

Mr. Patman. Well, now, I guess it is quasi-legislative. It is intended, I presume, to carry out the constitutional mandate on Congress to regulate the value of money. Yet Congress, because of the laws and the amendments to the laws that it has passed, has very little power over that Board. Congress has given up most of its power, and, as you suggest, it has placed more in the power of the Executive than in Congress. If that is true, it should be taken away from the Executive and brought back to Congress. There is no constitutional grant of power to the President to control that Board.

Mr. Williams. You would not have the members of that Board appointed by Congress, would you?

Mr. Patman. No. I would have the President recommend them, regardless of who the President was. I think that the President should recommend them and appoint them, but that they should be appointed subject to this law.

Mr. Williams. Do you consider that under your bill and the amendments which you have proposed, their functions would be largely legislative?

Mr. Patman. Well, it would be an agency of Congress, but I guess it would be more administrative, to carry out the will of Congress. We would do the legislating, and they would do what we want done. We have done that before.

Mr. Goldsborough's bill passed one House and told them what to do, and of course they have ignored it, which they had a right to do.

Here we give them a mandate very similar to that in Mr. Goldborough's bill of 1932, and then we fix a way so that, if they do not carry it out, we can deal with that; we can make them do it. Now we do not have that power.

Mr. Williams. I am thinking more about the manner if the appointment and the removal of the members of the Board.

Mr. Patman. I think that the Executive now has power that Congress should have, because Congress has power over the Board that regulates the value of money.

Mr. WILLIAMS. Is that true of any other board, or bureau, or department here?

Mr. PATMAN. It happens that this is the only Board that we are dealing with now that really comes under a specific provision of the Constitution. You know, we are dealing primarily with a grant of power by the Constitution of the United States, and that grant of power is that Congress shall coin money and regulate the value thereof.

Mr. WILLIAMS. There are dozens of powers given to Congress that are delegated and passed on to other executive departments, and an immense number of them.

Mr. PATMAN. I suspect that you are right about that. You take the Interstate Commerce Commission——

Mr. WILLIAMS. Practically all of them.

Mr. PATMAN. Yes; but I think that this is of greater importance than the others, because this involves the economic life of this Nation. As Senator Owen so ably stated here, the value of any commodity, and after all, values are determined on whether or not this country is prosperous or whether we are in a depression—the value of any commodity depends upon the supply of money, upon the demand for money, upon the supply of the comomdity, and upon the demand for the commodity. So this reaches the economic life of our entire Nation. It is more than dealing with just the railroads, or the radio stations, or business through the Federal Trade Commission. It is dealing with the economic life of our entire Nation.

Mr. WILLIAMS. Is it your idea and your thought that this Board, whatever we call it and however it is appointed, can regulate and control the general commodity price level?

Mr. PATMAN. It is based upon that theory; yes, sir.

Mr. WILLIAMS. I suppose you recognize that there are many other factors that enter into that?

Mr. PATMAN. Yes, there are other factors, but I think that the Board can determine it when there is the least danger of inflation, and when there is not the Board admits that they can pass on it—they brag about stopping the inflation last year. If they can brag about stopping inflations, why can't they do something to stop deflations and brag about that?

Mr. WILLIAMS Have we ever had a board that has expressed the idea that they could control the commodity price level?

Mr. PATMAN. I did not not hear your question.

Mr. WILLIAMS. Have we ever had a Federal Reserve Board that has had the idea that they could do that?

Mr. PATMAN. I think the governor of the Federal Reserve Bank of New York which practically controlled the System then back in 1921–28, I believe it was, Mr. Strong—demonstrated much ability along this line.

Mr. WILLIAMS. Not at all.

Mr. GOLDSBOROUGH. That is Mr. Benjamin Strong that you are talking about, who was president of the New York Federal Reserve Bank.

Mr. PATMAN. But he had that idea, and he sold it to his associates, did he not?

Mr. GOLDSBOROUGH. I do not know.

Mr. PATMAN. I know it was advocated through him——

Mr. WILLIAMS. Oh, no. If you will read the hearings of 1926—and I was not here, but I read the hearings—you will find a positive declaration running through all those hearings, that he thought it could not be done.

Mr. PATMAN. Whether he thought it or did not, and whether any member of the Board thought it at any time in the past or did not, I am not concerned with.

Mr. WILLIAMS. Well, of course, I make that statement for the reason that I thought those men who had charge of this agency through all these years had opinions about the operation of this matter that would be worthy of consideration in this connection, and that would be worth at least as much as the ordinary man's opinion.

Mr. PATMAN. Regardless of expressed opinions, if they entertained the view that you suggest, their acts contradict their expressed views, because every time there is the least danger of inflation of the bond market, they go into action immediately, and all that we are trying to get them to do is to get into action on the commodity side.

Mr. WILLIAMS. I do not think that anyone would contend, and I certainly would not, that they do not have some influence on it; I do not mean to be understood as saying that they cannot do anything on that Board, because I think they can, but there are so many other factors, according to my view of it, that they cannot absolutely control the situation through the price level alone.

Mr. GIFFORD. May I have some time?

Mr. GOLDSBOROUGH. May I make an observation? I have been here a good many years, and what happened was this: Mr. Strong had a tremendous influence with the whole Federal Reserve System, and he endeavored, through his influence, and succeeded reasonably well, in maintaining a stable average price level. But the difficulty was that while various industrial prices were above the 1926 level, agriculture was below, and the buying power of agriculture was so affected that it brought the house of cards down in 1929. After May 20, 1920, as far as my opinion goes, agriculture has had no sort of prosperity. It was the lack of agricultural prosperity which brought the panic of 1929, and so while the general price level was kept stable, the uniform price level of agricultural commodities was not up to where it should have been by any means.

Mr. PATMAN. That is my understanding. I know that cotton was low in 1926, but I am not afraid of the 1926 level, because the 1926 level does not deal with one commodity; it deals with all the commodities, of course; and in dealing with all the commodities, if they are brought back, cotton will be brought back in line with them.

Mr. GOLDSBOROUGH. I think I stated the other day the reason the bill was so framed in 1932, where we took the level between 1921 and 1929 instead of the 1926 level, was because we realized that cotton was low in 1926.

Mr. PATMAN. I considered that at the time, but I did not consider that an objection, because we are not dealing only with cotton, or with wheat——

Mr. GOLDSBOROUGH. But there we were dealing with a practical situation.

Mr. PATMAN. Of course, it is a nice stump speech, but it is a distinction without a difference, as I see it. I think the price level from 1921 to 1929 is exactly the same, and it is the same as the level from 1914 to 1930.

Mr. GOLDSBOROUGH. I expect that if we had used 1926 in the 1932 bill, the Members of Congress from cotton constituencies would have hesitated a long time.

Mr. PATMAN. I would not, because I considered it at the time, and if we were dealing with one commodity, that would be different, but we are not.

Mr. GOLDSBOROUGH. Of course, you are right; but I am talking about what the voters back home would think.

Mr. PATMAN. I know; but I am willing to take a chance on the voters back home, and I feel that they will get the right information and not object to it.

Mr. WILLIAMS. What will the voters back home think if we pass a bill that places in the hands of a board the absolute authority to fix prices?

Mr. PATMAN. It is not to fix prices as such. It is to fix the price level. Like it is now, the private bankers have considerable power over fixing the price.

Mr. WILLIAMS. From the standpoint of the voters, do you not think there is some small danger about that?

Mr. PATMAN. No; I am not afraid of it. I think that the voters will come nearer condemning you if you do not do something along this line.

Mr. WILLIAMS. You favor giving the board the power to fix prices?

Mr. PATMAN. Yes; I do, in preference to those who have been fixing prices.

Mr. GOLDSBOROUGH. This bill does not do that; it does not give them the right to fix prices. It tells them what the price level should be, and directs them to bend their efforts to reach that particular level.

Mr. PATMAN. That is right. I thought that I made that plain.

Mr. WILLIAMS. But, after all, that is the result?

Mr. PATMAN. The price level; yes.

As between the two, I showed the gentlemen of this committee here that 24 banks already control one-fourth of the country's resources; they have more to do with the price level today than any other group in America.

So the gentlemen's constituents would probably ask him, which do you want, the fixing of the price level by fellows who are selfishly interested, or by Government representatives?

Mr. WILLIAMS. No; because they do not believe that, and neither do I, that they have that power. I do not think the Board has that power, and I hope they have not.

Mr. PATMAN. Which board?

Mr. WILLIAMS. The Board of Governors of the Federal Reserve System.

Mr. PATMAN. You mean now?

Mr. WILLIAMS. Yes.

Mr. PATMAN. You will notice that if there is the least sign of inflation, they say they have the power to stop it, and if the bond market goes down a little bit, they will stop it. They can always do something that is deflationary, but they never seem to do anything to increase the money supply when it is needed.

Mr. WILLIAMS. What have they done that is deflationary?

Mr. PATMAN. They doubled the reserve requirements of the banks, plowing under billions of dollars of potential credit.

That was one thing. Another thing possibly the Treasury was more responsible for was sterilizing the gold in the Treasury. That was deflationary.

Those two things——

Mr. WILLIAMS. Let me ask you this. Do you think that they made a mistake in raising the reserve requirements?

Mr. PATMAN. I certainly do; because there was no reason in the world why they should be raised.

Mr. WILLIAMS. What effect did that have?

Mr. PATMAN. It caused a lot of banks that did not have the reserves needed to sell bonds in order to get the required reserves.

Mr. WILLIAMS. There was not very much of that.

Mr. PATMAN. Considerable of it. Then it made many of these bankers watch out, watch their reserves, for when they went down close to the border line, they knew that they had better be careful about making loans.

Mr. GOLDSBOROUGH. I have perspired a lot over this question, and I have given it considerable consideration. I agree with your conclusion that what they did caused this present recession, this tail spin, but I think it was more because business became frightened than anything else.

Mr. PATMAN. Statements were made that were calculated to frighten business.

Mr. GOLDSBOROUGH. I think that the banks still had adequate reserves to take care of the business even after the reserve requirements were raised, and I think that at a time when there is a considerable percentage of our people who want employment and are not employed it is a mistake to call conditions like that inflation or inflationary. I do not believe inflation exists while you have a considerable portion of your people who are willing to work and who have not got employment.

That is my opinion about it.

Mr. FORD. Might I make an observation there?

I think that one of the confusing points that the monetary students or experts make is that they tie up the stock markets with the commodity markets. They tied up the situation in 1929, when the stock market was way up in the blue sky and when the commodity markets for the most part were down in the dumps, and changing the reserve requirements of the bank had no influence at all on stopping the stock boom. They tried that in 1928 and 1929, and it did not have a particle of effect on it. The presumption is, however, that it did affect commerce and business, because it made it harder for them to get money, and the banks were not lending money to commerce and business at 5 and 6 percent when they could go to the stock market and get from 14 to 20 percent; and that was the fly in the ointment.

Mr. PATMAN. That was in 1929.

Mr. FORD. Yes. When you increase the required reserves you naturally contract credit, don't you?

Mr. PATMAN. Necessarily, yes; potential credit, at least.

Mr. FORD. You do contract credit when you do that, and that always makes me wonder, and I hope somebody before this committee will explain it, how in the world we could do any business on 100-percent reserves.

Mr. PATMAN. If you gentlemen will bear with me for a moment, I only have two or three short amendments to suggest, and I would like to finish reading them to you. Then I have talked to Senator Owen about these amendments, and he agreed to answer some questions if the committee desired to ask him questions about these amendments.

OTHER PROPOSED AMENDMENTS TO THE BILL

Third, we also suggest that the directors of the 12 banks be appointed by the Board of Governors of the Federal Reserve banks and subject to removal at will by this Board.

Fourth, in this bill it is proposed that we will have 15 members, 1 from each Federal Reserve district and the Comptroller of the Currency, the Secretary of the Treasury, and the Chairman of the Federal Deposit Insurance Corporation. We propose to leave the Secretary of the Treasury, the Comptroller of the Currency, and the Chairman of the Federal Deposit Insurance Corporation off; just make it 12 members of the bank, but require them to coordinate their activities and efforts with the Board of Governors.

Next we propose that these 12 institutions with the 25 branches should be conducted as one institution. This will prevent much overlapping of bookkeeping and clerical work and will cause the System to be operated more efficiently and at much less expense.

Those are the amendments that we propose and that we will ask the committee to consider when they read the bill under the 5-minute rule.

Now, Senator Owen does not agree with me on the raising of the reserve requirements. I heard his statement here the other day, and I have so much confidence in Senator Owen that I am not going to take issue with him about it, because of his knowledge of the subject, and because he knows this Federal Reserve law. He had more to do with it, I think, than any other one man in America, and I think that this committee is very fortunate indeed in having the privilege of asking questions of a man who possesses the knowledge, the ability, and the background of Senator Owen, and I just wonder if the members of the committee would like to interrogate him on these points that I have raised here, especially on the price level and removing the Board of Governors if they fail to carry out the mandate of Congress.

Mr. FORD. Just one more question, and this bill worries me: Can the House or the Senate alone assume the authority of removing somebody from a board, without joint action? Isn't it something that affects the national problem, and, therefore, should it not be a joint thing, between the House and the Senate?

Mr. PATMAN. With your permission and Senator Owen's permission, I will ask Senator Owen if he will answer that question.

Mr. OWEN. Does the committee wish that I should reply to that?

Mr. GOLDSBOROUGH. Of course.

Mr. OWEN. If the act passed as proposed, it would be the joint action of the House and Senate. That gives to the House, and gives to the Senate, the right to pass a resolution either of the House or the Senate which would cause a vacancy in office, and the suggestion, I take it, is made because Caesar's wife should be above suspicion.

Mr. SPENCE. Mr. Patman, the power in the Constitution to regulate the value of money is a legislative power, is it not?

Mr. PATMAN. Well, yes; it is a legislative power. I would consider it so.

Mr. SPENCE. Now, if you delegate that power without any limitation, or without any definition, or without any objectives, that is delegating the legislative power, is it not?

Mr. PATMAN. I would think so; yes, sir.

Mr. SPENCE. But if you defined that power when you delegated it to a specific thing, then you are delegating an administrative power?

Mr. PATMAN. That is right; a specific power, to administer only, and that is what we have attempted to do in this amendment, to specify the power and the duty, and then a way to deal with people who refuse to carry out that duty.

Mr. SPENCE. In other words, would not the Federal Reserve Board have very much greater power when legislative power of Congress is delegated to them without any definition or without any objective, then if you put a definition or objective into the power, when that is all that you delegate, whereas if you have no limitation on the power you delegate, you delegate the power that is vested in the Congress of the United States, and you certainly delegate to the Federal Reserve Board a legislative power.

Mr. PATMAN. That is more like it is now.

Mr. SPENCE. Yes.

Mr. PATMAN. Whereas this bill, compared with the present set-up, is more a restriction of power than it is the granting of power, comparing it with the present set-up.

Mr. SPENCE. You say that you do not give them any additional powers, that they can do everything which you have directed them to do in your bill, if they should desire to do it now?

Mr. PATMAN. I think so.

Mr. SPENCE. There is no limitation on how they can exercise that power at all, then?

Mr. PATMAN. But my point is that they never exercised it in the direction of placing a sufficient money supply in the country. They always exercise it the other way. They always get into action immediately on the other side, but they never do anything to expand when I believe expansion is necessary.

Mr. WILLIAMS. Do you think that raising of the reserve requirements by the Board during the latter part of 1936 and the first part of 1937 had anything to do with the stock market?

Mr. PATMAN. Of course, it necessarily affected the stock market, I think, but many people better informed on the subject than I am believe that the deflationary statements that were made by people in power had more to do with this depression than raising the reserve requirements. Possibly they are right, but I do not think so.

Mr. WILLIAMS. After the reserve requirements were raised, there still was, and is now, about 1,400,000,000 in excess reserves.

Mr. PATMAN. In charge of certain banks, yes; but many banks do not have much in the form of excess reserves.

Mr. WILLIAMS. Well, there are excess reserves all over the country.

Mr. PATMAN. As to how well scattered they are, I do not know. I have not checked up enough to determine that.

Mr. WILLIAMS. And still there does not seem to be any demand for that credit.

Mr. PATMAN. You did not have 1,400,000,000 when the reserve requirements were raised. That reduced it down to about, I know, 700,000,000 or less.

Mr. WILLIAMS. All right; and there is no demand for that.

Mr. PATMAN. Well, we do not know. I do not know what banks these reserves were in. If it was in certain localities, banks might have had an opportunity to make loans but they did not have any excess reserves in their banks.

Mr. WILLIAMS. But you believe, of course, in the power to raise excess reserves?

Mr. PATMAN. Oh, yes; I believe in it if you have a mandate. I would not be in favor of their having any more power; in fact, I would take power away from them, if I could, to raise the reserve requirements that we gave them in the 1935 act, but we cannot now. I would give them unlimited power if we impose upon them a specific duty like we propose to do here, and then have the power to remove them if they do not carry out that duty.

Mr. GOLDSBOROUGH. As I remember it, your bill provides that they can raise and lower the reserve requirements.

Mr. PATMAN. Yes.

Mr. GOLDSBOROUGH. I understood you a minute ago to say that you did not approve what had been done in order to give them that power.

Mr. PATMAN. I mean without at the same time attempting to give them a specific mandate. I do not think the power given them in the original bill was what it should be, and that is the reason why we are trying to make it specific. I thought it was, but after hearing the chairman of the committee and others I am convinced that it is not sufficient, and that is the reason why we should make it sufficient.

I have never seen a bill of major importance come before this or any other committee in perfect form; they just do not come out that way, and it is customary to consider a bill, receive the amendments, and then introduce a clean bill; and in this case I think that we should consider these amendments, and I have consulted with Members of Congress who are working with me on this, and we have agreed that if the chairman of this committee would introduce the bill, either Mr. Steagall or Mr. Goldsborough, who has had much to do with work of this nature and who has been identified with this cause, that it will be perfectly all right with us to have that done, and we would recommend it, because what we want to do is to get something through that will give the Board of Governors a mandate in specific language that they cannot avoid, that they cannot ignore, and then the power to do something to them or do something with them if they fail to carry out their duty.

Mr. GOLDSBOROUGH. I have never felt myself at any time in my legislative experience that the tremendous power now in the hands of the Federal Reserve Board should be lodged in any individual or set of individuals. They have in their immediate control the economic life and death of every individual in the United States—there is no question about it whatever—and they are fallible, they are human, and it is ridiculous to give anybody that kind of power. So, while I do not object to their having the power to raise and lower reserve requirements, for various reasons which are not necessary now to discuss, I think that that power, if it is given to them without a mandate as to how they should use the power and what should be their objective as declared by the representatives of the people, is too dangerous to have.

Mr. PATMAN. I agree with you, and that is the reason why we are trying to fix it up so it will meet that objection.

Mr. LUCE. Mr. Patman, you said that statements by persons in power were chiefly responsible for the present situation. Does it follow that it would be well to remove them?

Mr. PATMAN. Who?

Mr. LUCE. The persons who made those statements that you refer to.

Mr. PATMAN. It is a difference of opinion existing among very honest men. I think that they are wrong. They think I am wrong. They are honest in their views, and I am honest in my views, and the gentleman from Massachusetts is honest in his views.

Mr. LUCE. As far as I have gathered the trend of your argument—and I am very sorry that work on another committee made it impossible for me to be here last week—but what I have heard this morning leads me to think that you are trying to get a wiser set of men than we have now.

Mr. PATMAN. I think that the people that Congress entrusts with the greatest power in America should be an agency of Congress, as I believe the Constitution of the United States contemplated, and I believe that that agency of Congress should be instructed what to do, and I believe that agency of Congress should be required to carry out the instructions of Congress, and, further, if that agency fails or refuses, or one member of that agency or all of them fail or refuse to carry out what Congress has told them to do, Congress, either House, then has a right to remove them for failure to perform a duty.

Mr. LUCE. Do you think that the power of removal could be exercised by Congress when it is not in session?

Mr. PATMAN. No; I doubt that. But I think that question is a minor one, compared to the general objective.

Mr. LUCE. You are raising a very novel suggestion.

Mr. PATMAN. I think conditions at this time justify considering novel suggestions.

Mr. LUCE. Yes; but the general principle of your plan is that Congress should pass judgment upon the work of administrative officials.

Mr. PATMAN. That is, Congress' administrative officials; these people are administrative officials of this Congress, and we are going to pass judgment upon their acts.

Mr. LUCE. All administrative officials are in the same position; they are enforcing the laws that Congress enacts, and I want to make one thing very clear, because it was a pretty serious charge, Mr. Patman——

Mr. PATMAN. What is that?

Mr. LUCE. The charge that this depression, with all of its widespread suffering, with 10,000,000 people out of work and disaster on every hand, is due to the bad judgment of an administrative board.

Mr. PATMAN. I say that the Board of Governors of the Federal Reserve banks could have stopped it.

Mr. GOLDSBOROUGH. You do not agree that they are just an administrative board, anyhow?

Mr. PATMAN. What is that?

Mr. GOLDSBOROUGH. Under the law, they are more than an administrative board, anyhow.

Mr. PATMAN. Oh, yes; they have almost unlimited power, and they are interfered with, I am apprehensive, by the people who are selfishly interested. On the open-market committee, up until the time of this last appointment was made, the banks had five members and the Government five members, and how could the Government do much against the selfish interests of the banks?

I am not condemning banks as such; I am not condemning bankers as such. There are just as many honest people in the banking business as in any other profession or business, and I believe that banks should be able to make money. I believe that they should be able to prosper, but I am not in favor of entrusting anyone with promoting the general welfare who is charged with the duty of working for private individuals and private capital. In other words, I want the people who do this to represent all the people, to be under obligation to represent all the people, and not under obligations to private interests in any way whatsoever.

Mr. LUCE. But you miss my point, Mr. Patman.

Mr. PATMAN. I am sorry I did.

Mr. LUCE. In the course of advocating a remedy, you have made what seems to be a very serious charge, that officials of the present administration, by unwise statements, precipitated a terrible depression.

Do you want that to stand?

Mr. PATMAN. Don't put words in my mouth, my dear sir. I told you that I thought that the two greatest contributing causes were doubling the reserve requirements of the banks and sterilizing gold. I said that there are others whose information and knowledge on the subject were much greater than my own who contend that it is not true. Now, the gentleman turns it around and is trying to contend that I said that, and if he will refer to the notes of the reporter, he will find that I am absolutely correct.

Mr. LUCE. I did not so understand you.

Mr. PATMAN. And I specifically referred to Senator Owen. I said that Senator Owen takes issue with me on doubling the reserve requirements. He says he thinks it was all right to double the reserve requirements, and other people think that, but I do lay the greatest blame for this depression on the Board of Governors of the Federal Reserve banks. Possibly if you could talk to them confidentially and privately, they would tell you how they are obstructed by an agency that Congress has delegated some power to, and that agency is the Federal Advisory Board, made up of people who are selfishly interested in the money supply of this Nation. That is an agency created by Congress and given certain powers to confer with that Board and to make certain recommendations and have knowledge of certain things. They could possibly say how they have been hindered by that advisory agency that we had caused to be placed around them. They would probably say, and I do not know whether they would or not, that Congress has permitted private bankers, who are interested selfishly, like you or I would be, to be on that Open Market Committee and possibly interfering with them in doing what they would like to do.

I do not know what is in their minds. I do not know what happens in their meetings, but they would possibly tell us some of those things if we could get the information from them, as we would like to get it. But I do not know whether they would give it to us or not.

Mr. GOLDSBOROUGH. May I make an observation there?

Mr. PATMAN. Yes.

Mr. GOLDSBOROUGH. I have personal knowledge that for several months before the reserve requirements were raised the representatives of several of the largest banks in the country were continually importuning the Federal Reserve Board to raise reserve requirements, of course their sole purpose being to increase interest rates.

Mr. PATMAN. You make money scarce, and as money is made scarce it is made dear and it is made high, and everything else is made low in proportion.

Mr. LUCE. But, Mr. Patman, every agency of the Government was created by Congress.

Mr. PATMAN. Yes, sir.

Mr. LUCE. And all powers of every agency were given by Congress.

Mr. PATMAN. Yes.

Mr. LUCE. And I understood you to say that an agency created by Congress, or the Federal Reserve Board, had certain powers delegated to it, which powers were unwisely administered and that precipitated this greater depresesion.

Mr. PATMAN. Contributed greatly to it, I said.

Mr. LUCE. You did, in your previous statement.

Mr. PATMAN. I say they contributed greatly to it.

Mr. LUCE. You put that as the most important, however.

Mr. PATMAN. Yes, Congress created the agency, and Congress turned it loose. You take all of these amendments; you go back to the 1913 act, and I will give you one example to show you what has been done by these so-called perfecting amendments.

In 1913 Congress said that as Federal Reserve notes are issued—and there are over $4,000,000,000 of them outstanding today—that the Federal Reserve banks receiving these notes should pay an interest charge fixed by the Federal Reserve Board. Now, the Board of Governors of the Federal Reserve banks met, and they said, "Why should we fix an interest rate? All the excess earnings go into the Treasury any way, and why not just let it accumulate and pile back over into the Treasury? There is no occasion for fixing an interest rate," and they said, "We will have the zero rate," and they kept on trying to get an amendment to this law. Finally, in 1917, when the war was going on in Europe and after the war had started, after April 6, I believe it was—anyway, about that time—a bill was rushed through Congress to help the small banks of the country, and in that bill there was an important provision which said that all banks shall pay an interest charge only on the difference in the amount of notes held and the amount of gold or gold certificates deposited to secure those notes. That made a big difference there. Then, in 1935, in compromising with Senate, our House conferees had to agree that we would cut off the excess earnings entirely from going into the Treasury, that they will go into the Federal Reserve banks.

Mr. GOLDSBOROUGH. That was done for the purpose of getting the Senate to agree in the conference to the inclusion in the bill of 1935 of Federal-deposit insurance.

Mr. PATMAN. I understand that, and I say our conferees were compelled to agree to it.

Mr. GOLDSBOROUGH. For that reason.

Mr. PATMAN. So we are in this idiotic position there of the law saying that the Federal Reserve banks should pay an interest charge, and the interest charge not being demanded because the excess goes into the Treasury anyway. Now the law is so amended that the excess earnings do not go into the Treasury.

I have a statement here showing that up until a year ago, when I received this statement, that every Federal Reserve bank in this Nation has violated that law, and the Board of Governors of the Federal Reserve banks and the Federal Reserve Board have permitted that law to remain violated every day. As to whether it is violated now, I have not checked on that, but until a year ago Federal Reserve banks were violating the law.

So that is one illustration of how legislation is made and how it is perfected and changed, and the first thing we know, we find ourselves in a peculiar position, just like we find ourselves now, where we gave this Board almost unlimited power over the economic affairs of our Nation, so that they can determine largely whether the people are prosperous or whether they shall suffer, and yet we have not given them any specific mandate, and I repeat, and the gentleman from Massachusetts can note this if he desires, that I have only noticed activity on their part when the bond market was in jeopardy, or when they thought there was some little sign of inflation or expansion somewhere. Then they would get into action immediately to put the brakes on and to go in the other direction, but they never seemed to realize their power to expand.

Mr. CRAWFORD. On that point, do you not think the statement of the advisory council, as embraced in the statement of the Board back in 1935, was directly in line with the observation that you just made? I think when you review that you will also find that that statement points to a potential fact, that later on the advisory council will demand that the law be fixed so that they can increase these reserve requirements again.

Mr. PATMAN. I am not familiar with that amendment.

Mr. CRAWFORD. I think that that is all in support of the statement that you just made.

Mr. PATMAN. I appreciate the suggestion. I will be glad to look into it.

Now, if the members of the committee, if it is all right with them, will carry out your suggestion and meet promptly at 10:30, would it be all right for me to close now, with permission to extend my remarks in the record and insert certain information that I desire to insert, and then let the committee interropate Senator Owen tomorrow morning; and the next day Robert Hemphill will be the witness if he comes.

Mr. WILLIAMS. Will we close these hearings without having any kind of testimony from the authorities in charge of the monetary system of this country?

Mr. GOLDSBOROUGH. I think the chairman of the committee will be back next week.

Mr. PATMAN. I have just been informed that the Economists' National Committee, New York, telephoned requesting that Dr. Spahr be heard in opposition to this bill.

Personally I would be very glad to have Dr. Spahr heard in opposition to it.

Mr. WILLIAMS. He is not the only one that I have in mind, but I think the chairman promised him a hearing.

Mr. GOLDSBOROUGH. Not on this bill, but it is perfectly all right.

Mr. WILLIAMS. Oh, it was on your bill.

Mr. PATMAN. Suppose that we ask him to be here in the morning, after Senator Owen concludes, or if Senator Owen does not finish in the morning, Dr. Spahr can go on next day.

Will that be all right?

Mr. GOLDSBOROUGH. It will be all right, but in view of the fact that he is coming from New York, he ought to be given a definite day.

Mr. PATMAN. Make it Wednesday.

Mr. GOLDSBOROUGH. That is satisfactory to me.

Mr. PATMAN. And Senator Owen tomorrow, and if the chairman is going to insist on beginning the hearings at 10:30, I believe it will be a good thing and that the members will be here.

Mr. GOLDSBOROUGH. Gentlemen, I said at the outset, before some of you were here, that if it is agreeable to Mr. Patman, the hearings would begin hereafter at half past 10, if there is not anybody here but the chairman, and he said that it was agreeable to him, so I guess that that is what is going to happen tomorrow morning.

Mr. WILLIAMS. I understood that in a letter written by the chairman of the Board of Governors of the Federal Reserve System he said that when this bill was up for hearings, if he was requested to come, he would be glad to do so, but that he did not care to discuss it then.

Mr. GOLDSBOROUGH. That is correct. That was in Mr. Eccles' letter.

Mr. PATMAN. Personally I am not going to request any of them to come. If the committee wants to do so, I shall not object, or if the chairman wants to call them and tell them that the hearings are going on——

Mr. BROWN. They are affected by this bill, and I think that they ought to be notified to come.

Mr. GOLDSBOROUGH. What is the will of the committee? Shall we request them to come, or tell them we will be glad to hear them?

Mr. REILLY. We ought to hear them.

Mr. GOLDSBOROUGH. Mr. Weed, will you attend to that?

Mr. FORD. I have heard repeated statements charging the Federal Reserve Board with responsibility for the present depression. I am inclined to believe that there is some foundation for that; but, in fairness to them, we ought to have their interpretation, their statement, as to why they did these things, and what authority they had for doing them, and so forth.

Mr. GOLDSBOROUGH. To be specific, has anyone a motion to make?

Mr. PATMAN. May I suggest that the chairman be requested to call up each one——

Mr. GOLDSBOROUGH. The clerk can do that.

Mr. PATMAN. Mr. Eccles, the Comptroller of the Currency, the F. D. I. C. chairman, and say to them that these hearings are going on and that an opportunity will be afforded to them to be heard on the bill if they desire to take advantage of that opportunity.

Is that fair?

Mr. REILLY. I would like to go further, and state that the committee requests them to be here.

Mr. PATMAN. Suppose that they do not want to appear?

Mr. REILLY. Then it is their privilege to say so.

Mr. PATMAN. That is all right with me, if the committee wants to do that.

Mr. GOLDSBOROUGH. Does anybody care to make a motion?

Mr. FORD. I move that they be requested to appear before the committee.

Mr. GOLDSBOROUGH. It has been moved that the Secretary of the Treasury, the Governor of the Federal Reserve Board, and the Chairman of the Federal Deposit Insurance Corporation be requested to appear before the committee.

Mr. PATMAN. What about the Comptroller of the Currency?

Mr. GOLDSBOROUGH. And the Comptroller of the Currency—is that a part of the motion?

Mr. FORD. Yes.

Mr. GOLDSBOROUGH. That they be requested to appear before the committee as witnesses in connection with H. R. 7230.

(The question was put and the motion agreed to unanimously.)

Mr. GOLDSBOROUGH. It is so ordered.

The committee will adjourn until half past 10 tomorrow morning.

(Thereupon, at 11:50 a. m., an adjournment was taken until Tuesday morning, March 22, 1938, at 10:30 o'clock.)

CURRENCY INSTEAD OF BONDS—PRIVATE BANKERS ISSUE BLANKET MORTGAGES AGAINST PROPERTY OF PEOPLE FOR OWN BENEFIT AND CHARGE GOVERNMENT FOR USE OF ITS OWN CREDIT—NO MORE TAX-EXEMPT INTEREST-BEARING SECURITIES SHOULD BE ISSUED—WILL SPECIAL-PRIVILEGED FEW INVEIGLE THIS COUNTRY INTO WAR TO DISTRACT ATTENTION FROM MONETARY REFORMS?

[Remarks of Hon. Wright Patman, of Texas, in the House of Representatives, Friday August 23, 1935]

Mr. PATMAN. Mr. Speaker, one of the greatest problems we have in this country today is the evasion of taxes through the ownership of tax-exempt securities. Today there are in existence in this country tax-exept securities amounting to $50,500,000,000. Approximately $30,000,000,000 of these securities have been issued by the Federal Government and the remainder by the States, counties, cities, and polical subdivisions. The holders of these securities not only do not pay a tax on their capital investment, they do not pay a tax on the income from their investments in these tax-exempt securities.

THE CLASS OWNING WEALTH ESCAPES TAXATION; OTHER PEOPLE PAY TAXES ON WHAT THEY OWN AND CONSUME

The reason a taxation bill cannot reach the really wealthy people of this country today, those who are the most able to pay, those who have the ability to pay, those who could pay with the least inconvenience and without depriving themselves and their families of a single comfort or luxury of life, have their money invested in these securities from which they collect interest annually and pay no tax whatsoever. It has almost reached the point that we have two classes in this country:

First. The class that owns the wealth and pays no taxes toward the support of the Federal, State, county, or city governments, and get the protection of our laws, the use of the great improvements that have been made through the issuance of tax-exempt securities, the use of the educational institutions of our country, and all other rights and privileges that our country affords without paying any tax whatsoever on the tax-exempt securities that they hold.

Second. The other class is composed of those who do not own much of the country's wealth. In this class you will find those, however, who produce the country's wealth. They build the country in time of peace and save the country in time of war. They pay taxes on what they owe, not upon what they own, either through ad valorem taxes on the real and personal property they owe for or through different forms of sales taxes and other special taxes.

The time is rapidly approaching when we cannot continue to permit the wealthy of this country to escape taxation like they are without levying a sales tax or a similar form of obnoxious taxes to take the place of revenue that should be paid by those who have the ability to pay and do not pay.

MORE NONTAXABLE BONDS ISSUED DAILY

The Government is issuing more tax-exempt securities every day. The States, counties, and cities are issuing more tax-exempt securities every day. Wealth is rapidly leaving the channels of production and trade, where it pays its fair share of the burdens of the Government, and is going into these tax-exempt interest-bearing securities. This situation cannot continue indefinitely and our country survive. It is certainly wrong for the people who own the wealth to escape taxes and compel those who produce the wealth to pay taxes on what they owe and what they consume in order to support our Governments.

PEOPLE SAVED $11,000,000,000 INTEREST ON SO-CALLED "GREENBACKS"

I read the hearings on the Goldsborough bill, and I noticed a statement put in there by Mr. Robert Harriss in regard to the United States notes that are outstanding.

In 1862 there was issued by this Government between four and five hundred million dollars of United States notes. Not a penny of gold was behind these notes. The credit of the Nation was behind the notes. This was during the War between the States, and when General Early, of Southern Confederacy fame, was about to take Washington and the Union was about to fall, these notes depreciated in value down to about 35 cents on the dollar. They only had the credit of the Government behind them, but when the Union was successful, these notes came back 100 cents on the dollar. The Government did put some gold behind them, but that was not the reason they came back 100 percent. It was because the credit of the Nation was restored. They have remained 100 percent ever since. This money is in circulation today—$346,000,000 of it. The people have been saved more than $11,000,000,000 of interest on that money on the basis of 5 percent, as this table introduced by Mr. Harriss discloses. If the people can save $11,000,000,000 in interest from 1862 to now on $346,000,000, how much will the people be able to pay and how much will they be required to pay on this $30,000,000,000 debt we have? This is a question we must consider.

POOR PEOPLE CANNOT CONVENIENTLY PAY PRESENT DEBT

Our present Federal debt is about $30,000,000,000. Let us consider for a moment what the Nation's probable debt will be 30 years from now and 60 years from now. A Government expert, at the request of Mr. Robert M. Harriss, of New York City and Dallas, Tex., has compiled the information based upon the Government's debt of November 30, 1934, when it was $26,760,967.700. The compound interest at 3 percent on this sum to 1965 is $38,194,924,859.09, making the debt for this date, 1965, $64,955,892 559. 09. The compound interest on the same amount of debt to 1995 is $130,904,032,560.32, making a total of $157,665,000,260.32. The average rate of interest paid by the Government is 3.18 percent.

PARASITES AND BLOODSUCKERS

Our Government is responsible for making parasites out of the holders of these securities. Congress has caused this class of parasites to be created, and Congress should be held responsible for these bloodsuckers.

DEMOCRATIC PLATFORM OF 1912

In 1912 the people of this country were aroused because of the concentration of wealth—the unequal distribution of wealth. It was written into the Democratic platform of 1912 at Baltimore, referring to our country's condition.

"A private monopoly is indefensible and intolerable. We, therefore, favor the vigorous enforcement of the criminal as well as the civil law against trusts and trust officials, and demand the enactment of such additional legislation as may be necessary to make it impossible for a private monopoly to exist in the United States.

"We favor the declaration by law of the conditions upon which corporations shall be permitted to engage in interstate trade, including, among others, the prevention of holding companies, of interlocking directors, of stock watering, of discrimination in price, and the control by any one corporation of so large a proportion of any industry as to make it a menace to competitive conditions."

The platform further stated that the people needed—

"Protection from control or dominion by what is known as the 'Money Trust'; banks exist for the accommodation of the public and not for the control of business."

PEOPLE'S MINDS DIVERTED

These liberal provisions were carried forward in the Democratic platform of 1916. President Woodrow Wilson advocated these provisions and would have carried this platform and policies into effect, which would have destroyed many of the special privileges that we are having to deal with today, had it not been for the fact that we were forced into a war with Germany and the attention of the people immediately diverted from necessary monetary and economic reforms to winning the war.

PEOPLE NO LONGER FOOLED ON MONEY

The people of this country are again aroused like they were in 1912 and like they were in 1916. They are no longer fooled by the poll-parrott satellites of Wall Street who scream out fiat money, printing-press money, "baloney" dollars, and similar catch phrases that are coined for the purpose of condemning good causes in the absence of logic and reason to support their arguments. The people of this country realize it is an idiotic and imbecilic system for the United States Government to issue a $1,000 bond that is interest bearing and tax exempt; sell that bond to a private banker and then permit the private banker to deposit the same bond with the same Government he purchased it from and receive new money in return for it and continue to collect interest on the Government bond. Thomas A. Edison was right when he said that any government that can issue a dollar bond that is good, can issue a dollar bill that is just as good. No one can possibly contend that currency is any more inflationary than bonds. The only difference is the people through their Government pay interest on the bond and do not have to pay interest on the currency.

WILL WAR BE USED TO AGAIN DIVERT MINDS OF PEOPLE?

Since the people of this country are determined to rid the privileged few of their monopolistic rights and the free use of the Government's credit and other special privileges, which will release the grip of Wall Street on the people, I wonder if there will be an effort to involve us in a war in order that the people's minds might again be diverted and these necessary reforms postponed for another generation.

THE OWNERS OF A BILLION-DOLLAR FRANCHISE

There are 12 Federal Reserve bank districts in the United States, the Nation being divided up into 12 areas, with one Federal Reserve bank in each area. These banks are located in Boston, Mass.; New York, N. Y.; Philadelphia, Pa.; Cleveland, Ohio; Chicago, Ill.; St. Louis, Mo.; Richmond, Va.; Atlanta, Ga.; Minneapolis, Minn.; Kansas City, Kans.; Dallas, Tex.; San Francisco, Calif. They are not the same banks or the same system created in 1913. So-called perfecting amendments have diverted these banks from the course intended when Congress created them.

All the national banks in the area served by the Dallas, Tex., Federal Reserve Bank belong to the Federal Reserve Banking System. Many State banks belong to the System, but up to date they have not been compelled to join. The same situation exists in other areas. The stock in each Federal Reserve bank is owned by the bankers that are members of the System in that area. The Government of the United States does not own one penny of the stock. It is all owned by private corporations, private banks that are owned by their stockholders.

Most of the money that is in circulation today, paper currency, greenbacks, or whatever you want to call it, is Federal Reserve notes. If all the people of this country knew how these Federal Reserve notes get into circulation and how the private bankers of the country use the Government's credit free, I doubt that they would enjoy the privilege very much longer. It is certainly wrong to allow a few the use of the Government's credit free and charge the other people for its use.

PRIVATELY OWNED BANKS ISSUE BLANKET MORTGAGES ON PEOPLE'S PROPERTY AND INCOME

All transactions of the Federal Reserve banks are tax-exempt. All the profits made by a Federal Reserve bank go into the surplus fund of that bank, and not one penny of its profits go into the Treasury of the United States or taxed in any way. If the Dallas, Tex., bank needs a million dollars in new currency, the order is given to the Director of the Bureau of Engraving and Printing in Washington, D. C., where 4 tons of paper money is printed each day.

Who gives this order? The Federal Reserve agent, who is also chairman of the board. The chairman of the board is directly responsible to the president of the Dallas bank, who is elected by private bankers.

What does he offer as security for this money? He places in the bank vault at Dallas, Tex., either Government securities or paper of private banks equal to the amount of the money ordered printed. These deposited securities or bank paper are collateral for the issuance of the money, and they are kept in the possession of the private banker's representative, who orders and obtains the million dollars in new money.

Who agrees to pay each one of these bills that is printed for this bank? If you will notice a Federal Reserve note, it says: "The United States of America will pay to the bearer on demand $—." You will also find on the note or new bill the signature of the Treasurer of the United States and the signature of the Secretary of the Treasury of the United States. Therefore this blanket mortgage upon all the property of all the people of this Nation and this lien upon the income of all the people in this country is issued for the use of the private bankers without any charge whatsoever except the cost of printing, which is about 27 cents a thousand dollars.

EAT THEIR CAKE AND KEEP IT

The 12 Federal Reserve banks now own about $3,000,000,000 of Government securities. These securities were purchased with the Government credit—a blanket mortgage that I have described. Ordinarily you would think that when a Government security is purchased by Government credit that the interest would cease to run against the Government on the obligation purchased, but in this case the Federal Reserve banks continue to collect interest on the obligations so purchased. The situation is analogous to that of one who owes a mortgage on his home for $10,000, giving a neighbor $10,000 to pay the mortgage holder, the neighbor paying the mortgage holder $10,000 and having the mortgage transferred to him, the neighbor, who holds it and continues to charge the home owner interest on the mortgage that he has liquidated. If the home owner continues to pay interest on the mortgage that he has furnished the money to pay he is acting as foolish as the Government.

GOVERNMENT OWNS ENORMOUS GOLD RESERVE

Under present laws, the Government owns 9¼ billion dollars in gold. The title to this gold is in the Government. None of it belongs to the banks or to the people. This is sufficient gold for the Government to issue its credit to the extent of $24,125,000,000, based upon a 40-percent gold reserve. We have 5½ billion dollars of money in circulation and the Government is paying the Federal Reserve banks an annual bonus to keep a large part of this amount in circulation. No country has ever required more than a 40-percent gold base as coverage for its currency, and very few countries have ever had that much. It occurs to me as unsound for the Government to continue to issue tax-exempt interest-bearing bonds when it has ample gold that may be used as sufficient base for the issuance of approximately $20,000,000,000 more in money or credit.

GOVERNMENT SHOULD CHANGE IDIOTIC SYSTEM

The private banks owning the stock in the Federal Reserve banking system have an investment of $146,000,000. It is the Government's credit, and not this small investment that enables these banks to transact hundreds of billions of dollars worth of business annually. The Government should do the following:

First. The Federal Reserve banks should be taken over by the Government and operated in the interest of all the people, banks, industry, agriculture, and commerce.

Second. No private corporation or corporation owned by private corporations should have the right to issue money.

Third. The Government should issue currency or credit when in need of money instead of tax-exempt interest-bearing bonds.

Fourth. Very few of the bankers of the country, even the real good ones, have ever studied or thought anything about this monetary problem.

Fifth. A billion dollars a year can be used by the Government to a better advantage than paying it as interest on Government bonds that may be used as a basis for the issuance of currency.

Sixth. Direct credits should receive the thoughtful consideration of the people.

Seventh. Opposition to any progressive proposal may be expected from those who will be deprived of special privileges, the die-hard, orthodox, hard-money advocates, and the poll-parrot satellites of Wall Street who only repeat what others say and never think for themselves.

Eighth. We need and must have more money as a circulating medium, but we should not issue more Government bonds in order to get it.

Ninth. The Government, through the ownership of the Federal Reserve banks, can gradually but eventually retire every outstanding dollar's worth of Government securities and save the Government a billion dollars a year in interest.

Tenth. The Government, through the use of these great facilities, can refinance the obligations of States, counties, cities, and political subdivisions by using the people's credit—the Government's credit—at a rate of interest not exceeding one-half of 1 percent. This rate of interest will protect the Government against loss and save the people who are obliged to pay these obligations from one-half billion to a billion dollars a year in interest charges alone, which will result in reducing the tax burden on property in many communities as much as 50 percent.

Eleventh. The Government, through the Government-owned Federal Reserve Banking System, could safely make loans to States, counties, cities, townships, and school districts and educational institutions for public improvement and education based upon adequate and sound security at one-half of 1 percent interest.

NO CHANCE OF INFLATION

This change in our banking laws and governmental system can be made without undue expansion of the currency and without the possibility of inflation by making the changes gradually instead of rapidly and by changing the reserve requirements of banks at the same time. In other words, under the present law a bank can issue $10 in credit to every $1 in money. As the Government pays money into circulation for services or in payment of Government obligations the reserve requirement can be raised to where a bank cannot issue more than $5 to everyone and then $3 to everyone, until finally the bank will only be permitted to extend loans to the actual amount of money in its possession, which will cause a 100-percent reserve requirement.

POWER OF MONEY TRUST OVER CONGRESS

The power of the Money Trust over Congress seems to be irresistible, we are told; I think the indifference of Congress is the cause. In either case, Congress is to be blamed for the present Money Trust. The reforms I advocate have been attempted time and again. No person can possibly defend the idiotic system that the Government has in effect at this time of issuing and distributing money for the benefit of a privileged few. As the hidden nests of corruption are disclosed the people's minds are always distracted in some way to prevent the proper reforms being made.

THE MORGAN OVERDRAFT

Before America entered the war J. P. Morgan's banking house was financing Great Britain in the war against Germany. Mr. Morgan would sell England's bonds to American people and purchase goods and supplies and send them to England in return for her bonds. Just before America entered the war, however, Mr. Morgan had furnished England $400,000,000 more in credit than he was able to sell England's bonds to cover. This was known as the Morgan overdraft, and was discussed in official communications between the United States and England. A clamour for war was commenced on the eastern sea coast; the few who first desired war probably would never have sold this country on the theory that we should have entered the war had it not been for their tremendous power through the indirect and direct means of control over the newspapers and other means of communication in this country. However, with these great powers and privileges, and through the use of all sorts of propaganda, the people of this country were led to believe that they should enter the World War. The first $400,000,000 of the First Liberty Loan was loaned to England to pay Mr. Morgan. The House of Morgan was saved but we were in a war.

GOVERNMENT FARMED OUT GREAT PRIVILEGE TO PRIVATE BANKS

It is in the interest of Wall Street to prevent the issuance of Government money, if it is possible for them to do so. It is stepping on the toes of the big bankers and is a step in the direction of Congress doing what they have succeeded in preventing Congress doing; that is, coining money and regulating the value thereof as required by the Constitution of the United States. This great privilege of issuing money has been farmed out to them by our Government, and they do not want anything done that will be in the direction of denying them this great privilege that is worth billions of dollars and is probably the greatest racket on earth.

BONUS TO BIG BANKERS

Our Government is paying almost a billion dollars a year interest on its own credit to holders of Government securities. It is not right for the people to be compelled to pay a penny of this amount. If our Government were to borrow money from a foreign country or a foreign bank, it would be right for our Government to pay interest on the amount borrowed, or if our Government should borrow gold from our own citizens to use in international trade to promote the interest of our country, our Government should pay our citizens interest for the use of that gold.

Today, however, our Government does not borrow money from a foreign country or a foreign bank, neither is it borrowing gold from its own citizens; therefore, it should not be compelled to pay tribute, interest, bonus, or grauity to a few big bankers for the privilege of using its own credit. That is exactly what our Government is doing. It is an imbecilic and idiotic system that has grown up over a period of years that cannot be charged directly to any one political party or any one individual. The people have discovered this idiotic system. They have finally gotten the truth. The ones who enjoy these special privileges are making every effort to becloud the issue, deceive and mislead the people with red herrings, and all kinds of propaganda and down-right falsehoods disseminated by their hired hands, puppets, and easily misled citizens.

CONSTITUTION ADVOCATES SILENT ON ONE PARAGRAPH

Article 1, section 8, paragraph 5, of the Constitution of the United States says that it is the duty of Congress to issue money and regulate the value thereof. Most of our Constitution advocates never refer to this particular section of the Constitution. If Congress should do what this section provides, most of our economic troubles would be solved. Why does the American Liberty (bond) League remain silent on this paragraph of the Constitution? It has much to say about the Constitution, but nothing about this particular paragraph. Why do all the newspapers and hirelings of Wall Street that have so much to say about Congress violating the Constitution in different ways, never accuse Congress of failing to carry out this particular paragraph of the Constitution? If that paragraph is complied with by Congress the depression will be over, and all temporary expedients may be immediately repealed and there will be no doles, bread lines, or made-work relief.

WHAT IS MONEY?

One great economist defined money to be "that which passes freely from hand to hand throughout the community in payment for goods and in full discharge of debts, being accepted without reference to the character or credit of the person offering it, and without the intention of the person who receives it to consume it otherwise than in tendering it to others."

Suppose we did not have money. If you had wheat to spare and needed shoes, possibly you could trade the wheat for the shoes, but not likely; you would probably have to trade the wheat for hides and then trade the hides for shoes. This would be very inconvenient. It is much better that we have something called money that has a definite value measured in all commodities in order that anything may be exchanged for money and money may be exchanged for anything. Money is a standard or common denominator of value. Money itself is of no value; it is a simple tool desired for the purpose of making exchanges. Money is no mysterious thing, no mystic principles veil or obscure it; it is a tool for making exchanges, just as a hammer is a tool for driving nails.

SCRIP USED IN A THOUSAND CITIES

Different commodities have been used as money; knives were formely used as money in China; tobacco served the same function in Virginia; some other commodities that have served this function are wheat, bark, cattle, iron, and shells. The Department of Commerce recently made a survey and discovered because of a necessity of money over a thousand cities and groups are using scrip and barter for money; it was acceptable to the people at these places in the absence of a sufficient medium of exchange.

HOT CHECK USED AS MONEY

Down at Farmersville, Tex., not so long ago, a customer bought a dollar's worth of goods from a merchant. He gave a dollar check in exchange for the goods. The check was endorsed by the merchant and transferred to 19 other people. When it reached the bank it had 20 endorsements on it, and the banker very promptly told the one presenting the check at the window that the maker did not have sufficient funds to cover that dollar check. Well, instead of each endorser going back on the other endorsers and collecting the dollar and letting those $20 in debts remain unpaid, the 20 endorsers got together, each contributed 5 cents apiece and deposited it to the credit of the man who gave the check. The check was promptly paid, and the $20 worth of debts were paid 95 cents on the dollar.

In this crisis it seems like people are using wooden money and hot checks to good advantage when they cannot have a sufficient medium of exchange furnished to them by their Government to do business with.

STABLE MONEY

It is desirable that we have a stable dollar. Our farmers borrowed money by voting upon themselves road, school, and other improvement bonds when wheat was worth $1.50 a bushel and cotton was worth 20 cents a pound. Later they were called upon to pay these debts when wheat was 40 cents a bushel and cotton 5 cents a pound. This resulted in the payment of $4, in what the farmer had to pay with, to every $1 borrowed; instead of being called upon to pay the 6- or 10-percent interest they contracted to pay, they were called upon to pay the equivalent or 24- or 40-percent interest in what they had to pay with.

SUPPLY AND DEMAND OF MONEY

Do not be misled into believing that supply and demand of a commodity is the sole controlling factor in determining the price of the commodity. Just as much depends on the supply and demand of money and credit. If our cotton and wheat farmers produce only one-fourth of a normal crop this year and money and credit are made scarce, high, and dear, cotton and wheat will be cheap.

Since the supply and demand of money, which includes credit, controls the price of all labor, services, and commodities, our Government should be careful about who controls this great privilege. The people are entitled to have some-

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one in charge of that great lever that expands or contracts money and credit at will who has their general welfare at heart; no one should have charge of this lever who can manipulate it in a way to make profit for themselves to the detriment of the general welfare. What chance has a producer or wage earner of this Nation to earn a decent livelihood for himself and family if the value of his products or labor is fixed by someone who has in mind making a profit for himself?

CONSTITUTIONAL MANDATE

The framers of the United States Constitution in article I, section 8, very wisely said:

"Congress shall have the power to coin money and regulate the value thereof."

This provision of the Constitution is mandatory. All Members of Congress are sworn to uphold the Constitution. Why has this provision never been carried out? The answer is simple. In the early days of our national existence the people were deceived into believing that the subject of money was so mysterious and intricate that only a few of the financiers understood the subject, and therefore the great privilege of issuing and distributing money should be farmed out to them. This was done and it has never been changed, except to give them more power and authority. The strange part of it all is that the ones who are the beneficiaries of this great privilege are not even charged with the duty of furnishing the people a sufficient circulating medium.

FIAT-MONEY PARROTS

Do not blame the bankers for this. They are not to blame; they are doing what Congress has permitted them to do; Congress should be held responsible. However, when Congress seriously considers printing sufficient money to carry out this constitutional mandate the holders of this great privilege and their satellites repeat like parrots such phrases as "printing-press money," "rag money," "fiat money," "baloney money," and "greenbacks." They do not tell you that it is the same kind of money that is printed for them and that it will be backed by the same security which is the credit of this Nation. Let me make a prediction. The people are getting wise to such false, selfish, and greedy propaganda, and will, before very long, compel their Congress to change our idiotic monetary system by complying with the Constitution. I will admit, it takes a long time to sell the people of this Nation a good proposal.

GERMANY'S INFLATION

The inflation in Germany is cited as evidence of what will likely happen here if the power to issue money is taken away from private corporations and restored to Congress. The German situation is not in point at all. In Germany the people owed more debts than they could pay. They could not cancel the debts, but they could print more money to pay them with. In fact, that country deliberately printed money until it was worthless, so their people could use the money to pay their debts with and get out of debt. They accomplished their desires.

OUR AIM

We do not desire to and will not destroy our monetary system, but we do want the people to be allowed the privilege of paying their debts in dollars that are worth approximately what they were worth when borrowed, and to restore to Congress its constitutional duty to coin money and regulate its value.

MODERN, UP-TO-DATE PRINTING PLANT

Here in Washington City the Government owns and operates a modern, up-to-date printing plant for the purpose of printing paper money and Government securities. It is the Bureau of Engraving and Printing, employs 5,500 people, and at one time got behind with its money printing until it had to be operated 24 hours a day. The question is, Who gets this paper money; how do they get it; and who benefits by its issuance?

ZERO RATE OF INTEREST

Do such banks pay for the privilege of issuing these blanket mortgages on the property and incomes of the people? The answer is no. The Federal Reserve Act, section 16, provides that they shall pay an interest charge that may be fixed by the Federal Reserve Board. The Board fixed the rate at zero. Therefore these 12 banks have used the people's credit up to the amount of $60,000,000,000 a year turn-over for 20 years for the zero rate of interest. If they had paid a reasonable rate of interest, the Government would have collected hundreds of millions of dollars.

Practically all the money we have in circulation today is money issued by these banks. They use the Nation's credit free to issue it, but someone is paying interest on it every day it is outstanding. The only way the people can expand their currency under this system is to go into debt deeper and pay more interest. The people owe $203,000,000,000 in debts now. During the year 1932 the national income was $40,000,000,000; that year when we had less than $5,000,000,000 in circulation, the people paid $10,000,000,000 in interest charges shown.

PEOPLE SHOULD GET MONEY-MINDED

I hope the people get money-minded, money conscious. Look at the paper money in your possession and do not stop investigating until you know all about why, how, and for whose benefit it was issued. It is the one big problem; when it is solved most of all our other problems will sink into insignificance. Congress is the branch of Government charged by the Constitution with solving it or with submitting to the Executive proposals to that end.

TAKE THE GOVERNMENT OUT OF PRIVATE BUSINESS AND TAKE PRIVATE CORPORATIONS OUT OF THE GOVERNMENT'S BUSINESS

Our Government, under the leadership of a great President, is making a determined effort to restore prosperity to the people. Much has been done toward helping wage earners, laborers, farmers, home owners, business, industry, and commerce. Debts have been scaled down, extended, and interest charges have been reduced. It is almost inconceivable that we can continue this start on the road to recovery without the Government having control over its own media of exchange. The issuance and distribution of money is a governmental function. It never should have been farmed out to private corporations; since it has been, the Congress should immediately reassume this great privilege and exercise it in the interest of the people. Our slogan should be: "Get the Government out of private business and get private corporations out of the Government's business." The first step should be for the Government to take over the 12 Federal Reserve banks and coordinate their activities with the Reconstruction Finance Corporation; then the Government's credit can be used for all banks—national, State, or private—all business, all agriculture, all commerce, and all people. Interest rates can be substantially reduced and the Government can obtain considerable revenue by charging a small sum for the use of its credit; all governmental financing can be handled through the new set-up without charging the Government interest which will eliminate the necessity for the issuance by the Government of another tax-exempt interest-bearing bond, or to increase taxes.

CURRENCY INSTEAD OF BONDS

A few years ago Mr. Thomas A. Edison was inspecting Muscle Shoals. He remarked that the Government should operate that great project in the interest of the people. He was asked if he favored the Government borrowing the $30 000,000 necessary to make repairs. His answer substantially was: "No; why should the Government borrow its own credit? If it issues tax-exempt interest-bearing bonds and sells the bonds to Wall Street bankers to get the money, by the time the bonds are paid the bankers will have collected as much in interest as the Government received on the bonds. In other words, the bankers who will not furnish an ounce of material or a lick of labor will get as much out of it as the men who do the work and furnish the material." Mr. Edison also said at the same time: "Any government that can issue a dollar bond, interest bearing, that is good, can issue a dollar bill, noninterest bearing, that is good; the only difference is the bill is easier to redeem because it does not draw interest." No one can answer Mr. Edison's argument.

HOW MUCH MONEY CAN THE GOVERNMENT ISSUE?

The Government has outstanding today about $30,000,000,000 in bonds and securities. Others are to be issued soon. The interest this year to be paid by the Government will amount to almost one thousand million dollars. A program should be considered now that will call for the gradual retirement of all Government bonds upon maturity or when callable with new currency and issue no more of such obligations. It will be a simple process. We will merely substitute one form of Government obligation for another form of Government obligation. The stock argument against that is that every dollar issued will go into the banks and upon each dollar as a base the banks may issue 10 credit dollars, which will cause undue expansion of the currency. That is true, but the argument may be destroyed completely by changing the law allowing the banks to use 1 dollar to issue 10; as the actual money is increased, require the banks to use a larger reserve or prevent them from lending money they do not have if the facts and circumstances should warrant. Many people who are against issuing a few billion dollars in money are highly in favor of the banks issuing the same amount in credit, claiming it will serve the same purpose. It will serve the same purpose, but an enormous amount of interest would have to be paid on the credit that would not have to be paid on the money, and besides the banks could call in the credit, deflate values, and destroy prices as they did in 1920. They could not control the actual money in that manner; therefore, they are against it.

HOW WILL THE MONEY BE REDEEMED?

The Treasury has sufficient gold to be used as a reserve for the retirement of a large part of this money if a gold base is desired. Silver may also be used. We have and can obtain plenty of it for that purpose, and at the same time help our export trade. Neither gold nor silver is absolutely necessary, as the money issued will be good for the payment of all debts, taxes, and import duties, although from an international-trade standpoint it may be desirable to use silver and gold. It will be redeemable in services rendered by the post offices; in payment of all kinds of taxes, including income and evcise; in payment of all debts, including debts due the Reconstruction Finance Corporation. We will be using cash instead of interest-bearing credit as a medium of exchange. Money will go into channels of trade and production, instead of into tax-exempt interest-bearing bonds.

WILL WAGE EARNER BE INJURED?

It is contended that if more money is issued the dollar will become cheaper, which will be harmful to the farmers and those who live on fixed incomes. We can get on a currency basis, instead of a credit basis, without changing the purchasing power of the dollar, but most of us who advocate issuing more money really desire the return of what may be termed a cheaper dollar. As the dollar becomes cheaper real estate, common stocks, cotton, wheat, raw materials, labor, and all goods and services upon which there is no fixed price increase in value. This will enable the ones in these groups to have additional purchasing power.

Let us see how much it will affect the wage earner who receives one of these so-called "cheaper" dollars. He can use it to pay 100 cents on his debts, taxes, insurance, rent, electricity, gas, water, telephone, railroad freight, and passenger rates, and all other bills, goods and services upon which there is a fixed and inflexible price. Any adjustment will be in favor of additional purchasing power which will be in the direction of additional consumption of goods. The factory employee will probably pay a little more for eggs which will enable the farmer to buy more of what his factory produces. It will be better for the wage earner to receive a dollar that will not purchase so much in certain commodities than not to have a job which will enable him to earn a dollar. I much prefer to bring purchasing power up to the point where our surplus may be consumed rather than force production down to a very limited buying power.

PROTECT THE FINE JERSEY COW

In other words, they are like the farmer who was purchasing medicine at the drug store. The pharmacist was wrapping up the two bottles, which had been filled in accordance with two prescriptions. The farmer said, "Mark plain them bottles, which is for the wife and which is for the cow. I sure don't want anything to happen to that fine Jersey cow."

Our critics say, "Be careful about who puts the money into circulation. We don't want anything to happen to the great and powerful privilege that a few banks now have to use the credit of the Nation freely."

Although the money that people have to pay with has considerably decreased, and the purchasing power of the dollar has gone up considerably, property values have been destroyed.

TAKE HAND OF GREED FROM THROATS OF PEOPLE

There is only one way to take this impossible and unfair burden off the American people, ourselves, and our children, and that is to take from the throats of the American people the hand of privilege and greed.

WORLD'S GREATEST RACKET

The world's greatest racket is the abuse of the United States Government's credit in the interest of a few.

GOVERNMENT OWNERSHIP OF THE 12 FEDERAL RESERVE BANKS

TUESDAY, MARCH 22, 1938

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

Hearings on H. R. 7230 were resumed at 10:30 o'clock a. m., Hon. T. Alan Goldsborough presiding.

Other members of the committee present: Mr. Reilly, Mr. Williams, Mr. Spence, Mr. Meeks, Mr. Ford, Mr. Brown, Mr. Patman, Mr. Evans, Mr. Transue, Mr. Gifford, Mr. Luce, Mr. Crawford, and Mr. Gamble.

Mr. Goldsborough. The committee will come to order.

Senator Owen, you may proceed.

STATEMENT OF HON. ROBERT L. OWEN—Resumed

Mr. Chairman and gentlemen of the committee, having been present and heard certain proposed amendments to the so-called Patman bill, H. R. 7230, I broadly concur in a positive, definitive, legislative mandate imposing on the Board of Governors of the Federal Reserve System the duty of making effective the policy proposed by the amendments to the so-called Patman bill, H. R. 7230.

In effect, these amendments comprise a new declaration of the so-called Goldsborough bill which was passed by the House of Representatives on May 2, 1932, with some additional teeth put in it to make it positively effective.

These amendments are in accord with the views of the President of the United States, who approved the Goldsborough bill of May 2, 1932. These amendments are in accord with the declaration of the Democratic national platform of 1932 which declared that the depression was due to the "indefensible expansion and contraction of credit." That platform demanded sound currency at all hazards. These amendments proposed by Mr. Patman and his associates comprise a guaranty of sound currency at all hazards because they assure the uniform, debt-paying, purchasing power of currency from one generation to another. These amendments are in substantial accord with the Republican platform of 1936, which declared again for sound currency at all hazards, sound currency meaning a currency of uniform, debt-paying, purchasing power from one generation to another. These amendments are in accord with the Republican platform of 1936 which proposed to restore to Congress the constitutional power to regulate the value of money.

These amendments are in accord with the principles upon which the Democratic Party and President Roosevelt were elected in 1932. They are in accord with his historically famous cable to the London Economic Conference. He declared that the United States desired to achieve and maintain a dollar which should have the same purchasing and debt-paying power from one generation to another.

On October 22, 1933, Mr. Roosevelt said to the people of the United States:

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

He added:

Some people are putting the cart before the horse. They want a permanent revaluation of the dollar first; it is the Government's policy to restore the price level first.

On March 14, 1938, the President released a statement made by him on April 19, 1933, which had not been given prior publication. It said:

* * * It has got to be a definitely controlled inflation. * * * It has got to be a controlled price level. * * * We have to raise the price level, but keep it from going too high.

It is true that those who were his economic and monetary advisers put the cart before the horse by obtaining legislation to revalue the gold content of the dollar, but the attitude of the President of the United States in spite of economic and monetary advisers does not appear to have been changed, because in his release of February 18, 1938, he put the responsibility upon the Secretary of the Treasury, the chairman of the Board of Governors of the Federal Reserve System, the Secretary of Agriculture, and the Secretary of Labor. In Mr. Roosevelt's letter to Senator Barkley, when he succeeded Mr. Robinson as leader of the Senate, he stated that the duty of perfecting the banking system was the responsibility of Congress. So that the Chief Executive appears to be in complete accord with the policy of the Congress regulating the value of money. Congress can only regulate the value of money by regulating the volume of money, and these amendments proposed by Mr. Patman and his associates, it seems to me, are of the greatest possible importance. They are in accord with the spirit and purposes of the Goldsborough bill, passed by the House of Representatives May 2, 1932, by 172 Democrats and 117 Republicans. To me they seem economically and financially wise and politically prudent, because of the 60 Members of the House who voted against the Goldsborough bill on May 2, 1932, only 12 of such Members were returned to Congress.

I received today a letter from Hon. A. N. McLean, of St. John, New Brunswick, calling my attention to a new book called Tomorrow's Money. Mr. McLean is the leader of the monetary reform movement of Canada and has visited me several times.

In his letter he said:

I have just finished reading a book, Tomorrow's Money. It is a summary of the opinions of the best thinkers in the British Empire along monetary problems, * * * they all agree that control of the price level is absolutely essential to any monetary system, and further that all instruments used as money must be issued by the Federal Government.

In my testimony of March 4 I stated that the annual report of Sir Reginald McKenna to the stockholders of the London City and Midland Bank, the greatest commercial bank perhaps in the world, with over $2,000,000,000 of deposits, showed that in less than 6 years under managed money the index of physical production had increased 50 percent and the businessmen of Great Britain had been furnished with an unbroken interest rate of 2 percent per annum for over 5 years. The longest unbroken record of an interest rate in Great Britain. I put into the record this report of Sir Reginald McKenna, for 25 years in charge of the London City and Midland Bank and formerly Chancellor of the British Exchequer.

I have been invited to discuss and answer questions on the proposed amendments to the Patman bill. I therefore request Mr. Patman to state these proposals in order that I may consecutively comment upon and answer questions that may be propounded with regard to each.

Mr. PATMAN. Mr. Ford, would you like to ask the Senator some questions?

Mr. FORD. Yes.

Senator Owen, my question is predicated on the fact that on two occasions the statement has been made that one of the reasons for the present recession is the fact that the Federal Reserve Board took certain action, that action being an increase in the required legal reserves.

Now, then, if the increase in reserves that the Board ordered caused a tightness of money, why would not the sudden increase to 100 percent cause a more intense tightness of money?

Do you get what I am asking?

Mr. OWEN. Yes. The observations which I made with regard to the effect of the various acts by the Reserve Board and the Secretary of the Treasury did not include raising the reserves of the member banks. In my opinion, raising those reserves in itself was not harmful, because the banks were able to adjust themselves without any great inconvenience, except some of the smaller banks, perhaps, who did not have the available bonds with which to increase their reserves.

The effect of increasing the reserves to 100 percent, as you suggest, does not appear in the amendments that we were discussing, but, nevertheless, that subject has been urged by Professor Fisher and Hon. C. G. Binderup, and by others, and composes a part of another bill which has been submitted to the committee by the House, and therefore I make this comment upon it: That if the reserves are raised to 100 percent, it would diminish in a very serious manner the power of the banks unrestrained to expand and contract credit, and in that event they would require probably the assistance of the reserve banks in the way of extending credit to them against their bankable assets in sufficient volume to enable them to meet conveniently the 100-percent reserve. A good many of them could immediately do that. But the point which really was at issue, I think, in the criticism of the Board for raising the rate at that time, was because at that time it was already forecast that we were going into a downward movement, and that there would be a psychological effect in raising the reserves that would affect the country and those who were merchandising in money by buying and selling stocks, or, rather, selling stocks and buying stocks on the stock market with a view to profiting by the fall in the price of securities and the rise in the purchasing power of money. It was rather the psychological effect, I think, of the action of the Board at that particular time that was the subject of criticism.

I do not criticize it because I thought it was unsound to raise the reserves of the member banks so as to strengthen them in the confidence of their depositors, because even under the old system, in normal conditions, they stood well with the depositors; but in times of stress it would be advantageous to have a larger volume of reserves in order to meet any sudden demand of the demand bank depositors.

Mr. FORD. Now, Senator, I did not accuse you of making that statement, but it was made.

Mr. OWEN. No; but it was part of the res gestae, and I thought it well to comment upon it. I was not defending myself.

Mr. FORD. Will you answer this question——

Mr. OWEN. I will.

Mr. FORD. Assuming that the banks were put on a 100-percent reserve, one of two things would have to happen: Either the banking facilities of the country, with reference to the extension of credit, would be greatly curtailed or a great many people would go into the banking business and operate as money warehouses and furnish facilities for your deposits.

Wouldn't that be one of the consequences?

Mr. OWEN. I think the consequences of having the reserves raised to 100 percent would require the cooperation of the Federal Reserve banks in connection with the member banks, so that if a bank made a new loan which was required in its neighborhood, and it required a 100-percent reserve against that, the Reserve bank should be in position to say to that bank, "You may segregate the security for that loan and hold it in trust for this Reserve bank, and we will credit you 100 percent against that loan."

In that way the Reserve bank would be in a position either to grant or to deny the power to increase the money supply through such a loan, and that would be very potent in controlling any speculative behavior that might take place in the wholesale commodity market, or in real estate, or in the stock market. I think it is the objective of modern legislation to exercise control over the expansion and contraction of our money supply, that being of extreme importance in regulating the relationship between debtor and creditor and in regulating the price level in such a way as to enable businessmen to make future contracts with dependable security.

All of the countries in the world are now showing a strong tendency toward stabilization of their money supply, or, what is identical with that, the stabilization of the price level. It should be remembered that the price level and the money supply compose the Siamese twins. The one is just the reverse of the other. When you have the one, you can find the other by dividing 10,000 by the price level, or dividing the 10,000 by the dollar index. The one is in inverse ratio to the other, and the desirable objective is to have each of them approximately at a standard upon which businessmen could rely.

I think, Mr. Ford, that it might be of interest if I should put into the record at this point the record of the price level in all of the leading countries of the world, which is published in the monthly Bulletin of the Federal Reserve Board. Anyone can see it there, but for the convenience of this committee, perhaps it might be desirable to put it in this record at this point, if you would care to have that done.

Mr. GOLDSBOROUGH. Without objection, that may be done.

(The table referred to is reproduced below:)

Price movements in principal countries—Wholesale prices—All commodities

[Index numbers]

Year or month	United States (1926=100)	Canada (1926=100)	United Kingdom (1930=100)	France (1913=100)	Germany (1913=100)	Italy (1928=100)	Japan (October 1900=100)	Netherlands (1926-30=100)	Switzerland (July 1914=100)
1926	100	100	---------	695	134	---------	237	106	144
1927	95	98	---------	642	138	---------	225	103	142
1928	97	96	---------	645	140	100	226	102	145
1929	95	96	---------	627	137	95	220	100	141
1930	86	87	100	554	125	85	181	90	126
1931	73	72	88	502	111	75	153	76	110
1932	65	67	86	427	97	70	161	65	96
1933	66	67	86	398	93	63	180	63	91
1934	75	72	88	376	98	62	178	63	90
1935	80	72	89	338	102	68	186	62	90
1936	81	75	94	411	104	76	197	64	96
1937	86	[1] 85	109	[1] 581	106	[1] 89	[1] 239	76	111
1936—December	84	80	101	519	105	79	215	71	107
1937—January	86	81	103	538	105	82	233	73	108
February	86	83	104	533	106	83	230	74	111
March	88	86	107	550	106	85	240	76	113
April	88	86	109	552	106	86	248	77	113
May	87	85	111	550	106	88	241	77	113
June	87	85	111	557	106	90	238	76	112
July	88	88	112	582	106	90	239	78	112
August	88	86	111	603	107	91	235	78	111
September	87	85	111	630	106	92	239	77	111
October	85	85	111	628	106	93	237	77	111
November	83	83	109	621	106	95	238	76	110
December	82	83	108	631	106	96	245	76	110
1938—January	81	84	108	637	106	---------	---------	75	---------

[1] Preliminary.

Mr. FORD. There is another observation that I wanted to make, and I do not want to take all of the time, but these two or three things have been puzzling me very much.

We talk about a 100-percent reserve. Assuming that the banks of the country were put on a 100-percent reserve basis, what percentage of them do you presume could go on that reserve without disposing of a good many of their deposits?

Mr. OWEN. I should say all of them.

Mr. FORD. I do not understand the banking business then; I do not know just how they could do it.

Mr. OWEN. I tried to explain that, Mr. Ford, in saying that it would be perfectly easy for the Reserve banks to extend the credit against the bankable assets of the member bank, leaving the member bank to hold those assets earmarked for the security of the Reserve bank.

Mr. FORD. That would then be asset money, would it not?

Mr. OWEN. It would be assets securing the Reserve bank against the extension of a credit.

Mr. FORD. Someone in speaking over the radio used the phrase "asset money," and I was wondering if that was exactly what was meant.

My own view of the matter is this, that any security against which a bank will loan a certain amount of money certainly is the equivalent of that money.

Mr. OWEN. Yes; I think that is correct.

Mr. FORD. And that ought to be permanent money, because there is a permanent security behind that; but, unfortunately, we have what is known as the time limitation on loans, and that time limitation is the thing that robs the asset of its value if the call is made before the man who owns the asset is in possession of a sufficient amount of money to repay it.

Isn't that true?

Mr. OWEN. If the money was stable because of the permanence of these transactions, that would be one thing, but what actually takes place is that these properties which are put up as security for the credit issued against it, or the money issued against it, is subject to violent fluctuation, because of the fear which sweeps the country when there takes place an overexpansion of credit.

Then there comes an overcontraction of credit, and the banks and the borrowers as well make haste to liquidate the loans, and when they do that they destroy the money supply which normally is functioning to feed the commerce and industry of the country. That is the thing which it is desirable to put an end to, by putting in the hands of the Government of the United States a positive control over either expansion or contraction, so that the country shall have an adequate supply of money with which to exchange the products and services of the people with each other, so that businessmen can have a basis of dependable security in making future contracts which they do not have now but would have if we had sound currency, as pledged by the platforms of both parties.

Sound currency can only exist when you have sound currency which has a uniform, permanent, debt-paying power, and that can only be accomplished under the strong hand of an intelligent government acting under a statute that knows what it is talking about and lays down a basis of dependable security through a statute that shall control the money supply in spite of those who merchandise in money, so that the merchandising in money shall be abated. The merchandising in money may be abated when you have a period of uniform purchasing power, because speculation in the stock market, or the merchandising of money through stocks, depends for its opportunity upon the fluctuations of the purchasing power of money, either up or down.

If you are going to expand the money supply under the influence of those who are operating in the merchandising of money through the stock market, as you expand that credit those stocks go up, and they know it and they speculate upon it or they merchandise upon it, as you prefer, and they know that when you contract it and start a movement among the banks and the debtors of the country to contract the money supply, that money will increase in value, and therefore they sell their stocks as conveniently and as rapidly as possible without glutting the market. They sell steel all the way from 126 down to the lower levels, because they are satisfied it is going to sell at a lower point, and they make money in that way.

Well, that will cease when you have a policy of dependable, full control by the Government of the United States under a statute executed by members of a board who dare not disregard the will of Congress which instructs them. The political power of this country is vested by the people of this country in the House of Representatives and in the Senate of the United States, and here is the place where this debate must be brought to a conclusion.

Mr. FORD. Well, Senator, I still am wondering about this: The price of steel stock was 126 before the close of the middle of last year, and it dropped to 51 this morning.

I also note in that connection that the bank deposits are about on a level today with what they were a year ago.

Now, do bank deposits represent to any extent the amount of money that they have?

Mr. OWEN. You insert the phrase "to any extent."

Mr. FORD. Yes. Do they to any extent reflect the amount of money that we have?

Mr. OWEN. Yes, sir; but when you insert the term "to any extent," you put a limiting phrase there which makes the reply necessarily "yes"; but what I wish to say is that these demand bank deposits, although of the same volume as in 1929, are entirely different in this, that in 1929 practically they were having a turnover of 50 times per annum as to the entire volume. In other words, the number of check dollars drawn at that time was 1,227 billions against 630 billions in 1937.

In other words, the velocity of one-half in all human probability of those demand bank deposits in 1937 might be averaged at zero, and you have just as good a right to average the deposits that are not turning over as you have to put those that are turning over and merging them with those that are not turning over and saying that they have a velocity of 25 when they ought to have a velocity of 50. The fact is that a large part of those deposits, amounting to billions, have zero velocity, and they are in effect warehouse receipts held by the banks, subject to the order of the owner of the deposit; but the deposit which is actively employed in running a grocery store, or a drug store, or any merchandising enterprise, or any enterprise using its capital actively in the manufacture of goods for the market, those deposits turn over rapidly and comprise the money of the country, and you have to make a distinction between deposits which do not circulate and deposits which do circulate.

That is the distinction which the Federal Reserve Board, it seems to me, has failed to clearly understand. If they had understood it, they would have realized the danger of any further contraction. They would have realized the importance of expansion in order to give the people of the country a sufficient amount of money with which to pay wages and salaries, buy inventories, and carry on the business of production and distribution.

Mr. FORD. I would like to make a further observation.

When the reserve rate was raised, there was still some $3,000,000,000 in excess reserves. What amount of credit that would have permitted to be granted is problematical. They could at least have issued $9,000,000,000 on that amount, could they not?

Mr. OWEN. The reserves, Mr. Ford, which existed before under the lower ratio, of course, allowed a larger expansion against the reserves, and raising the reserves diminished the potential power of the banks to create credit.

Mr. FORD. It did, but they still had $3,000,000,000 on which they could have created more credit.

Mr. Owen. Yes, so that they might have expanded, on the old ratio. on an average of 10 percent to $30,000,000,000, we will say, and when it is raised, that potential power is diminished; but the observation which I would like to make with regard to that is that it is of no importance in a practical sense to say that the banks could increase the money supply when the banks, for whatever reason, do not increase the money supply.

Mr. Ford. There is an imponderable in there; it is pretty hard to see what it is, and any one man's opinion is as good as another man's opinion, or any one man's guess is as good as another's.

Mr. Owen. I doubt that.

Mr. Ford. We have heard the phrase so often that the banks are bursting with money, but nobody can get it. Why can't they get it?

Mr. Owen. They can't get it for the reason that banks prefer the United States as a debtor rather than the businessmen of the country. They prefer to buy the bonds from the United States to invest in, but they do not want to extend loans to individual businessmen, and that was completely demonstrated by the Treasury Department in sending Mr. Viner of the University of Chicago to examine a great many hundreds of business loans sought by businessmen in Chicago of the banks there, and he found a large number of demands for loans which the banks did not care to make, although the demands were sound and had sound asssets behind them, but the banks did not want to do that.

Now, it does not make any difference why they do not want to do it. There is a plain reason why they do not want to do it. They do not want to do it because they do not think that a businessman has any dependable security upon a condition of instability of the value of money. They do not think a businessman is safe when there may be a further contraction to ruin the sound, honest, hard-working men engaged in production and distribution in this country. We have seen hundreds of thousands of them destroyed and put through the bankruptcy courts because of this violent fluctuation in the supply of money.

That is why the banks do not want to lend, and that is why careful businessmen hesitate to borrow. Whenever you give stability to the purchasing power of money, you will give stability to the value of property, to the value of inventories, to the power of people to buy, and there is a great deal of merit, in my opinion, in the principle of distributing money as far as practicable at the bottom, as was contemplated by Mr. Goldsborough's bill and by Mr. Binderup's bill, because in that way the purchasing power would be produced at the bottom, and without purchasing power at the bottom you cannot have maximum production, because it is in vain to produce if you cannot sell.

Mr. Ford. Well, now, just one more question, Senator, and then I will subside.

Mr. Owen. I will be glad to answer your questions.

Mr. Ford. Mr. Goldsborough's bill provided for the influx of money at the base, for the creation of new purchasing power at the bottom, and you approve of that principle? I suppose everybody would that analyzed it.

Mr. Owen. I approve of the principle as far as it can be conveniently done, to distribute credit at the bottom, where the consumers' power should be expanded.

Mr. FORD. Now, then, as to the Patman bill on the other hand, would that put money in at the bottom by taking over the Federal Reserve, altering the method by which the Federal Reserve was operated, and adding to that the 100-percent principle——

Mr. OWEN. Please don't intermingle those things in a question, because when you ask a very complicated question, it becomes exceedingly difficult to answer it.

Mr. FORD. Let us leave out the 100-percent reserve. Let us take the Goldsborough bill as contrasted with the Patman bill. The principle of the Goldsborough bill is to put money in from the bottom.

Mr. OWEN. Yes.

Mr. FORD. I think that I have read the Patman bill very carefully; I think I have gone over it with the same care and the same amount of intensive thought that I have given to the Goldsborough bill. Will you tell me how it would operate to put money in at the bottom?

Mr. OWEN. Yes. I will now address myself to the amendments read in my presence on yesterday.

When you raise the price level, it raises employment absolutely, not just perhaps.

Mr. GOLDSBOROUGH. Senator, may I interrupt you right there?

Mr. OWEN. Yes, sir.

Mr. GOLDSBOROUGH. Because I think the record ought to be clear. You are not addressing yourself to the Patman bill as it is at the present time?

Mr. OWEN. I am not.

Mr. GOLDSBOROUGH. You are addressing yourself to the proposed amendments?

Mr. OWEN. That is what I was invited to speak upon this morning, and I am addressing myself to the proposed amendments to the Patman bill.

Mr. GOLDSBOROUGH. Yes, sir.

Mr. OWEN. In effect, it is the same as if I were addressing myself to the bill known as the Goldsborough bill, which was passed by the House of Representatives on May 2, 1932. It is the raising of the price level. It does not make any difference whether you say raising the price level or restoring the dollar to the level ascertained by the Department of Labor for the years 1921 to 1929, because they mean identically the same thing. There is no difference of meaning, and it is a fact established by the statistical records of the United States, through the Department of Labor, that, month by month, factory employment and factory wages slavishly follow the rise or fall of the price level, and it is a fact that the price level slavishly follows the rise and fall of the money supply, keeping in mind always that by money supply you mean not only currency but you mean also the demand bank deposits in circulation employed in the transaction of the business of the country, in paying the wages and salaries and buying inventories, and so forth.

Mr. GOLDSBOROUGH. Senator, when you spoke of the price level you were referring to the wholesale commodity price level?

Mr. OWEN. I am referring to the term ordinarily applied to the wholesale commodity index, or the price level. That is the term usually employed, the price level or the wholesale commodity index, and the wholesale commodity index represents the relationship between the volume of money and the volume of things sold through the wholesale markets as compared with the year 1926, and the year 1926 is practically identical with the average of the years 1921 to 1929, and is practically identical with the years 1914 to 1930 on an average.

Mr. TRANSUE. Mr. Chairman, I would like to ask Senator Owen a question in regard to the matter he is now discussing.

He referred to the falling of employment with the price level, and the price level with the flow of money or the regulation of money. I would like to ask why that is so.

Is my question clear?

Mr. OWEN. Yes; I understand perfectly what you mean; I think I do.

First, the price level necessarily rises as the money supply rises, because of the law governing supply and demand. As you increase the money supply you cheapen it in terms of commodities, and as you contract the money supply you increase its purchasing power in terms of commodities, so that if you increase the money supply you will raise the price of commodities and you will raise the price level.

If you contract it, it will go down, and the table which I submitted this morning will verify that in different parts of the world.

Now, the next question involved in your question was as to why wages rise as the price level rises. The reason why is that the price level depends upon the increased supply of money. The larger supply of money enables money to be employed in paying the wages of a larger number of people, and it also increases the power of people to buy at the bottom, because money flows in every direction, and when the consumers can buy more, the producers are willing to produce more and to employ more labor and to pay better wages in order to induce labor to increase the production against the increased consumption and consumption increases as you increase the money supply, particularly at the bottom, but it does go to the bottom when you increase wages, because the money which is paid out in wages goes right to the bottom, to the small laborer engaged in production.

Mr. TRANSUE. Senator Owen, is it not a fact that at the present time there is plenty of money in the country that would be employed in production if it was profitable to produce and there was a market for the things after they were produced?

Mr. OWEN. As to the money which has been spoken of this morning that the banks are full of, I pointed out that many billions of dollars, money which was held by those who were merchandising in money and who invest money in stocks, and invest stocks in money, when they sell their stocks and invest it in money, it is to obtain an advantage in the rising purchasing power of money in terms of stock, they wait until the bottom is reached and they hold their money unemployed with a view to its future investment when the investment can be made to the greatest advantage and I say, that money does not pay wages. That money does not pay salaries. That money is not employed in inventories. That money is not employed in transacting the business of the country, but that money is being used as storage money for the purpose of reaping an advantage when reaction shall take place in the value of money.

Mr. TRANSUE. But my question right here is this: As to the money that is in banks and at the command of those who are engaged in production, if it is profitable to produce more goods and there is a market for it, would not that money come into production of goods right now if they considered that it was profitable to produce those goods?

Mr. OWEN. I should say yes, but they have reached the point of tolerance or the point of absorption by the public, the public suffering from what might be called monetary anemia. There is not a sufficient amount of money with which to buy any additional products, and for that reason those who produce have the wisdom not to pile up on their shelves property which they cannot dispose of. That has the effect of cheapening the products, and they may be piled up and sold at a price which is not profitable if they have an oversupply and underconsumption taking place at the same time.

Mr. TRANSUE. If I may follow that just a little further——

Mr. OWEN. Yes; do.

Mr. TRANSUE. I think that everyone will agree that trade and commerce would flow again if the unemployed had money with which to buy; at least, it would be good for a time, anyway, but how does the change which is proposed here give the man who is now unemployed and the man about him who is employed at low wages adequate purchasing power?

Mr. OWEN. There will be some very important consequences following the declaration of a policy of expanding the money supply under a policy fixed by the Congress of the United States.

The first thing that will take place, in my opinion, will be that the merchants of money, those who are merchandising in money, will recognize the truth that they will know that under the mandate proposed, which we are now considering, there will be an increase in the volume of money and there will be a rise in the value of property, and they will know that under that policy the money which they have in storage awaiting investment should be invested without any further delay, because the bottom of the depression will have been reached and the correction of the depression will take place, and these gentlemen who have been selling stocks and accumulating money will sell money and accumulate stocks and other forms of property, including real estate and inventories, and they will put it into production and into the business life of the Nation, instead of holding it in storage, where it has paralyzed production and consumption both.

Mr. TRANSUE. Senator, is there going to be a very much bigger demand for consumers' goods until the unemployed and the submarginal wage earner gets some money?

Mr. OWEN. When you cause those who have hoarded the money of the country to let it loose, that money will flow in every direction. It will flow into employment, and you will end the evil system which has caused one depression after another. You will stabilize the value of property. You will stabilize the value of labor. You will increase carloadings and will end the distress of the railroads of this country. You will double production of the physical assets created by labor, and you will increase the power of the people to buy the things they produce by giving them an adequate volume of money with which to buy and exchange products and services.

That is what Great Britain has done, and it is rather a very simple thing that it has done. It went off the gold standard in 1931 and established by consent a managed currency in 1932. When they did, immediately employment began to increase. Immediately the index of physical production began to increase, and it has increased at a rate of about 10 percent per annum in the last 5 years.

A statement to that effect I put in the record as given out in the annual report of Sir Reginald McKenna, of the Midland Bank of London. It is a very important statement, and if you will examine the table which I submitted this morning on the price level of Great Britain, you will find that it has been comparatively stable, and has been steadily rising and is now above par, and they are in a condition of business prosperity there, and we on the contrary, under our unwise management, and I wish to be very moderate in my comment upon the gentlemen who have been administering these laws; I do not wish to appear to be harsh in criticizing them and damning them for this, that, or the other, but I am calling your attention to what has happened, and that is that, having power, this country has gone from a condition of comparative prosperity in January a year ago, where the steel furnaces were producing 90 percent of capacity, to a point below 30; and I want to call your attention to the fact that under this system of contracting, which fed on itself through the stock market, our index of physical or industrial production fell from an index of 122 in March, April, and May of 1937, to 79 in the last report; fell 43 points within a year, while Great Britain has shown an annual increase of 10 percent for the last 5 years, or 50 percent on a maximum.

I am very anxious to answer the questions that may be asked, and I hope that if I do not answer them satisfactorily the members will be good enough to let me know to what extent they think it unsatisfactory, so that I may, if I can, answer it satisfactorily.

Mr. FORD. Let me ask you a simple question in that connection.

It seems to me that the Goldsborough bill of 1932 is a bill that can pass Congress again. I do not think the sentiment of the House has changed very much, and it seems to me to comply with your idea, and I have a profound respect for your views on this subject, that the price level can be controlled by monetary action.

Now, that being the case, and that being a very simple bill, without very many other things tied on to it, I believe that we could get action in that field and get it promptly, while the Goldsborough bill that we have been considering in the last 2 or 3 weeks attempts to do something in a rather direct way but in a way that seems to me to have a bug in it, and that it would be impossible to make the Congress see, but I think that the original Goldsborough bill could be passed right now in Congress.

Mr. OWEN. I think these amendments which have been proposed here this morning comprise the soul of the Goldsborough bill, with some additional strengthening points, such as requiring the members of the Federal Reserve Board to obey the law, and they must be required to obey the law, and Congress must have power over them, to remove them. Otherwise they will not be dependable. I say that with respect, but I know enough about human nature to know the tremendous power that they have and the enormous influences that can be brought to bear upon them, not corruptly, not wickedly, but through argumentation that may be fallacious and deceitful, and for that reason I think, since Congress is charged with the duty of regulating the value of money, it should have an agency through which to perform that duty, and that agency, as far as the personnel is concerned, with the directing power, seems to be fitly in the Board of Governors of the Federal Reserve System, and the mechanism through which that is to be accomplished is through the Federal Reserve banks, which exercise this monetary power.

The Federal Reserve banks in my opinion should not be used in competition with the banking of the country, but we should leave the banks in the banking business and keep the banks out of the monetary business.

I think that these amendments which have been offered here are merely an expansion and a clarification and a strengthening of the very principles passed by the House of Representatives in 1932, but I remind you that even in 1933, with a President who was in sympathy with the bill, those who administered it prevented the operation of the principles which were involved in the Goldsborough bill. They paid no more attention to the opinion of the House of Representatives, where a vote of 289 to 60 took place, than if the House had not expressed an opinion, and I think in that respect they showed a very great lack of understanding.

Mr. LUCE. You spoke of mechanism.

Mr. OWEN. Yes.

Mr. LUCE. In the use of that word you have hit the chief anxiety in my mind.

The Federal Reserve Board has had three machines, so to speak, with which to carry out its purposes, or our purposes, or somebody else's purposes. One has been to regulate the discount rate; and, second, open-market operations; and, of late, the handling of reserves.

I see in this bill no reference to the first two of which I spoke, but there is a reference to reserves that I presume you have in mind.

Now, my question is, Can you suggest to us any further mechanism, any further power that should be given to the Reserve Board? This is quite apart from whether the powers have been wisely used or not, but, to bring us down to the colloquial phrase, hard tacks, what additional power, if any, should be given to the Federal Reserve Board—not directions, but power.

Mr. OWEN. I would give them the power, if it be not existing now, to direct the Federal Reserve banks to create money, and not create it by providing it on debt, but create it to the extent the people of the United States require a circulating medium of exchange, which I think would approximate $250 per capita, taking for the basis the volume that was used in 1929.

Mr. LUCE. What would be the mechanism for creating that power?

Mr. OWEN. The Federal Reserve banks would be the mechanism through which they would exercise that power.

Mr. LUCE. How would the Federal Reserve banks exercise the power of creating money?

Mr. OWEN. By buying the bonds of the United States, and canceling the bonds.

Mr. LUCE. I would have to think that over a while.

Mr. OWEN. I advise you to figure it over. If you do, you will find it very attractive.

Mr. LUCE. Perhaps.

Mr. OWEN. I am not jesting. I hope that I will not be thought of as jesting. This matter in my opinion is of too profound importance for a man to deal lightly with it, and I do not intend to deal lightly with it.

Mr. LUCE. I do not think, sir, that anybody would suspect you of that. I would have to think over it some time.

So the Federal Reserve banks can create money?

Mr. OWEN. They create money precisely as the member bank now creates money, by giving credit subject to check against security. That is the creation of money, and that is exercised now by the member banks.

I had occasion once to telegraph my banking correspondent in New York to buy $500,000 of United States 2 percent bonds and place them with the Comptroller of the Currency, and pay themselves out of the national bank currency issued against the bonds, and when they did that, the bank, of which I happened at that time to be an officer, created $500,000 in money. Nothing strange about it; everybody understands that who has studied the matter carefully. You create money against sound assets——

Mr. LUCE. Ah! That is what I am after.

Mr. OWEN. Well, sound assets are supposed at all times to be behind the creation of a credit by a bank. That asset may be personal character, it may be a record for the faithful meeting of all obligations and capacity to pay, and it may mean a mortgage on a house or lot. It may mean other security that is dependable or is believed to be dependable by the banks; but, if you allow a condition to arise by which the value of property from one end of the Nation to the other is suddenly destroyed, and by a contraction of the money supply there is no dependable security, and there is no dependable background in money created by the banks, that is the thing we are trying to cure now.

Mr. LUCE. Let us go back to the matter of assets. The bank has to lend money to somebody.

Mr. OWEN. That is the existing system.

Mr. LUCE. How can you get money out unless you lend it to somebody. You say that you will create credit.

Mr. OWEN. I will buy their assets. That will get it out, will it not?

Mr. LUCE. You give me a concrete illustration.

Mr. OWEN. You have $10,000 of bonds of the United States. I bought them on behalf of the Federal Reserve bank. You will transmit those bonds through your local bank. Your local bank will send those bonds to the Boston Federal Reserve Bank. The Boston bank will credit your local bank with the value of the bonds, and your local bank will credit you with the value of the bonds. You will have a deposit subject to check, and you can convert it into legal-tender money on demand.

Mr. LUCE. That is quite clear.

Mr. OWEN. That is quite clear, is it not?

Mr. LUCE. It is; but you come finally to the point that somebody lends and somebody borrows.

Mr. OWEN. No, Mr. Luce; that I deny, and I deny it for this reason: The Constitution of the United States, interpreted by the Supreme Court of the United States, gives exclusive, broad power to the Congress to create money, but not to borrow it.

Mr. LUCE. I agree perfectly with that.

Mr. OWEN. I am glad——

Mr. LUCE. But when you have created the money, you have not yet gotten it into circulation.

Mr. OWEN. I have your money in circulation. I have got the $10,000 in your hands, and it is in currency if you want it. Now, if you do not circulate it, that is your business, but it is money available for circulation and for production, available to be used in your business, and it is against your interest to keep that money idle. You will want to employ it in some profitable, useful manner, and you will employ it in some profitable, useful manner, because all men who handle money handle it from the profit motive or the motive of safety.

Mr. LUCE. But I do not want to borrow the money.

Mr. OWEN. You are not borrowing the money. You are buying it.

Mr. LUCE. I do not want to buy money.

Mr. OWEN. Then you won't sell your bonds, and you are not the person that we are talking about.

Mr. LUCE. I am talking about getting this money to the masses of the people in a period when enterprises are unwilling, for one reason or another——

Mr. OWEN. Mr. Luce, there is always available in the market for sale United States bonds, notes, secured by the United States, bonds issued by the 48 States and the subdivisions thereof, and other sound bankable assets which can be bought and which should be bought by the Federal Reserve banks as a means of creating money without inflation, and when they buy these properties and pay for them at the market price with credit, they create money against a sound asset, and do not inflate money, but only create money for the benefit of those who need money and prefer the money to the investments which they have.

Mr. LUCE. But the banks tell us that nobody presents themselves with sound assets against which to borrow.

Mr. OWEN. They tell you what is not strictly a fact, and that has been demonstrated, Mr. Luce, by the investigation made by Mr. Viner, to which I referred a while ago. You were not in here this morning when I was giving an account of Mr. Viner, who was employed by the Treasury Department to examine into several thousand cases of applications for loans in the Chicago district which were refused by the banks, although Mr. Viner found that they were properly secured.

I do not blame the banks for not lending money at all, because they do not really know whether we will get into a still more serious depression than that which is now existing.

Mr. BROWN. I wonder if you would mind placing into the record the value of the United States bonds, State bonds, and bonds of subdivisions of States, the total now?

Mr. PATMAN. Do you mean the total amount outstanding, Mr. Brown?

Mr. BROWN. Yes, sir.

Mr. OWEN. It is very large. I have not the figure at my command, but it can be gotten by telephone.

Mr. PATMAN. It aggregates about 50 billion dollars.

Mr. OWEN. I do not know the precise amount.

Mr. PATMAN. About 38 billion dollars represents United States Government bonds and other securities, and then about 15 billions, bonds and other securities of the States and political subdivisions thereof. That would be about 53 billion dollars. I do not think that that includes cities.

Possibly it would aggregate around 60 billion dollars.

Mr. LUCE. It seems to me that we are up against an impasse there, the Senator believing that there are those with sound assets that cannot get money, and there are those who feel to the contrary. I do not know how we can settle that.

Mr. GOLDSBOROUGH. Senator Owen, my understanding of the argument that you are making to the committee is this, and see if I am correct: Your view is that if the Federal Reserve banks went into the market and bought Government, State, and municipal securities, that would put actual money into the hands of those that sold the securities, which in turn would be utilized by them in investing in some business or enterprise, and that, human nature being what it is, and desiring profit, it would be inevitable that this money would be invested.

Now, is that right?

Mr. OWEN. Yes; that is quite right.

Mr. PATMAN. Is it not also true, Mr. Chairman, that as this money is placed in circulation, that has a tendency to decrease the value of other money outstanding, so that the tendency then would be a decline in the value of the dollar and a corresponding increase in the value of everything else, so there would be an incentive on the part of the person receiving this money to quickly, as soon as possible, sell that money, as the Senator says, for something else that is becoming more valuable every day?

Mr. REILLY. I want to make this observation.

My information from the bankers is that we have hundreds of millions of dollars of money in the banks today owned by private individuals who refuse to invest it or loan it.

Mr. OWEN. Quite right.

Mr. TRANSUE. The question seems to come down to this, Senator, that, as demand deposits were expanded, would that place money in the hands of those who would buy more goods by so doing, because it seems to me that that is what will have to happen before there will be an increase of money in circulation, and just how are they going to get it?

Mr. OWEN. The profit motive will put that money in circulation, and when you sell these securities to which we are referring, you convert nonliquid securities into liquid credit. That will then by the profit motive flow into all sorts of enterprises and investment.

Mr. TRANSUE. All right. What will they invest in? What will they use that money for? That is what I want to know.

Mr. OWEN. Well, they will use it for every conceivable purpose. It is a little bit difficult to enumerate the purposes for which money will be employed, when last year we employed 630 billion dollars of it for these various purposes.

Mr. TRANSUE. Will it be invested in the further production of automobiles?

Mr. OWEN. All kinds of investments will be the result of that, and nobody can specify any particular investment, because if people have the money unemployed, they will want and seek employment for it in the form of property, which they think will increase in value or can be made productive of value. That is the normal, natural thing to do, and you can rely upon human nature to do it.

Mr. PATMAN. Senator Owen, Mr. Reilly raises a question there that is often raised, that individuals and corporations now have hundreds of millions of dollars of money that they could use if they wanted to, but it is idle, it is inactive, and they do not know how to put it in circulation. Isn't it a fact that it is a natural thing for one to do to keep money as long as money is becoming more available, and isn't that what you are trying to do now, to impress upon the committee that it is necessary to start in the other direction?

Mr. OWEN. Mr. Reilly is quite right in what he said. He not only is right, but he understated the case. It is not just hundreds of millions of dollars tied up in this way; it is billions of dollars tied up in this way, and that is the thing which is causing the country to suffer so now. Those who have this money to which Mr. Reilly refers, and who are holding it now in storage because they do not see clearly how they may safely invest it at a profit, as soon as they see that they can with safety invest at a profit, they will make haste to do so, and you will have released gradually these frozen deposits which are now in storage awaiting investment.

Mr. TRANSUE. Senator, last June——

Mr. REILLY. Just a second. I want to make this observation.

Senator Owen, it may be true that there are some people today who are holding money because they think it will get dearer, but the great mass of people who have deposits in banks are holding it because they do not know what to do with it. They are afraid. That is why they do not want to touch it.

Mr. TRANSUE. Senator, my question is this——

Mr. OWEN. You are quite right in what you say, that they do not know what to do with it, that they are afraid to spend it, because times might get harder. Then those who do not need it for living purposes, and who are holding it merely for investment purposes, are awaiting the time when they will be sure of a rise in the value of property through the attitude of the Government itself. All that this country needs now is a word of courage and wisdom, to tell them that the Congress of the United States is determined to carry out the Constitution of the United States and create the money necessary for public purposes, for the use of the people, and to regulate its value. When they do that and fix a standard, the people will respond to it gladly, but at the present time they are in the dark, and without adequate leadership.

I do not like to say that, but that is my judgment.

Mr. TRANSUE. My question is this, that up to and including 1937, for some years, there had been, in my estimation, an increase in business activity, and last year in the industry that I know the most about—the automobile industry—they made 5,000,000 automobiles. That was the peak production since 1929.

Mr. GOLDSBOROUGH. That was the entire automobile production?

Mr. TRANSUE. Yes; and there were at the same time, if I understand it right, large demand deposits so that the banks could have loaned money, and money could have been used for further production.

Now, something happened. The automobile companies could not sell their automobiles any longer, and they shut the plants down and laid off 30,000 men last fall, and things have been getting no better since.

What I want to know is, and I think that this is the same question Mr. Luce asked, How will you get this money out so that it will affect the people who are unemployed, and give them money, wages, with which to purchase goods, which we know will put men to work?

We just think about demand deposits, and the man with credit being able to get it; but I cannot see where he will buy any more clothes or automobiles or things of that kind to give the fellow a job who is out of a job.

Mr. Owen. Now, Mr. Transue, what took place was just the reverse of what you wish to take place. The demand bank deposits existing in the beginning of the year 1937 could, when things were comparatively in better condition, enable the automobile manufacturers to make a maximum number of cars; but what took place then was that the money which was held in the banks subject to check and was held as demand bank deposits was "bought" and absorbed by those who had United States Steel stock and General Motors stock and all kinds of stock which they sold to those who had demand bank deposits in bank, and they "bought" and absorbed those demand bank deposits in the bank that previously had been functioning, and as a consequence the country suffered from a scarcity of money with which to carry on the business of the country, and that reflected itself in throwing men out of employment, it reflected itself in making it more difficult for people to buy and more difficult for them to meet the contracts which they had entered into to buy the 5,000,000 cars on time payments.

Now, what is needed is just the reverse of the thing that took place. What took place was a destruction of the volume of your money by its being absorbed by those dealing in money, those who might be called money merchants; and sometimes you might call them money speculators, if you want to be a little disrespectful—but they are money merchants, and when they absorb your money supply, they cause the value of stocks, including General Motors and all the balance of the atuomobile stocks, to go down; and they are in a position to buy those stocks back at a fraction of the previous values at which they were sold.

There is nothing very strange about it. It has taken place over and over and over again. Every depression sees the same thing, and the marvel to me is that the financial and commercial leadership of this country has not had the wisdom to see what this cause was and to provide an adequate remedy. The remedy is written into the Constitution as plain as human language can be, charging Congress with the duty of regulating the value of money, and therefore to regulate the value of property and the value of labor.

Mr. Transue. Well, Senator, I see what you have said; but, being in a depression, where the unemployment is as it is in this country, it just seems to me that you have to get some money in their hands so that they can buy what they need to use before you start the ball rolling the other way.

Mr. Owen. The money is taken from their hands by depriving them of wages and of salaries——

Mr. Transue. That is right.

Mr. Owen (continuing). Through the broad contraction. There is only one way to get it back quickly, and that is by broad expansion. The remedy for contraction is expansion, and there is no other remedy adequate to meet this depression. It can only be applied through a mandate of this Congress, and you are the leaders, as the members of the Committee on Banking and Currency, charged with the responsibility of solving this problem, and I am glad to have the opportunity to answer whatever questions I can. I may not answer them satisfactorily, but I will answer them to the best of my ability.

Mr. Transue. I want you to know that I appreciate your testimony, as I have said before. I am just thinking out loud when I say that I think you have to get money into the hands of the unemployed.

Mr. Owen. You can only get money into the hands of the unemployed by putting the money where it will increase the factory employment and factory wages, and the statistics on that I have already put into the record with my remarks of the other day. The volume of our money supply determines the price level. The price level determines employment and wages up to a point where the people are employed. Beyond that you go into the harmful field of inflation, which nobody advocates and nobody wants and everybody is opposed to who understands monetary science.

Mr. Goldsborough. Senator Owen, in 1932 Professor King, of New York University, testified before this committee, and he was illustrating the fact that there was a lack of confidence among businessmen; that it was impossible to get bank deposits in circulation as long as that lack of confidence remained; and he illustrated his statement by saying that you could not push a string.

Now, as I understand your statement to Mr. Transue, it is that if the business public now saw that the Federal Reserve System was determined to raise the price level, and demonstrated that by putting the money into the market, by buying Government bonds, that would reestablish their confidence, and the string would be pulled.

Mr. Owen. I do not like such a metaphor as pushing a string; I would not use a metaphor of that kind. You cannot push a string, and that is misleading, I think.

Mr. Goldsborough. That is what Professor King said.

Mr. Owen. If he used that metaphor, I do not approve of it.

Mr. Goldsborough. I understand that Mr. Transue's question was that you could not make these people invest their money if they did not want to invest it, and I understand that your answer to him is that if the Federal Reserve Board announces a policy of actually going into the market and buying Government bonds, largely, that will reestablish the confidence of the people.

Mr. Owen. Yes.

Mr. Crawford. Will the gentleman yield there?

Mr. Goldsborough. Certainly.

Mr. Crawford. Do you mean to say that it would reestablish the confidence of men in business and tend to destroy the confidence of men who have money in storage, and thereby cause them to run away from storage money to active money in business?

Mr. Owen. It would not destroy their confidence in money in storage, but it would induce them to employ that money if they had the opportunity of increasing the amount of money through a rise in value of that which they bought.

Mr. CRAWFORD. That is exactly what I mean.

Mr. OWEN. I think that they are exactly right about it. I do not see anything wrong about that. I do not criticize those men. They are dealing with life as it is and the realities as they are, but it is up to your committee to stabilize the value of property and human labor and to dignify American life by stability which shall end this condition that leaves one-third of the people underfed, underclothed, and undersheltered.

The responsibility is on your committee. It is no longer on the Reserve Board.

Mr. CRAWFORD. May I ask Senator Owen a question which deals somewhat with this question of expansion and contraction, and which goes back to your statement with reference to the letter of 1893?

Mr. OWEN. Yes.

Mr. CRAWFORD. I have here what purports to be the substance of that letter. It is very short, and I would like to read it and see if your memory ties up with something to this effect—and this is a quotation made by Mr. Benson in 1912, in which he says that the National Bankers' Association sent out a circular letter in 1893, the contents of which were [reading]:

DEAR SIR: The interests of national bankers require immediate financial legislation by Congress. Silver, silver certificates, and Treasury notes must be retired, and the national-bank notes, upon a gold basis, made the only money. This requires the authorization of $500,000,000 to $1,000,000,000 of new bonds as a basis of circulation.

You will at once retire one-third of your circulation and call in one-half of your loans.

Be careful to make a money stringency felt among your patrons, especially among influential businessmen. Advocate an extra session of Congress for the repeal of the purchase clause of the Sherman law; and act with other banks in your city in securing a large petition to Congress for its unconditional repeal, as per accompanying form.

Use personal influence with Congressmen, and particularly let your wishes be known to your Senators. The future life of national banks as a fixed and safe investment depends upon immediate action, as there is an increasing sentiment in favor of Government legal-tender notes and silver coinage.

Does your memory tie up with that at all, in substance?

Mr. OWEN. Yes; of course, after so many years a man cannot recall the details of a letter of that kind, but I got a letter of that purport urging the contraction of credit with a view to the repeal of the Silver Purchasing Act, and I am satisfied that it is the same circular letter. I referred to it in a book which I sent to the members of this committee a year ago, on January 9.

Mr. CRAWFORD. You did not quote the letter in that book.

Mr. OWEN. I quoted part of it; yes.

Mr. CRAWFORD. Mr. Benson claims that this letter was mailed out on March 12, 1893—8 days after the inauguration of President Cleveland—by the National Bankers' Association to the national banks.

Mr. PATMAN. Were you president of a bank at that time?

Mr. OWEN. Yes; I was.

Mr. CRAWFORD. Was your bank a national bank at that time?

Mr. OWEN. It was.

Mr. GOLDSBOROUGH. Senator Owen, several members have said that they had to be on the floor very promptly this morning. Professor Spahr cannot come tomorrow, and if it is agreeable to the committee and agreeable to you, you might come back tomorrow.

Mr. OWEN. I would be glad to do anything the committee wishes me to do. I have a great desire to be of service in the matter.

Mr. PATMAN. Are there other members that would like to ask questions?

Mr. GOLDSBOROUGH. Is there any member who would like to have Senator Owen come back for the purpose of asking him questions?

Mr. MEEKS. I would like to ask him some questions.

Mr. PATMAN. Senator, you can come?

Mr. OWEN. Yes; I can come.

Mr. GOLDSBOROUGH. Then we will adjourn until 10:30 o'clock tomorrow morning.

(Thereupon, at 12 o'clock noon, an adjournment was taken until Wednesday morning, March 23, 1938, at 10:30 o'clock.)

GOVERNMENT OWNERSHIP OF THE 12 FEDERAL RESERVE BANKS

WEDNESDAY, MARCH 23, 1938

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

Hearings on H. R. 7230 were resumed at 10:30 a. m., Hon. T. Alan Goldsborough presiding.

Other members of the committee present:

Mr. Reilly, Mr. Williams, Mr. Spence, Mr. Farley, Mr. Meeks, Mr. Ford, Mr. Brown, Mr. Patman, Mr. Evans, Mr. Transue, Mr. Luce, and Mr. Crawford.

Mr. Goldsborough. The committee will come to order.

Mr. Crawford, I believe that you have some questions that you want to ask the Senator.

Mr. Crawford. Yes, Mr. Chairman, I have some questions that I would like to ask him.

STATEMENT OF HON. ROBERT L. OWEN—Resumed

Mr. Goldsborough. Proceed, Mr. Crawford.

Mr. Crawford. Senator Owen, in Document No. 19, Senate, Seventy-fifth Congress, first session, which is made up, I believe, entirely of a statement by Mr. Chester Morrill, secretary of the Federal Reserve Board, on page 3 he says this, and he is here discussing the increase in reserve requirements which took place May 1, 1937:

> This action increases reserve requirements to the full extent authorized by law. It is not the true intention of the Board to request from Congress additional authority to absorb excess reserves by means of raising reserve requirements.

Now, that statement came following that increase, and since then excess reserves have moved back into the field of around $1,400,000,000.

What consequence do you think would follow a request by the Board at this time for power to increase reserves, so as to do away with present excess reserves, which according to this statement by Mr. Morrill would lead one to believe that present excess reserves are rather dangerous.

Mr. Owen. The excess reserves of member banks in the Reserve banks represent the potential power of the banks to expand credits or create money by loans to business men or others, including the Government among others. The potential power of the member banks to expand credit has been viewed by the Federal Reserve Board as containing the possibility of dangerous inflation, and the effect of what the Board has said has been from time to time to warn the country against the danger of inflation.

At the same time the public press uses the word inflation as synonymous with expansion, and therefore the effect of what the Board's policy has been and their comments has been to impress the country with the idea that the Board of Governors of the Federal Reserve System do not favor expansion, although in my opinion and that of millions of other people, it is the contraction of the money supply below normal which is the real difficulty of the country and which can only be remedied by expansion to raise the money supply to a normal predepression level.

Therefore the effect of the action taken by the Reserve Board and its officers is to impress the country with the idea that the administration at least is opposed to any expansion. That lays the foundation for those who are merchandising in money to buy money in order to get the increasing power which money will have under a process or a public policy of contraction and sustained contraction.

Mr. Crawford. Well, now, at the time this statement was made, the statement I read just a few moments ago, Mr. Morrill also made this observation:

> It is the Board's expectation that with approximately 500 million dollars of excess reserves remaining with the banks, that credit conditions will continue to be easy. At the same time the Reserve System will be in a position to take promptly such action as may be desirable to ease or tighten credit conditions through open market and rate policies.

Now, since that observation was made, I repeat that your excess reserves have gone past the $1,000,000,000 mark, and are moving into the $1,500,000,000 atmosphere, we will call it, and I come back to this statement where Mr. Morrill leaves the inference that, when these excess reserves can become very heavy, and at which time the Board would find itself without the power to increase reserves, the Board might at the time it so finds itself request from Congress additional authority to absorb excess reserves by means of raising reserve requirements.

Now, assuming that the Board does, sometime during the next 60, 90, or 120 days, make a request for the power to raise reserve requirements so as to dissipate these excess reserves which continue to mount, would you care to make an observation as to what you think the consequences of that request would be?

Mr. Owen. The anticipation of the country from observations made by the higher officials of the Federal Reserve Board that the policy of the Reserve Board is contraction instead of expansion justifies them in anticipating the lowering of the price level and the increase in the purchasing power of money, particularly in the stock market.

For that reason, such comments and such attitude on the part of the Reserve Board are harmful instead of being beneficial, because, at a time when the country needs courage, they are being discouraged. At the time when the country needs expansion, they are constantly being exhorted as to the beauties of contraction, and a negation of expansion.

Mr. Roosevelt, as I quoted a few days ago, on October 22, 1933, made a statement that what we needed was to restore the price level, and immediately when he made the statement he said there were some who were disposed to put the cart before the horse, by changing the value of the dollar through the changing of the gold content, and that was followed immediately by an article on the 25th day of November 1933, in the Saturday Evening Post, by Mr. Barney Baruch, who opened his article with a denunciation of inflation as the enemy of mankind. "Inflation is the enemy of mankind," says Mr. Baruch, and then he defines inflation as any expansion of the money supply that is not based upon gold as a medium of redemption and equalled by the gold. His idea was you should expand as you could expand with gold, and then he gave remedies for the depression, which involved such considerations as the N. R. A., the A. A. A., and so forth.

Well, that policy has been tried, and a conscientious effort has been made by the Congress to get relief for the country by such processes, and we have not achieved stability by those processes. We have been disappointed to a considerable extent, although to some extent our efforts have been useful, but we left the country without the protection which I have been advocating before this committee, and which I have been advocating for a great length of time—we left the country without the protection necessary to protect it against the sudden contraction of the money supply, and that contraction took place in 1937 under the management of the Board of Governors of the Federal Reserve System and under the management of the Secretary of the Treasury and under the management of the Secretary of Agriculture, and I remind you that the Secretary of Agriculture and the various members of his staff, during the spring of 1937, told the country that prices were too high, and even the Chief Executive was induced to say that the prices were too high, but he meant the particular prices controlled by monopoly, such as copper and lead, which were of course too high, because those who control the prices of those commodities desired to take the cream off of a market when they thought that the demand would absorb copper and lead at a high price.

Well, copper and lead, of course, fell severely under the contraction of the buying power of the country and under the contraction of the money supply. Copper fell from 17 and a fraction cents a pound down to 9 cents a pound, and lead fell almost one-half.

These things show the result of contracting the money supply, regardless of any amount of talk by the officers of the Federal Reserve Board or the Treasury Department. I do not intimate or state to the committee that there was any purpose on the part of the members of the Federal Reserve Board or their officials, or of the Treasury Department, either, to do anything as unpatriotic or as unwise as to bring on a depression and throw millions of people out of employment. I only point to the effects, to what has taken place under their management. They not only did not produce the prosperity we were entitled to have under the powers that you gave them, but instead of achieving a high point of prosperity under their management with the powers that you gave them, we have witnessed a calamity, at first called with courtesy and tolerance a recession, and then a depression, and now we see by the markets yesterday that United States Steel, which sold at 126 in January a year ago, was selling under \$50 a share, which is a measure of the increased purchasing power of money in this country, in terms of the finest properties in this country, because of the scarcity of money created artificially, and for which there is no excuse, and to allow it to remain as it is, and for this committee to disregard its duty under the Constitution, and their oaths of office, to regulate the value of money and bring it back to a reasonable norm, I think would be a national calamity.

Mr. CRAWFORD. Senator, directly in line with that observation just made, a day or two ago I had a talk with reference to the sales of baby bonds, and this morning I have a statement which came in the mail from the Treasury Department——

Mr. OWEN. The sale of baby bonds——

Mr. CRAWFORD. May I give you these figures first?

Mr. OWEN. Yes. I know them, but go ahead.

Mr. CRAWFORD. Beginning with April 1937 and running down to and including December 1937, the sales of baby bonds each month ran from $26,900,000 up to $35,600,000 per month.

Then, when we come to January 1938 after people have begun to realize that perhaps this is a general depression, we find that the sale of baby bonds increased more than 300 percent per month. Take the months of January and February, 1938. As one-sixth of the year 1938, we find that the sales of those baby bonds are running at the rate of 900 million dollars per annum, or double what they were in 1937, and this in spite of your recession.

Mr. GOLDSBOROUGH. Nine hundred million dollars?

Mr. CRAWFORD. At that rate. In other words, a fraction under $150,000,000 for the 2 months January and February.

Now, that indicates to me that the people of this country to a large extent are growing tired of carrying idle demand deposits, and that they are now somewhat accepting the philosophy that this is to be a recession, that demand deposits will not give them any income, that they do not desire to spend that money for the time being, and that the net result of the baby-bond activity is a contraction, or, saying it another way, a destruction of demand deposits that might be used for consumers' goods, and as they move into baby bonds the tendency will be to hold that billion dollars a year, we will say, but personally, I assume it is going to increase from month to month as inactive demand deposits which have since been converted to baby bonds.

Would you care to give us the benefit of your observations on that?

Mr. OWEN. In my opinion, the effect of the activities of the Treasury Department in substituting baby bonds, so-called, for money in the form of currency paid to the soldiers for their soldiers' compensated income, or indebtedness due to them, was to have the baby bonds absorbed by persons of small means who had unemployed demand bank deposits in bank which they were saving for cases of need, and when this depression began to take form, such persons, remembering what happened to the banks under the previous depression of 1929–32, preferred to buy a baby bond rather than to leave the account in the bank, even if it was insured, because they would be safe, and they would get some increment of value if they held it, whereas they could not get anything from the demand bank deposits in the bank, because the banks are no longer permitted to pay interest on demand bank deposits.

The effect of what the Treasury did then and is doing now was distinctly a contraction process, which goes to add weight to what I have been saying about their policy in assuring the country that there would be no expansion.

At the same time, of course, they could not help expanding when they sold bonds to the banks——

Mr. GOLDSBOROUGH. Senator——

Mr. OWEN (continuing). As a means of meeting the unavoidable expense of public relief and of meeting the unavoidable expense of Government where the revenues were not sufficient to meet the normal expenses of Government.

Mr. GOLDSBOROUGH. Senator, you spoke of the fact that people prefer to withdraw the money from demand deposits even if they were insured. Now, of course, I am very much in favor of the Federal Deposit Insurance Corporation, and I expect that I had more to do with the passage of the law creating it than anybody in the world except Mr. Steagall, and I still have the same opinion that I had at that time.

Mr. OWEN. I am in full accord with the chairman.

Mr. GOLDSBOROUGH. I want to ask you a question.

Mr. OWEN. Yes.

Mr. GOLDSBOROUGH. It is a fact, however, is it not, that, after all, the Federal Deposit Insurance Corporation's possibilities are no greater than the possibilities of the monetary system under which we are working?

Mr. OWEN. Certainly.

Mr. GOLDSBOROUGH. And if calamity should come, if fair weather should be changed to foul weather, the Federal Deposit Insurance Corporation would not be able to——

Mr. OWEN. You can bankrupt that Corporation.

Mr. GOLDSBOROUGH (continuing). To insure its deposits.

Mr. OWEN. You can bankrupt that Corporation if you do not stabilize this country; and if you allow this depression to go on as it is going, with a heavy decline downward, the conditions may easily arise where the Federal Deposit Insurance Corporation might not only suffer severely, but it is not inconceivable that it could be bankrupted, because even in the last year, strengthened as the banks have been by the experience of the past, we have had over 50 banks fail and about 50 others absorbed, possibly to keep them from failing. I do not know about that.

Mr. GOLDSBOROUGH. But under the present system if the depositors went after their money, they could not get it?

Mr. OWEN. If the depositors would go and demand their money, of course they could not get it. If they would all demand the money at one time, they could not possibly get it.

Mr. PATMAN. May I make an observation there?

Mr. OWEN. Certainly.

Mr. PATMAN. Let us see how much they could get. The banks have about $18,000,000,000—that includes the Federal Reserve banks—in United States Government bonds and securities. The banks over the country, the 16,000 banks, have about 15½ billion dollars of those Government securities. These Government securities can be converted almost immediately into cash. That is a considerable sum of money.

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In addition to that, the Board of Governors of the Federal Reserve banks have recently ruled that all sound bankable assets may be discounted with a Federal Reserve bank and Federal Reserve notes received in return therefor.

With that ruling, I am not so sure but what the Government could print, if it could run the printing presses fast enough, enough money to meet all demands of all depositors in all the banks; but the result of it is that the Government is guaranty or security behind them, just awaiting demands. The Government is just waiting, standing by. The Bureau of Printing and Engraving is just a stand-by agency, waiting for the demand, and the money could be printed to meet these demands.

Mr. OWEN. Yes; that is true as to demand bank deposits, but the total deposits are 50 billions. The observation that you have made I sympathize with, and I certainly approve the ruling to which you refer of the Reserve Board. But if you have a contraction of the money supply in circulation to the point where the value of property is destroyed or very seriously impaired you create a situation which impairs the solvency of borrowers.

Mr. PATMAN. That is very true.

Mr. OWEN. And it is the solvency of the borrower which afflicts the bank when the bank is called upon to liquidate its obligations to the depositors.

Mr. PATMAN. One further observation——

Mr. OWEN. Just a moment.

Mr. PATMAN. If you please——

Mr. OWEN. Just a moment, please.

If, therefore, the demand on a member bank due to the insolvency of borrowers brought about by a severe depression exceeds its capital and surplus, the bank goes into bankruptcy regardless of what you have said.

Mr. PATMAN. Along the line you mentioned a while ago about the duty of this committee, that there is a great duty on this committee to do something, that the burden is on us, I am glad that you mention that. I feel that the country is in worse shape right now than it has been for some time. I just hate to state how I feel about it, but whenever you see, according to my notion, bank clearings and carloadings take a nose dive at the same time you had better look out; and commencing about the first of the year 1938 they not only took a nose dive about the same time but they have gone almost straight down at the same time. The carloadings represent the movement of the actual tangible physical goods and commodities from producers to consumers and from manufacturers to consumers; and the other, bank clearings, represents the medium of exchange; and whenever they start down at the same time it is a bad sign.

I noticed in the morning paper where there is one concern that last year made $300,000 a month profit, which was a fair profit, considering the investment of the 25,000 stockholders in that concern. But in January profits dropped from $300,000 to $200,000, and for the month of February they dropped again to a loss of more than $50,000 for that month; and the president of the company, in commenting on that, said that their loss for this month would be a lot worse than last month; and he insisted that his business condition reflected business conditions all over the country, because he operated in 45 of the 48

States and handles a commodity that reflects general business conditions.

Now, with such startling and astounding statements as that, it occurs to me that this committee should take action as soon as possible on some bill that will make this Board of Governors of the Federal Reserve banks take the action that we know they can take to relieve this condition.

Mr. CRAWFORD. May I ask the Senator one more question?

Mr. GOLDSBOROUGH. Surely.

Mr. CRAWFORD. Senator Owen, the last census of manufacturers that I have been furnished with, which is illustrative of the point that I want to bring out, is 1935, at which time there were engaged on the pay rolls of the manufacturers of this country 8,454,918 workers, and during that year they were paid a wage of $9,836,044,074.

Now, when you consider related industries, or what you might term those feeding the manufacturers, and taking the 1930 census, which is the latest I can obtain, and using the statistics of 11 lines of work, made up of agriculture, forestry, and fishing, extraction of minerals, mechanical and building industries, transportation and communications, public service, professional service, domestic personal service, and clerical occupations, I come to the conclusion that for each man engaged on a pay roll in the factory there are related to his activity three men on the outside.

Now, when you take our present 10,000,000 unemployed adult workers, which we will assume are heads of families, it appears to me that if we could put 3,000,000 of those 10,000,000 in the factory at work there would follow related employment in feeding the factory and taking away from the factory and serving those who are thus engaged in the service professions another 6,000,000, which would absorb in round figures 9,000,000 of the present unemployed.

Now, taking that thought, and tying it up with the statement made in Chicago the other day by Mr. Hanes, who is a new member of the Securities and Exchange Commission, and at which time he was addressing the investment bankers of that region, and in which he said:

> It seems to me that the investment-banking mechanism is not now hitting on all cylinders. I know too well that the inactivity of the capital market is not all your fault, but it is time to study your own situation and find out just what can be done under present conditions and where changes are required or new machinery necessary, since the job cannot be left undone, and since the job is yours it is up to you to start thinking of possible remedies.
>
> For your information, I may say that in view of the growing realization of the acuteness of the problem of reopening the capital markets and the need for speedy action, there have been some broad exchanges of views on machinery whereby the Government may cooperate with the investment banking fraternity in doing its job. There is a substantial body of informed opinion which seems to favor some sort of cooperative endeavor. As a matter of fact, one Senator recently proposed a bill aiming at such cooperative machinery.

Then this article goes ahead, and, in substance, it says that these capital markets must either be reopened and capital permitted to flow to industry, to give employment, or that the Government will have to take over the entire situation.

Now, do you feel that the Goldsborough bill and the Patman bill and these measures that we have had here under consideration are such that if this committee acted aggressively, it would tend to break this log jam, and permit these elements to begin to function, so that those men could go back into factories and other services?

Mr. OWEN. The activities to which you have been referring, and the points to which you have made reference, of course, deal largely with the unemployed capital that represents so-called easy money, where money is being loaned for a quarter of 1 percent per annum on Government securities or one thing or another. That only means unemployed capital. That does not mean easy money for the people of the United States. It only means this unemployed capital in the centers where those who control it are willing to get any rate of interest they can so as to keep it moving with the objective of meeting expenses on that; but, answering your question, the proposals which are before this committee and which have been recognized in 1932 by the Congress of the United States, representing both parties on a most liberal scale, deal with this matter from the fundamental of creating money, not borrowing credit, which is money, from other people, but it is to create money, to create capital needed for all productive enterprises in this country, creating capital without paying interest to anybody, creating money and not relying upon those who have accumulated money by the various processes which our economic system permits, and therefore I have no hesitation in saying that the bills which have been before your committee here, and which you have been considering, and which this committee has been considering, I might say, for 25 or more years—your committee considered the price level in 1913, and in 1922 under the leadership of Mr. Goldsborough, the present chairman of this committee, and in 1924, 1926, and 1932; continuously there has been an examination upon examination with regard to solving this question, and the time has come for the taking of testimony to end, because you have 10,000 pages now covering this subject, and the time has come for action, and this bill which you have before the committee, taking over the reserve banks, I regard as an important matter, so that you have the mechanics, the management of the machine, and the ownership of the machine in the public administration and under the public control, without any interference of any Advisory Council whatever from outside sources.

I think the Federal Reserve Advisory Council should be terminated, and I think the open market committee should be ended. I think the full power should be put in the hands of the Board of Governors of the Federal Reserve System as the agents of the Congress of the United States, with a mandate requiring them not to exercise their own views at all except within the narrow scope of the form and direction and the order of the Congress of the United States, that tells them what to do.

They will tell you that they do not know how to do it. That is what Mr. Ogden Mills, in his "Federal Reserve Board" said in 1932, that it could not be done, and Mr. Mills said that if he knew how to do it he would be the smartest man in the world, and yet, in spite of that testimony on the part of those charged with the duty of protecting this country, and having the power to protect, we see from the table which I submitted here yesterday that every civilized nation in the world is now considering with care the price level and the maintenance of the price level and the stabilization of the price level, and we see that the price level of Great Britain has satisfactorily been rising until it is above par, I believe, now. Germany, Switzerland, and the Netherlands had a stable price level for 1937.

Look at the price level of these countries, and you will observe what is taking place in the world, and what does the price level mean? It means nothing in the world except the index of the purchasing power of money, the index of the debt-paying power of money. The price level and the all-commodity index are the same; the all-commodity index is connected with and a part of the price level, but one being always in inverse ratio to the other, and when you bring the price level up to 100, you bring the dollar index to 100, and, multiplying it together, those two numbers give 10,000, and if you divide 10,000 by the current all-commodity index—say it was 80 today—then the purchasing power of the dollar would be 125, or 25 percent above the normal fixed for 1926.

I think the committee should keep in mind the true significance of the price level, and the relationship of groups of commodities to the price level. You take, for instance, the field of agricultural products and their relation to the price level is about 17 percent, normally, and sometimes goes up to as high as 18 percent, but it fluctuates around 17 percent.

You take wheat. Wheat represents about one and a half percent of the price level, and the price level on agricultural products at the present time is about two-thirds of what it ought to be; in other words, it has got to raise 50 percent in order to give the farmers the normal of 1926, which everybody knows was below the general average of agricultural commodity prices.

I call your attention to these things because we sometimes are apt to forget the meaning of terms, and as we speak of the price level we are apt to forget its significance, so that when we speak of the price level rising, we speak of the volume of money rising, and when you speak of the price level rising in value, we mean that the dollar is increasing in purchasing power in terms of those particular commodities as a class, and since we know that the rise of the price level up to normal is always followed immediately by a rise in employment in the factories and a rise in factory wages, what you have suggested, Mr. Crawford, means employing not only those who would be thus reemployed in factories, but it means three times as many employed in other vocations as the result of reemploying those engaged in factory production, which in this country is largely mass production of things that we all want.

Mr. Crawford. Thank you. That is all that I have to ask.

Mr. Goldsborough. Are there any other questions?

Mr. Patman. I wanted the Senator to take up these amendments, if he will, and explain exactly how they will operate, especially the first one about the price level.

Shall I read them?

Mr. Crawford. Does the gentleman yield?

Mr. Patman. Yes, sir.

Mr. Crawford. I see Judge Meeks coming in. Yesterday he said he had some questions that he wanted to ask the Senator.

Mr Patman. I believe he did.

Are you ready to ask the questions now, Judge Meeks?

Mr. Meeks. No; not right now. I will wait on somebody else.

Mr. PATMAN. All right. I will read this first suggested amendment, Senator.

It shall be the duty——

Mr. MEEKS. Pardon me; you are going on your first amendment?

Mr. PATMAN. Yes, sir.

Mr. MEEKS. When you are through, I will probably have some question on it.

Mr. PATMAN (reading):

It shall be the duty of the Federal Reserve Board to raise the all-commodity index, or the so-called price level, until full employment of all persons able and willing to work shall have been achieved, and until the price level shall at least reach the all-commodity index of 100 as established by the Department of Labor for the years 1914–30, inclusive. Thenceforth such price level shall be standardized and maintained at a variation not to exceed 2 percent above or below the standard reached as aforesaid. It shall be the duty of the Federal Reserve Board in accomplishing these ends to expand demand bank deposits by the purchase of United States bonds and notes, or bonds secured by the United States, or bonds of States and subdivisions thereof, or other sound bankable assets; and to contract demand bank deposits by the sale of the securities aforesaid.

I wish you would give us the benefit of your views on that amendment, Senator Owen, please, especially——

Senator OWEN. The amendment, which goes to the achieving of full employment, is based upon the table to which I have just referred, that a rising of the price level always increases employment up to the point where employment can be safely increased. Beyond that it would be idle to go. The index of 1926, which is the same as the average from 1914 to 1930, and is the same as the average from 1921 to 1929, is the standard which is apparently in accord with our history, on an average, and therefore it represents the best point to which we could fix our standard.

Now, it is perfectly easy to prevent the rise or fall of the index by expanding when it is too low and contracting when it is too high. All that it is necessary to do is to use the powers that you give the Board.

The value, I think, of the amendment is not only in stating a definite objective but in telling the Federal Reserve Board how to achieve that objective, and taking the responsibility on the Congress of telling them how. Then they won't be responsible if things do not go right. If they obey the law of Congress, things will go right, because that is exactly the way in which you can stabilize and restore prosperity in this country.

The amendment which you have read is quite long, and there may be some points in it that perhaps I have overlooked.

Mr. PATMAN. As to the variation of not to exceed 2 percent above or below, do you think that that can be maintained?

Mr. OWEN. It can be maintained within 1 percent. That 2 percent is a reasonable degree of tolerance.

Mr. PATMAN. Let me read the next amendment. You have discussed this first one pretty fully in your answers to the questions of the different Members. I will read the next one:

The Board of Governors of the Federal Reserve System is hereby declared to be the agency of the Congress to create money and regulate the value thereof as authorized by the Constitution of the United States, and the individual members of such Board shall hold office subject to the will of the Congress of the United

States; and either the Senate or the House by resolution may authorize and request the President of the United States to nominate a successor to a member of the Board from any Federal Reserve district regardless of the term for which he was appointed, whereupon, the office of such member upon the passage of such resolution shall be vacated.

Now, the question has been raised, first, Is that constitutional? Next, Is it right and reasonable for one House to have so much power, or should both Houses be required to approve the same resolution in order to vacate such a position?

I would like to have you discuss those two points, Senator.

Senator OWEN. The first point is as to the constitutionality of the provision. I take it that that is fully met by the Supreme Court of the United States in the *Legal Tender cases* and in the Constitution itself, where it directs the Congress to regulate the value of money.

Congress, in appointing agents for that purpose, is exercising its power by giving an administrative duty under directions to the Federal Reserve Board, and that is a necessary part of carrying out the Constitution. It is not only constitutional, but it would be unconstitutional for you not to do that. It is your duty to regulate the value of money and to use that mechanism by which it can be accomplished.

Now, as to the question of removing a member of the Board, we have had demonstrated in the last 18 years, from 1920 to date, the supreme importance of the members of that Board recognizing their responsibility to the Congress of the United States in regulating the value of money.

I remind you that even the act of 1913 provided for a stable price level in the draft which I introduced on June 26, 1913, but it was changed so as to make the requirement that the Reserve Board, through its power, should protect and advance the commerce and industry of the country.

Well, the commerce and industry of the country were bankrupted and ruined by the action taken in 1920 and 1921. They did not pay attention to the act of Congress. They ignored it and they produced an enormous disaster in consequence, and the same thing happened again in 1929 and 1932, and the same thing has been happening in 1937 again, a third time within 18 years, an average of about once every 6 years, and the question is, will they obey or will they not obey?

I think the amendment which you have read is perfectly sound, because when the Congress of the United States passes the act declaring that a resolution of the House or a resolution of the Senate shall suffice to cause a vacancy, that is the law of the land, and therefore a resolution of the House would be within the law of the land, and a resolution of the Senate would be within the law of the land, established by the joint action of both Houses and the signature of the President.

I think it is of supreme importance to require the members who are charged with this colossal power of life and death over our industries and over the individual life of the citizens, tens of thousands of whom have committed suicide under the policies which have actuated this country and caused these depressions, and 14,000 suicides per annum was the increase in the number of suicides in 1932, so I say that you are entirely within your rights to make the Federal Reserve Board and the members thereof subject to the approval of the House of

Representatives and subject to vacation of their office if the House of Representatives votes no confidence or invites a successor to be named for the individual member of the Board or for the whole Board covered in such a resolution.

It leaves the power where it belongs, in the Congress of the United States, which is charged by the Constitution with the regulation of the value of money.

Mr. PATMAN. As much as I am interested in the passage of this bill to take over the Federal Reserve banks, and considering the necessity for immediate action, I would be willing to take this first amendment which has been read, and which is nothing more nor less than the Goldsborough bill of 1932, and add to it the mandate and power of removal of members of the Federal Reserve Board of Governors if they did not carry out that mandate, and try to get that bill through Congress just as soon as possible. I think it is the most important measure right now pending before Congress, including my own bill or the bills sponsored by many Members of the House providing for Government ownership of the 12 Federal Reserve banks.

Don't you think that if we were to pass something like this there would be a change in our economic affairs overnight, Senator?

Mr. OWEN. Absolutely; not the slightest doubt about it.

Mr. REILLY. I would like to ask you a question, Mr. Patman.

You and the various Members of Congress who prepared this bill gave serious study to it, did you not?

Mr. PATMAN. We certainly did, but there are differences of opinion——

Mr. REILLY. And you did not think it necessary to put in a provision like your amendment?

Mr. PATMAN. Well, we did not have the benefit of the sound advice that has been given to us before this committee. We thought that we were just announcing a policy, like the Goldsborough bill of 1932 just announced a policy; but in view of what has happened in recent months and in recent years, we have decided that it is best to have a way of compelling the adoption of that policy.

Mr. REILLY. You do not have to introduce any new bill. All that you have to do is just to amend the present law.

Mr. PATMAN. All right; that is what I would be willing to do.

Would the gentleman be willing to do it?

Mr. REILLY. That is the question. Senator Owen takes that stand, but we have not heard any other authorities on finance and currency who take the same stand that he takes. Now, I do not know whether he is right or wrong, but I do not want to change our monetary system upon the statement of one man.

Mr. PATMAN. Whose statement do you want?

Mr. REILLY. That is up to you. There ought to be some other authorities on this question.

Mr. PATMAN. You would not be willing to be governed by this National Economists' Committee entirely?

Mr. REILLY. I do not know anything about that. Some of them are of high standing; but I do think that this committee, before we think of adopting a revolutionary proposal such as you have suggested, ought to have the judgment of more men who have studied finance and currency.

Mr. PATMAN. As Senator Owen has stated, 10,000 pages of testimony have been taken on this question, and I have been attending meetings of this committee for 10 years, listening to the testimony. Of course, I have not always been a member of the committee, but only a short time, but I attended the hearings anyway. I heard Professor King, Professor Fisher, Professor Kemmerer, and I have heard all of these different people testify about this for the past 10 years.

So when are we going to act, if not now? What more testimony do you want, when we have 10,000 pages already?

Mr. REILLY. You heard all of this testimony, and yet when you drafted your bill you left that amendment out of it?

Mr. PATMAN. Well, we had to give and take. We had to compromise. We had 100——

Mr. REILLY. Compromise on what?

Mr. PATMAN. We had to take up each phrase and sentence, just like the gentleman does—he has a bill, I presume, occasionally, before this committee, and I doubt if he has ever gotten a bill through and I doubt that this committee has ever had presented to it a bill that was not changed, with a substantial change, before it left this committee. That is what a committee is for. We are merely carrying out the best purposes of the committee in analyzing a bill, and if something should be added or taken from it, that is when it should be done, in committee.

So, in doing now what we are doing, we are carrying out the normal functions of committee work.

Mr. REILLY. I agree with you on that, Mr. Patman, but——

Mr. PATMAN. All right; then there is no difference between us.

Mr. REILLY. But in view of the wonderful discussion and all of the discussion that you heard, you came in here leaving out the guts of your bill.

Mr. PATMAN. Your hindsight is always better than your foresight.

Mr. REILLY. You left out the real essence of your bill.

Mr. PATMAN. I suspect that the gentleman's hindsight is always better than his foresight. I admit that mine is, and this bill needs amendment. Tell me about a bill of major importance that has not been amended. The amendments are suggested.

Mr. FORD. Might I make an observation?

Mr. GOLDSBOROUGH. Mr. Luce has been waiting to ask some questions.

Mr. LUCE. Yesterday, Senator, in inquiring about the process by which the purposes of this bill would be carried out, I reached the point where I struck something which I wanted to think about, so I did not pursue the inquiry any further. Last evening I was able to give it some reflection, and I would like to ask one more question at least.

You said in effect that the purpose of this bill would be carried out by the purchase of bonds. Am I right in thinking that you would contemplate having the Treasury or the Federal Reserve Board buy these bonds from the banks first?

Mr. OWEN. I would buy them from the general public, preferably, because that would expand the supply of demand bank deposits, while buying them from the banks would not expand the demand bank deposits, because the demand bank deposits have already been expanded by the purchase through the member banks of the bonds.

Mr. LUCE. The bonds are now, for the greater part, in the hands of the banks.

Mr. OWEN. Yes.

Mr. LUCE. If you went into the market to buy them from the public, is there any assurance that you could buy them?

Mr. OWEN. No; there is none, except the ordinary market transactions which take place daily.

Mr. LUCE. Now——

Mr. OWEN. But this amendment offered to the committee takes up other forms of securities which are equally available for the purpose.

Mr. LUCE. Yes.

Mr. OWEN. I did not intend to interrupt you. Proceed, please.

Mr. LUCE. So far as they are bought from the banks, the net effect would be to exchange what we call bonds or a substitute for what we call bonds in the hands of the banks, Federal Reserve notes?

Mr. OWEN. Well, it would be a credit with the Federal Reserve bank, which could be changed to Federal Reserve notes if they wanted them. They ordinarily would want credit, and if they had that credit it would mean that they could make loans because they would have the credit which they could loan on.

Mr. LUCE. Now, what is the cause for thinking that at that stage the Federal Reserve notes or whatever form the credit might take would be loaned to borrowers?

Mr. OWEN. When you adopt a policy of a rising price level, you will encourage men to borrow and encourage men to lend; the banks would be willing to lend to businessmen on sound security if there were a rising market and there were a stable monetary policy established by the Government of the United States upon which they could depend. Then the banks would perform their duties in lending to the business people of their community, and that would be a perfectly rational and reasonable thing for them to do, because with the rising market or a market which is stable, they can forecast the future and tell whether or not they will be justified in making the loans.

Mr. LUCE. I think now, sir, that I understand the program. But it is hard to judge that program without some definite knowledge, rather than impression, of whether the banks today have or have not at hand credit with which to help industry. There seems to be a difference of opinion about that. The general opinion is that the banks are loaded with money which they cannot lend. On the other hand, I gather from you——

Mr. OWEN. You have members of your committee who know perfectly well what the banks are doing within the inside of banks with which they are connected, and they tell you the facts about it, I am sure, but there is no question about the present situation. Why should a bank lend money to men when they do not know what the future value of property is going to be which is going to be bought or operated in? They are unsafe. They have no dependable security. You have given them no dependable security. You have permitted a condition which has made them insecure and caused losses in the last 20 years of 500,000 business concerns, so why should they lend, until you establish a basis of dependable security?

Mr. LUCE. Is there any way in which we could find out whether as a matter of fact the banks today are or are not desirous of lending money to business?

Mr. OWEN. Mr. Viner examined that for the Treasury, and he made a report showing 1,600 cases in the banks of Chicago, for an example, where sound loans were offered to the banks and the banks declined them.

I think that the banks were quite right, too.

Mr. LUCE. Now, we heard in this committee some years ago much testimony on this matter. We heard witnesses from various parts of the country who came here and declared that they could not borrow money. I remember in particular the owner of a chain of stores near Albany, N. Y., who seemed to be in a desperate plight. He could not borrow money. Yet I think the committee reached the conclusion that the weight of the evidence was to the effect that these people who are so worried because they cannot borrow money cannot furnish adequate security. Now, that thing is going on at this moment.

Mr. OWEN. No security is adequate under these conditions of instability.

Mr. LUCE. The President has urged the Reconstruction Finance Corporation to interest itself in this matter, and in turn Mr. Jones has made a most persuasive appeal to the banks to lend money.

Mr. OWEN. I think that that is perfectly absurd.

Mr. LUCE. Well, I am trying to say to you that in the past this committee has thought that the trouble was that the complainants were people wihout any resources.

Mr. OWEN. We come back at last to the instructions of our forefathers, written into the Constitution of the United States out of the experience of the long past, as a result of which they have put into the Consitution the instruction to your commitee to regulate the value of money; in other words, to have public control over the money supply; and the simple question is, Will you or will you not carry out that provision of the Constitution; and if so, in what form shall you do it most acceptably and with the greatest certainty of a happy return from your efforts?

Mr. LUCE. Well, sir, you do not go the whole distance when you say that we should furnish the supply. You want us to assume a demand, a legitimate demand, and I wish there were some way to find out if there is such a legitimate demand.

Mr. OWEN. Well, I have pointed out to you that the normal demand in 1929 was $1,227,000,000,000 of check money. I have pointed out to you that in 1926 the normal demand was $845,000,000,000, and since that time we have had a natural expansion of approximately 4 percent per annum, which would make an increase of about 50 percent and would make the normal demand twice as great as the current use of money in the country now.

I do not see what further testimony you need. The testimony is overwhelming. It only requires a careful examination.

Mr. LUCE. I quite agree with your wishes in this matter, that we should stimulate business in some way, but I still fail to know whether it is true that a man with adequate resources cannot borrow money today.

Mr. OWEN. This committee in 1932 considered that matter at the bottom of the depression; they considered what was taking place at that time, when even pocket money had been so contracted and was hidden and withdrawn from us that there were manufactured in this country 2,000 different kinds of scrip money to take the place of the hoarded pocket money of the country.

The hoarding of money is a perfectly natural thing. The hoarding of money has been proven beyond the possibility of a doubt, both as to the currency and as to the demand bank deposits. There is not any doubt about it. The evidence is overwhelming. The question is whether those demand bank deposits which are hoarded shall be induced to cease to be hoarded and to be turned loose to flow again as the money of the country, and if it refuses to come out, then it is perfectly easy for the United States Government, by the buying of sound bankable assets, to create in lieu of nonliquid securities the liquid money with which to replace the money that has now been hoarded and which refuses to flow.

Mr. LUCE. That is all that I have.

Mr. FORD. Might I make an observation?

Mr. MEEKS. Will Mr. Ford yield to me a moment?

Mr. FORD. All right.

Mr. MEEKS. I would like to follow that up right here, because it is the logical place for me to ask, briefly, some questions.

Mr. FORD. All right.

Mr. MEEKS. Are you through, Mr. Luce?

Mr. LUCE. Yes.

Mr. MEEKS. Now, Senator, you have mentioned the Viner report.

Mr. OWEN. Yes, sir.

Mr. MEEKS. Do you know how the information was gathered that is in the Viner report?

Mr. OWEN. I think it was gathered directly from the individuals who made the applications, and probably from the banks themselves, because it was made for the purpose of ascertaining that very question, as to whether or not borrowers who had legitimate use for money could get it from the banks.

Mr. MEEKS. I suggest to you that I live in the seventh Federal Reserve district. That, of course, is in what we know as the Chicago district.

Mr. OWEN. Yes.

Mr. MEEKS. And this was the method employed, as far as I know, and I attended one of their meetings in my town, in Danville, Ill. There they called a meeting of the bankers of a certain area, and they went all over that district and interrogated the bankers with respect to their profits, and why they were not lending money. I was called upon to make some remarks in this meeting, and you will find in Viner's report two reasons assigned, one the fear of the banks in lending money, for they were anxious to know what the result of their lending might be, and I think the facts clearly disclose that in order to carry out the policy that we are discussing here, it is necessary to have the cooperation of the Treasury, which leads through the office of the Comptroller of the Currency, out of which proceeds an army of examiners that go over the United States examining banks and that pass upon credits and make reports and pass upon paper; and so I think you will admit that that is an essential element in the procedure along that line.

Mr. OWEN. Yes, indeed; and very interesting.

Mr. MEEKS. On the other side of this question, they interrogated a great many customers of the banks, people who were accustomed to borrowing money to carry on their operations, to get their story, and you will find this in the report also, that the respective borrowers, the men who had been in the habit of borrowing—and there was not any question about the security—were afraid to borrow money because they did not feel sure that they could keep it long enough to carry out their plans.

Mr. OWEN. Exactly.

Mr. MEEKS. Are you familiar with that?

Mr. OWEN. Yes.

Mr. MEEKS. Am I stating it correctly or not?

Mr. OWEN. You are, mildly.

Mr. MEEKS. Well, I am rather mild in my ways.

Mr. OWEN. What I meant to imply was that the honorable member might state it with a good deal more——

Mr. MEEKS. But the sum of these two things in detail was developed by that Viner inquiry made in that manner, of which I happen to have knowledge.

Mr. OWEN. Yes.

Mr. MEEKS. Now, going to your theory of the matter, and I will call it theory, because I am not an artist with words——

Mr. OWEN. You are good on facts.

Mr. MEEKS. The cooperation of the Treasury, as I have indicated, is absolutely essential, is it not?

Mr. OWEN. It is of great importance, and the Secretary of the Treasury should also be instructed, and I believe that that amendment does provide for the cooperation of other departments—if not, it should be required——

Mr. MEEKS. At any rate——

Mr. OWEN. What you said with regard to the examiners has extraordinary force, because the examiners themselves were frightened, and they would come into a bank full of fear, and question paper that was not unsound but which could not be immediately liquidated, and they closed many banks that were entitled to live.

Mr. MEEKS. And which was fully paid off before the examiner got away from the bank in many instances. I know about these things.

Mr. OWEN. And I know about these things.

Mr. MEEKS. And it is not always pleasant to say what you know. Nevertheless, I think it is important, in view of the effort made here to bring about a change in some of our monetary operations.

That is as much as I want to say on that, although I could say more.

Mr. OWEN. I thank you for the interruption. I remember that Viner report and regard it as a report of importance.

Mr. MEEKS. Let us go back to this second proposed amendment, which you began to discuss shortly after I entered the room. Being a lawyer by profession, I examined the amendments in a lawyer's fashion, when it becomes his professional duty to do so.

Now, I noticed the language of the amendment to the effect that the Federal Reserve System is made the agency of Congress, and it is proposed that one branch of that Congress shall have the power to bring about the discharge of members of the Board.

Mr. OWEN. Yes; one branch of Congress.

Mr. MEEKS. Not the whole Congress but only one branch of Congress.

Mr. OWEN. Yes; but it would be——

Mr. MEEKS. Listen to my question, please.

Isn't that statement in that amendment, if it should be adopted, of such a character that it would produce a great deal of controversy hereafter with respect to the power of one branch of Congress, whether we declare ourselves to have that power or not?

Mr. OWEN. Are you ready for my answer?

Mr. MEEKS. Yes.

Mr. OWEN. My answer is that that power, exercised by the House of Representatives, would be exercised under the authority of an act of Congress, just as an act of Congress which authorizes the Senate to ratify and to confirm the appointment of a member of the Board of Governors of the Federal Reserve System. It would be an authority exercised by either House given to that House by statute of the United States, representing the full legislative power of the United States, and approved by the President.

Mr. MEEKS. Do you know of any decisions of the United States Supreme Court where that has been held?

Mr. OWEN. Such a particular matter as this has not arisen, as far as I know, but the Constitution, which authorizes Congress to regulate the value of money, justifies the statute using the means which have been proved to be necessary to carry out that mandate of the Constitution, and it has been proved to be necessary to exercise power over the members of the Board of Governors of the Federal Reserve System.

Mr. MEEKS. While we concede that it is necessary to use that power, my question is——

Mr. OWEN. It will never be necessary to use it if you have it in the statute. Their conduct will be so exemplary and satisfactory that you will never have to use it.

Mr. MEEKS. My question is whether, in using the term "Congress," you can in the same line or paragraph authorize one branch of it to exercise that power.

Mr. OWEN. It is my judgment, as a student of the Constitution, that the Congress of the United States, in carrying out a mandate of the Constitution to regulate the value of money, has a right to determine the agency through which they will exercise that duty, and to employ all means by which to make that agency effective in carrying out that mandate, and no court, in my judgment, would ever be found that would question it.

Mr. MEEKS. I want to go back to the first amendment. If you have answered this question before I entered the room, of course you need not answer it again, because I will get the answer from the record.

It is proposed to accomplish a certain thing, namely, to employ all of our employables, and in order to reach that result it is provided that there shall be a percentage above which the Federal Reserve System cannot go——

Mr. OWEN. May go.

Mr. MEEKS. And one to which it shall go.

Mr. OWEN. The one to which it shall go was the purport of the amendment read to me.

Mr. MEEKS. In other words, it must not go below 2 percent.

Mr. OWEN. The fluctuation must be within 2 percent.

Mr. MEEKS. On a scale of 100, it must be 98.

Now, do you think there is any doubt about the possibility of reaching 98 percent employment in this country?

Mr. OWEN. It is not the point to reach 98 percent of employment. The point is to reach a level of prices which can be maintained within 2 percent.

Mr. MEEKS. But with that objective?

Mr. OWEN. You do not have to have 98 percent employed.

Mr. MEEKS. All right. There may be a little difference of opinion in the interpretation of the language used, but the purpose of the question is this, and I will illustrate it.

About 2 years ago I had a conversation with a very important industrialist of the country about some of our legislation. He made this startling statement to me, that in his opinion there would always be some 12 million to 15 million of the people in this country unemployed—and I mean employable people. I asked him why that was true, and he explained that it was because of the advancement in methods, improvements, and so on, that because of that it was impossible to keep them employed, and I asked him what should be done with the rest of them, and he said, "That is where we would go to get our labor."

Mr. OWEN. Yes, indeed; where you can go to get it cheap; keep 12 million men unemployed in order to get labor cheap.

Mr. MEEKS. Then I asked him if he thought the American people would stand for that, and he said they would have to.

Now, to pass from that, do you think that the figures mentioned in this proposed amendment are possible of attainment?

Mr. OWEN. Absolutely.

Mr. MEEKS. The importance of that is this, that if it is not possible of attainment, then men should not be removed for doing something which it is impossible for them to do.

Mr. OWEN. You will find that possibility demonstrated in the experience of other countries, where this system is being employed now in expanding the amount of money sufficiently to exchange goods and services and in raising the rate of employment, and what is more important than that, I put in this record a statement of the Midland and London City Bank on this matter, and more important in achieving the high standard of living for all the people, and achieving the maximum employment, is the index of physical production, which under managed currency in Great Britain in 6 years has has increased 50 percent, and in the United States, from March, April, and May 1937 the index of industrial production has fallen 43 points, from 122 to 79.

Mr. TRANSUE. You mean 1938.

Mr. OWEN. I mean from 1937 to the present, in 1938 it has fallen, from March, April, and May 1937, from 122 to 79 in March 1938, which shows you what the effect is on employment when you have a destruction of the money supply and a hoarding of money in this country by anybody for whatever reason.

I am pointing out the physical facts. Here is a contraction in the index of industrial production from 122 to 79, and remember that the index of industrial production was 100 as of the average of 1923 to 1925, and ought to have increased 4 percent per annum by virtue of our technological improvements, our mass production, our increase of horsepower in machinery, our increase of electric power throughout this country, which has increased hundreds of percent since that time, and we ought to have had an increase of at least 4 percent compounded, and instead of that being 100 in 1937, or 122 in March, it should have been at least 175, and now we have got it at 79. We have it at about one-half of what it ought to be.

I am calling your attention to these facts which I have already put into the record, because they are very important in dealing with this question of employment.

Our real objective is to give every man and woman in this country an opportunity to earn his or her daily bread, by having the opportunity to be employed in profitable or reasonably profitable labor. That is the objective, and there can be no harm in trying to reach that objective when every other proposed remedy has failed and when those who are advising you to the contrary now have had charge of this Government and have brought upon us one calamity after another in 20 years.

Mr. MEEKS. Are you through with that statement?

Mr. OWEN. Yes.

Mr. MEEKS. In your view, it at least cannot do harm?

Mr. OWEN. No; it cannot do harm.

Mr. MEEKS. Now, are the questions that I put to you, in your opinion, pertinent to what you consider the issue?

Mr. OWEN. Very pertinent, indeed, and they are very useful, indeed. They point out the difficulty at the root.

Mr. GOLDSBOROUGH. Are there any other questions, gentlemen?

Mr. WILLIAMS. I have quite a number of questions, but there is not time for me to ask them now.

Mr. PATMAN. Senator, could you conveniently come back tomorrow?

Mr. OWEN. Yes; I would be glad to come.

Mr. PATMAN. We appreciate your patience.

Mr. OWEN. It is not patience with me. I am deeply interested in this matter, in achieving the highest standard of living for all of our people, and I know that you cannot do it if you allow the lifeblood of commerce to be the object of merchandising or speculation which can from time to time congeal it, and I am profoundly convinced of the value of the instruction in the Constitution to Congress, that Congress shall regulate the value of money.

Mr. PATMAN. It will be all right for you to ask your questions tomorrow morning, Mr. Williams?

Mr. WILLIAMS. Yes.

Mr. GOLDSBOROUGH. Then, we will adjourn until half past 10 tomorrow.

(Thereupon, at 12:10 p. m., an adjournment was taken until Thursday morning, March 24, 1938, at 10:30 o'clock.)

GOVERNMENT OWNERSHIP OF THE 12 FEDERAL RESERVE BANKS

THURSDAY, MARCH 24, 1938

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

The committee met at 10:30 a. m., Hon. T. Alan Goldsborough presiding. Other members of the committee present: Mr. Reilly, Mr. Williams, Mr. Spence, Mr. Farley, Mr. Ford, Mr. Brown, Mr. Patman, Mr. Transue, Mr. Barry, and Mr. Luce.

Mr. Goldsborough. The committee will please come to order.

At the close of the hearing yesterday Mr. Williams indicated that he desired to ask Senator Owen some questions. You may proceed, Mr. Williams.

Mr. Williams. I have not any desire to prolong the hearings. I, for one, have listened with a great deal of interest, and I hope with some profit, to the very able discussion you have given us here in the last several days, Senator Owen.

In the course of your remarks, Senator, it seems to me you have put down a rather severe indictment of the Federal Reserve Board, not only the present but past boards, and you seem to have reflected somewhat on the intelligence of this committee. Understand, I am not complaining of that.

If these problems were as clear, simple, and plain to the members of the committee as they appear to be to you, and if we had that understanding of them and were as convinced and positive of the effect of this legislation, I am very frank to say we would be derelict in our duty, and even unworthy of the positions we hold, if we did not enact this legislation immediately.

Of course, the trouble is we have not been able to see it that way. I do not know whether we ever will or not.

There is one thing that disturbs me. From what I have read and from my little association with some of what might be called the orthodox economists of the country, the men who represent what we might call the school teachers and representatives of the colleges who are teaching economics and finance, and from my knowledge, I think there are a great many different schools of thought on this subject, and they do not agree with the idea that you present.

On the other hand, when we get into the field of every day, hard-headed, practical businessmen and bankers, and, so far as I can find out, those who have had the management of our Federal Reserve System since its inception 25 years ago, they do not seem to entertain those ideas.

In view of that, my limited vision is rather confused, and for that reason it is not difficult for me to understand and appreciate the different ideas and the different views that are extent on the subject.

I am not sure that I understand your position, Senator, and it was for that reason that I wanted to ask you a few short, plain questions, if I may, with reference to some of those matters.

In the first place, do I understand that it is your position that the Federal Reserve Board—and I am speaking of the Board of Governors of the Federal Reserve System under our present law—that they have all the power they need in order to reach the objective that you think should be reached to bring about stabilized conditions, not only in prices, but also along the line of production, trade, and employment. Do you think that they have all the powers now that are needed?

STATEMENT OF HON. ROBERT L. OWEN—Resumed

Mr. OWEN. In reply to the question as to whether or not the Federal Reserve Board has all the powers it needs to regulate the value of money, I would reply that the powers given to the Federal Reserve Board to exercise supervisory control, to determine who the presidents of the banks should be, having a veto power on that, and that they should have the right to buy and sell bonds as a means of expanding and contracting the volume of credit, are very important powers.

But they are handicapped by the influence of the directors controlling the Federal Reserve banks, who are chosen to represent a few of our bankers, for whom I have a great respect, but they entertain the view which leads them to approve what banks do and have done in expanding credit too much and in contracting credit too much. They reflect the interest of their group, which is adverse to the public interest, as demonstrated by the repeated effects of undue expansion and undue contraction, sometimes called inflation and deflation.

They have not the power which they ought to have, because they should absolutely control the instrumentalities by which to regulate the value of money.

That is a governmental function, in my judgment, charged as a duty upon the Congress by the Constitution. That is not a question of debate with me; it is a question of obedience or disobedience, and the instrumentality should be sufficient to enable the Congress to obey the mandate of the Constitution.

Therefore, I favor as a part of that instrumentality the taking over of the Reserve banks, so that the United States can control its monetary operations. It has certain banking operations, acting as a great clearing house for all of the banks of the country—a very useful service.

As far as my view is concerned, I should have no objection to the banks having three of the nine directors, so that they might be heard with regard to matters which relate to the banking elements in the Federal Reserve banks, which operate as clearing houses for all banks.

But I do not think the open-market committee, with the technical restrictions which have been placed around it, should be permitted to continue. The open-market provision and the open-market regulations are a means of preventing the free exercise of the powers necessary to regulate the value of money.

Moreover, the influence of the 12 members of the Federal Reserve Advisory Council has been used over and over again against the public interest.

I do not mean that they are guilty of conscious wrong, nor have I intended to convey the impression by what I have said that the Federal Reserve Board has been guilty of conscious wrong.

They have accepted a theory of contraction, and what they did justified what the operators in the stock exchanges did, as a consequence of which the country is the victim.

Those are the points that I made. I have not intended to go further than to repeat the views which are of record and call attention to them, with the natural consequences which ensue from such action and such a declaration of policy.

I have felt rather conscious of having been perhaps called to the stand too frequently, for fear that I might wear out the patience of the members of the committee. But I have not intentionally been responsible for that. I have been invited to come, and this is the seventh time I have appeared before the committee. In every instance it has been upon the invitation of the members of the committee or the chairman of the committee that I have appeared.

Now, the record on all of these matters is very complete and very abundant. The argument has been finished. There is no need for any further argumentation, because every side has been heard.

When this matter came up in 1932, it was heard on both sides.

In favor of governmental control and carrying out of the constitutional provision there appeared representatives of the National Farmers Cooperative and Educational Union, represented by John Simpson; the National Grange, represented by Mr. Taber and others. The National Federation of Farm Bureaus appeared, being represented by Mr. O'Neal and others. The American Federation of Labor appeared, represented, I think, by Mr. Husing. I could enumerate many other expert students and thinkers who supported the view of the House of Representatives on this question of public control, included in the hearings of 1932, 1935—in the House and Senate—and in 1937 before the Committee on Agriculture of the Senate on farm commodity prices, and the report of that committee on this subject matter. In Mr. John D. Miller's testimony at the latter hearings he strongly endorsed public control and obedience to the Constitution. He represents 4,000 farm organizations with 1,200,000 dues-paying members. They had experts studying this matter for several years. He quoted many of the highest authorities in the world. I have not been voicing merely a personal view of my own, but the best-informed opinion in the world.

In 1896 George Shibley wrote a splendid book, Honest Money. A discussion of honest money and stable money has been going on actively for over half a century. Ten thousand pages of testimony are before Members of Congress on this question. My personal views are of no importance whatever. It is a question of obedience to the Constitution and public control of our money supply upon which the stability of national business depends. It comes down to the simple question, Shall we have public control or shall we not have it?

A number of other experts appeared, all of them asking that the Constitution be carried out, and the committee, I believe, by practically a unanimous vote, recommended that the purchasing power of the dollar should be restored to the predepression level and maintained at that point, and instructed the Secretary of the Treasury and the Federal Reserve Board and the banks to make effective that policy.

But those who were in official positions derided that suggestion and said it could not be done, while in 1928 a hundred of the leading businessmen of Great Britain met together and considered these questions and made a demand on the British Government that the British Government do this very thing, that is, create and regulate the value of money. By 1932 they put it into effect, and it has worked very well, and causes us to believe, therefore, that a similar policy in our country would be followed by similar consequences.

Mr. FORD. In the event that the Congress would do anything of that kind, the reverse condition would exist, and instead of businessmen coming in and asking that be done, they would be here with a mass of propaganda against its being done.

To my mind, it is useless to make comparisons between England and the United States for that reason. They work differently, and they operate differently.

Mr. WILLIAMS. Let me get back to my question, Senator. I still am not quite sure whether you think the Federal Reserve Board should have any additional powers.

Mr. OWEN. Yes.

Mr. WILLIAMS. Let me ask you if they do not have all the powers that have been enumerated by you as it is now, and where they have fallen down, according to your view, is that they have been unduly influenced by some outside persons.

Mr. OWEN. All human beings, I think, are influenced by argumentation made to them. I do not think that they are any exception to the rule, but I think it is perfectly obvious that they have been influenced by forces representing the banks of the country.

Mr. WILLIAMS. They have the right now, of course, to buy and sell in the open market?

Mr. OWEN. Yes, they have, but they have the right to do it only under the restrictions of the so-called open-market provision.

Mr. WILLIAMS. Yes; under the restrictions and under the direction of the open-market committee.

Mr. OWEN. Yes.

Mr. WILLIAMS. They can do that?

Mr. OWEN. Yes; and if you will examine those regulations carefully you will find that they are such as to permit action along the lines which have been suggested of expanding credit.

Mr. WILLIAMS. Who made the rules and regulations?

Mr. OWEN. They are made by the open-market committee.

Mr. WILLIAMS. Of course, theoretically at least, they are made by the Board; that is the theory of it, at any rate?

Mr. OWEN. The open-market committee has consisted for some time, until just a few days ago, of five members chosen by the banks and five members of the Federal Reserve Board.

Dealing with the point you mentioned, as to their power, they have power enough, I think—I know they have power enough, if they had exercised it, to have prevented this depression.

Mr. WILLIAMS. That is exactly what I want to get at. In your judgment, the power is sufficient?

Mr. OWEN. I say it is not sufficient.

Mr. WILLIAMS. I understood you to just say you thought they did have the power, if they would use it.

Mr. OWEN. If they would exercise the power they have, and independently of interference with them, they might accomplish it, but they should have enough power to make them exclusively responsible to the Congress and not to the banks.

Mr. WILLIAMS. What I am trying to find out from you, Senator—and trying to find out for the benefit of myself and the other members of this committee—is this: If they do not have the necessary powers, we want to try to give them those powers. In all earnestness that is exactly what I want to find out.

Mr. OWEN. I am urging that they be given absolute power over the Federal Reserve banks because of the ownership by the United States of those banks as an instrumentality of our monetary policy.

I favor expanding the Federal Reserve Board to make it reflect more fully the opinions of the whole country. I favor putting the Federal Reserve Board under the instructions of the Congress of the United States, as an agency of the Congress. At the present time that is not operating as a policy.

Mr. WILLIAMS. That, however, does not add anything to their powers; that simply gives them a mandate as to what we think they should do.

Mr. OWEN. It is of supreme importance in regard to their powers, because it makes them an agency of the Congress, where the power really is to be exercised, if the provisions of the Constitution are to be carried out.

Mr. WILLIAMS. I understand; it is a mandate from the Congress to tell them what we think they ought to do.

Mr. OWEN. What you know they ought to do.

Mr. WILLIAMS. But it does not give them any additional powers?

Mr. OWEN. Oh, yes; it does.

Mr. WILLIAMS. I do not see where it gives them any additional powers; it is simply telling them to exercise the powers they already have.

Mr. OWEN. It gives them directions by Congress as to what to do. That is, it is a power moving from the Congress to control their actions, and therefore it is a power of supreme importance, both politically, socially, and financially.

Mr. WILLIAMS. I do not concede that the mandate from Congress, or directions from them, gives the Board any additional powers. It is simply a matter of direction to use their powers they have in order to accomplish the purposes that we think they ought to accomplish. And if they have not the power to do that as they are now constituted under the law, of course, we ought to give them additional powers.

But if they do have that power already, then the direction by Congress to exercise those powers to accomplish certain purposes, to my mind, is another matter.

But let us get back to the question of the ownership by the Government of the Federal Reserve banks.

What governmental function, or what functions, do the Federal Reserve banks now, of themselves, exercise, so far as it affects the expansion or contraction of credit, so far as the monetary policy of the country is concerned?

Mr. OWEN. The Federal Reserve banks were established in the beginning as a means of regulating the value of money, and it was intended to have its powers used for the benefit of industry and commerce, according to the terms of the act.

That phrase was adopted in lieu of the more precise phrase "to promote a stable price level." They were supposed to be identical in meaning, but they were not given the same meaning, because the judgment of the Federal Reserve Board was that it was not for that purpose, and they caused a panic in 1921 by contracting credit currency to the extent of over $6,000,000,000.

That took place, and the standard set was so obscure that you would have difficulty in holding the members of the Federal Reserve Board responsible for what they did.

But they were under the influence at that time of 35 class A directors, representing the bankers, and of 12 Federal Reserve Board advisory counselors who were urging upon the Board this policy; and the Board, surrounded by those influences, who assured them that it was necessary to quickly liquidate the effect of the war, accepted that policy, with the effect of throwing some millions of people out of employment and causing a contraction in the production of services for 1931 alone amounting to some $15,000,000,000.

Now, the Federal Reserve banks, therefore, comprise the most important agency for regulating the value of money.

Mr. WILLIAMS. But they do that, do they not, Senator—or do they?

Mr. OWEN. They do not.

Mr. WILLIAMS. I have not finished my question.

Mr. OWEN. They deregulate it.

Mr. WILLIAMS. I have not finished my question. They do that to the extent that they do operate under the direction of the Federal Reserve Board.

Mr. OWEN. No.

Mr. WILLIAMS. Is not that the theory of it?

Mr. OWEN. It may be; it depends upon whose theory it is.

Mr. WILLIAMS. Was not that the intention?

Mr. OWEN. The theory of the law was that the Federal Reserve Board should regulate the value of money.

Mr. WILLIAMS. That is what I mean; the banks are simply an agency for that purpose.

Mr. OWEN. They have completely diverted from that. In 1932 and 1933, and in 1937 in nearly every instance, they pursued a policy that contributed to the contrary.

Mr. WILLIAMS. They did that with the consent of the Federal Reserve Board.

Mr. OWEN. I do not think they asked the Federal Reserve Board anything about it.

Mr. WILLIAMS. What means has the Federal Reserve Board, or the central banking system, under the law now, to create money, and to regulate the value of it, and determine the credit or currency policy of the country?

Mr. OWEN. The most powerful agency is the buying and selling of bonds.

Mr. WILLIAMS. That is one.

Mr. OWEN. That is one. They have also the right to pass upon the margins of stocks bought in the stock exchanges, another quite important regulatory operation. They have the right of control over the discount rate.

Mr. WILLIAMS. That is three.

Mr. OWEN. They have various other relationships with the reserve banks, which are not only——

Mr. WILLIAMS (interposing). There is the one that gives them the right——

Mr. OWEN (interposing). But they have failed to perform their duty, in my opinion, and I have pointed that out without any unkind criticism. I have not been disposed to deal in any unkind criticism, although I have deplored what I think was their lack of understanding and lack of vision.

Mr. WILLIAMS. They have also power over reserves, within certain limitations.

Mr. OWEN. They have raised them to the maximum which the law permits.

My own opinion would be that they should have the power to raise the reserves up to 100 percent, and, if necessary, of creating the money necessary to provide that money in the Federal Reserve banks in order to have a 100-percent reserve for the member banks. It would not cost the member banks anything at all.

The United States would be creating money and putting it into the Reserve banks to have 100 percent of reserves against its demand deposits of the bank. And in addition to that, I think the United States should provide other money which might be required by the United States until we reach the point of maximum employment.

Mr. WILLIAMS. The Federal Reserve Board has all the powers enumerated for the purpose of regulating and controlling the credit policy.

Mr. OWEN. I have enumerated some of the powers, but the powers which I think they ought to have, I have recited.

Mr. WILLIAMS. They carry out those policies through the Federal Reserve banks; the banks are simply the agency of the Board.

Mr. OWEN. I do not think the Federal Reserve banks pay very much attention to the monetary policies of the Federal Reserve Board, because I do not believe the Board ever shows any monetary policy. They have no monetary policy.

Mr. WILLIAMS. Then it is just purely a question of policy on the part of the Board, or a difference of opinion as to what that policy should be?

Mr. OWEN. Yes. You have delegated your power to the Federal Reserve Board, and the Reserve Board has no policy, and you are responsible for it, in my opinion. I say that with the greatest respect, but I say it because it is the truth.

Mr. WILLIAMS. Has the Federal Reserve Board, any Federal Reserve Board since the institution of the Federal Reserve System, ever had any policy?

Mr. OWEN. They were supposed to have had a policy of protecting industry and commerce, but that was not defined clearly enough. You could not hold them to be responsible, because that was obscure.

Mr. WILLIAMS. Has there ever been a board, according to your view, that has exercised its powers in the right direction, to accommodate commerce, trade, industry, and agriculture?

Mr. OWEN. The intimation which the honorable Member makes that I regard the Board as having been defective from the very beginning, I do not believe is justified, because until 1921 I had no occasion to complain against the policies of the Board.

In 1921, or in 1919 and 1920, I did, and I complained loudly on the floor of the Senate against the policy of contraction which they were putting on, attempting to liquidate the debts created by the war within a sudden, short period of time, which would necessarily mean bankruptcy.

Nine times on the floor of the Senate between January and June 1920, I raised my protest against that, and I have put in the record, and I sent to you a book showing how this change of policy took place under the conservative members of the Federal Reserve Board, in which Mr. Paul Warburg told how it came about. I gave that quotation in the book I sent to you, on January 7, 1937.

And to say that I never thought that the Board was doing its duty at any time is to put me in the attitude of just being a general croaker, setting myself up as a standard for everybody to bow down to.

I came before the committee simply as an humble citizen of the United States making no pretense of any kind, but having studied the matter carefully and extensively because of my deep interest in it. I have not been willing to be unkind to other men, or be severe in my judgment of them. I have been only trying to help them.

Mr. WILLIAMS. Let me make this observation. If you got the impression that I was attempting to be critical of you, I had no such intention.

Mr. OWEN. Then I will withdraw my comment.

Mr. WILLIAMS. You, of course, have a different view, as I understand it, from the policy exercised by the different Federal Reserve boards?

Mr. OWEN. Since 1919.

Mr. WILLIAMS. Since that time, in your view of it, they have not performed what you think is their duty, or have been mistaken in their judgment?

Mr. OWEN. I have in detail made my comments upon the matter, and I am not prepared to agree broadly that they have at no time discharged their functions satisfactorily. I think they have at times done so. I think during the period when Benjamin Strong was in the office of Governor of the Federal Reserve Bank of New York he exercised a very potent, beneficial influence, up to 1928, I think it was, when he died.

They realized at that time the importance of attempting to stabilize credit, and I think it was fairly well stabilized in the wholesale commodity markets at that time.

But in 1927 there grew up a tendency to expand credit unduly, in the speculation in or purchasing of stocks and bonds in the stock markets, or so-called security exchanges all over the country.

They began to expand credit to the point where it was dangerous, and which caused the reaction in 1929. That Board was unwise in its attitude at that time and I tried my best to be heard. I requested them to give me a hearing, but I was refused. And I did not make it my business to go around damning them because I failed in my effort to make them take a proper course.

Mr. WILLIAMS. Briefly, Senator, what do you think they should have done during that period of 1928 and 1929?

Mr. Owen. In 1928 and 1929 they should have expanded credit to the businessmen of the country and used their influence to prevent loans based upon the stocks and securities in which speculation was obviously taking place.

Instead of that, they raised the rate steadily on the people who were transacting the business of the country, and thereby had the effect of depriving the people of producing value while they were allowing the call money rate to go up to 8, 10, 15, and 20 percent, and thus starving business people of credit.

So, on the floor of the Senate I urged them to do that in 1920. I urged them to do it in 1919, because when they allow the rate of interest to be raised to a very high point in the security exchanges they attract money from all over the country, and from all over the world for speculation in stocks, and they withdraw that money from the little home people who have deposited that money, who have created that money at home, to the injury of the little people at home, and finally, to the ruin of maney of the big people.

It is a great mistake to think that the big people are all successful. It is only the most powerful, the most sagacious, of them that are.

Mr. Williams. Could they have hampered loans for business purposes or for speculation purposes?

Mr. Owen. They could have used their influence to prevent those loans, and to correct the high rate of interest on call money. I call attention to the fact that that still can be done without any interference of law.

I think Congress should pass a provision forbidding any rate of interest on call money exceeding 4 percent. In that way that call money would not drain the country banks and country people of money to which they are entitled.

I have begged for that for many years, and I again pray for it now as one of the things this committee should do.

Mr. Williams. Was there anything done by the Federal Reserve Board during this period, say, from 1923 to 1929, with reference to stabilizing prices and employment?

Mr. Owen. They raised the rate of interest on business credit. They did not cut down the high rate of interest on call money; they did not use their power to do it, and thereby they contributed to that situation.

Mr. Williams. I am simply asking whether that extended over that entire period?

Mr. Owen. They never exercised any control whatever over the call market; they allowed that to take its own course.

Mr. Williams. Did they take any action intended in any way to influence the financial, industrial, and commercial conditions of the country at that time, any more than just performing their ordinary functions?

Mr. Owen. At one time they lowered the rate, thereby stimulating activity and allowed 500 million dollars of gold to go to Europe without replacing it.

But the effect of those few years preceding was influenced by the fact that the call rate did steadily rise and that the Federal Reserve Board. I think it was in 1928, three times raised the rate of interest to the businessmen of the country, and finally raised it to 6 percent, which means a prohibition on the member banks lending money, because it costs $1.30 per $100 on an average for banks to handle loans, and if they had to pay 6 percent to the Reserve banks for it then they would have to get 7.30 percent in order to keep from losing money, without any gain at all. Under those conditions, of course, the banks of the country found themselves in a position where it was not convenient to extend loans, and the effect of the depression in 1929 was that the loans of member banks which had been made to the business men of the country were contracted $20,000,000,000 between then and 1934, and that never has been replaced.

Mr. WILLIAMS. We had a fairly stable price level during that period, did we not?

Mr. OWEN. It was not very stable. It went to 95 in 1929, and it could have been kept at 100, if anybody had been charged with the duty of doing it.

Mr. WILLIAMS. The period from 1923 to 1929 is generally taken as a standard, is it not?

Mr. OWEN. The price level in 1926 was 100, and it went to a safe point. It was not absolutely stable, and in 1929 it was 95 for that year. But it was comparatively stable, and the country had reason to be thankful for that.

Mr. WILLIAMS. Do you believe, Senator, that there are many other factors that enter into the price level, outside of the volume and velocity of money?

Mr. OWEN. Yes; there are many other factors, in number.

If you take the price of copper, and allow a monopoly to run the price of copper up, as it did in 1936 and 1937 from 9 cents a pound up to 17 cents a pound, it has a tendency to obstruct the building industry. The same thing is true with regard to lead and other products which are affected by monopoly prices.

So monopolies do exercise some harmful influence where they are unrestrained.

But that is another story and does not explain what took place on the 23d of October 1929, when within 6 weeks $6,000,000,000 of credit was contracted, and a $30,000,000,000 loss in the security exchanges took place. During that 6 weeks there was no particular change in the attitude of the monopolies.

Mr. WILLIAMS. So monopolistic influence is one of the things that affects prices?

Mr. OWEN. Yes; and those who are representing the Federal Reserve Board and the Treasury Department have been expounding very much on that, which is not important, comparatively.

A report made by Mr. Morgenthau on the 27th of February 1937, called attention to the various things which affect our economic life.

There are various things which affect our economic life, such as taxation, labor, drought, and the threats of war, and this, that and the other. But there is one thing which is important to be recalled, if you have any stability in this country, and that thing is being overlooked in these statements by the Federal Reserve Board authorities and by the authorities in the Treasury Department, and they are emphasizing such matters as that to which you now refer.

Mr. WILLIAMS. What influence, in your view, have our reciprocal trade agreements had on prices; in other words, the tariff policy?

Mr. OWEN. I will say this, Mr. Williams, that if you will examine the table which I submitted for the record during my testimony here, the table which I put in the book which I sent to you on the 7th of

January 1937, at page 63 you will find that when the check money of the United States contracted two-thirds, from 1,227 billion dollars to 430 billion dollars, our exports fell correspondingly two-thirds, and our imports fell correspondingly two-thirds. That is my answer.

Mr. WILLIAMS. Do you think that the legislation which we have been following here for the last 2 years to control production, especially as applied to agriculture, has had any influence on prices; that is, the legislation of the last 2 years?

Mr. OWEN. Yes; it has had some effect.

Mr. WILLIAMS. The policy of trying to control production and adjust it to consumption, as far as agriculture is concerned?

Mr. OWEN. Yes; but it is putting the cart before the horse.

You cannot regulate the value of agricultural products by these palliative means with any great degree of certainty until you shall have removed the colossal cause of the destruction of the values of agriculture.

When that drastic contraction of credit and currency took place under the Federal Reserve Board in their meeting of May 18, 1920, the value of farm commodities, as a class, fell over 50 percent within a single year, and the value of farm lands, which had been increased in value very much by the operations of the war, shrunk from about $78,000,000,000 down to about $57,000,000,000, approximately a shrinkage of about $20,000,000,000, under the same effects of the contraction of currency and credit, under the policy put over by the Federal Reserve Board and the class A directors and the Federal Reserve Advisory Council, and the same thing was repeated again when they permitted the panic of 1929 and 1932 to take place and did not correct it. They could have corrected it if they had been wisely administering the law.

Mr. WILLIAMS. Did I understand you correctly to say yesterday that you thought that the Federal Reserve Board, by the very exercise of their powers, could maintain the price level at the 1926 standard, or within 1 percent of it?

Mr. OWEN. Yes; if they were given the power I am suggesting they get.

Mr. WILLIAMS. Has there ever been any other nation that did that?

Mr. OWEN. Yes. It is being done by Sweden now. And I put in the record a few days ago the price levels of the leading nations of the world, showing that all of them now are looking to the price level as a most important guide in their economic and monetary policy.

You will see in that table the extent to which prices have already been stabilized in various countries.

Mr. WILLIAMS. I have not seen your table, but I do not get that impression from the table I have here, Senator.

Mr. OWEN. I am not informed as to what statement you have.

Mr. WILLIAMS. I have in front of me the last Federal Reserve bulletin, and I have also a special dispatch to the New York Times from London, dated March 12 of this year, which is the most recent thing I have seen.

That shows that there was a fluctuation in general wholesale prices in Great Britain from a low in 1933 to a high in September 1937 of 28 points.

Mr. OWEN. Quite right, and that is what we ought to do here.

Mr. WILLIAMS. And it also shows a reduction in prices at other times, a fluctuation varying from 112 down to 83.

Mr. OWEN. From 83 up to 112, was it not?

Mr. WILLIAMS. Yes; but on the other hand, it was 112 last September, and it is 105 now.

Mr. OWEN. Yes. It was a class of management by consent. What they did was to adopt a policy of cooperation between the banks, including the Bank of England and the Government of England to attempt to furnish the money necessary to the people to exchange their products and services. So they expanded the money supply, and when they did that they increased their physical production by 50 percent, thereby exercising a dominating power in the price level. It should have reduced the price level substantially, except for the corresponding increase in the money supply at the same time, and that money supply was continuously increased until the physical production increased 50 percent, but along with it came a rising price level, and along with the rising price level came the reemployment of over 2,000,000 people who previously were out of work and on public relief.

So that so-called fluctuation from 85 up to normal, and then the rise above normal to 112 has been accompanied in Great Britain by great prosperity.

I do not know to what extent that price level may have been affected by the unhappy conditions which then existed in the very closely allied financial system of France. France has had a shrinkage in the value of the franc of nearly 50 percent during the last 18 months, and France is doing the same thing. It is expanding, it is trying to increase its industrial activity by expanding the volume of francs and diminishing the value of the franc.

Mr. WILLIAMS. I noticed from the bulletin I have here from the Department of Labor with reference to Sweden, that in 1926 the price level was 149, and in 1933 it dropped to 107. There is a drop of 42 points under their system.

Mr. PATMAN. Over what period?

Mr. WILLIAMS. From 1926 to 1933.

I have taken occasion to compare a great many figures from the different countries, and I find there is a remarkable similarity among all of them. I think, without exception, from those I have examined, taking 1926 as the standard, either in 1932 or 1933 they had all dropped just like the United States did, and at about the same rate.

Mr. OWEN. I have explained that on various occasions, and I will be glad to explain it again.

Mr. WILLIAMS. The point I had in mind is this, that in those countries where they are attempting to stabilize the price levels they have not done so any more than we have here.

Mr. OWEN. May I now answer?

Mr. WILLIAMS. Yes.

Mr. OWEN. When under our system we reduced the purchasing power of the dollar to 60 in May 1920, and then, by contraction, raised the purchasing power of the dollar—that is, the gold dollar—up to 167 by February 1933, that had the effect of reducing the value of commodities correspondingly, not only in our own country, where the commodity index went down to 59, but we had that effect all over the world, because all these nations in the world had been taught to regard gold as the only measure of stability in the world.

It never occurred to them that the purchasing power of gold could fluctuate, as we know it did.

When we caused that to happen, we interfered with the stability of the index in Sweden just as we did in Wisconsin or in Missouri. There was that effect all over the world. Practically, we bankrupted the world, and we justified the nations of Europe in postponing the settlement of their debts to us, and we justified the South American republics in withholding the servicing of their bonds which they had sold to the people of the United States; and now, after that effect had taken place and we forced all the nations of the world to drop the gold standard in 1931 and 1932, they had to go to another standard, leaving gold only to be employed as a medium of international exchange, and no longer employed by any nations in the world as domestic currency.

The figures you have been examining, of course, have been profoundly affected by what I am calling your attention to, and now we are looking forward to stability, and stability is possible, but these other nations have each their own particular laws, and they are looking more to the employment of the people than they are to the mere stability of the figures on the index of the purchasing power of the dollar, or the all-commodity index.

They are thinking in terms of employment, just as Hitler says that, so far as Germany is concerned, work is everything in Germany. That is what Hitler says. He does not care so much about stable price levels as he does about the stability of employment and the activity of people producing things that the people want; yet the German price level has remained stable and averaged 106 for the year 1937, never going more than one point above or below this. The price level of Switzerland and the Netherlands was stable. The fluctuation in the English price level was 103 in January 1937 and 108 in December 1937, on a policy of raising the price level.

That is why I was pleased with the amendment offered a day or two ago here, which, while it went back to the 1926 price level, still permitted the price level to go above par, if necessary, to employ all people able and willing to work.

Mr. WILLIAMS. Right in that connection, as I understand you, it has been your position that by raising the price level and maintaining it at a stable point, that would mean employment, that they go along hand in hand.

Mr. OWEN. Yes, surely; there is no doubt about that.

Mr. WILLIAMS. Is there any difference in the situation here and in other countries in that respect?

Mr. OWEN. I do not feel qualified to pass upon the affairs of other countries in the world. It is difficult to pass upon the affairs in our own country.

I find myself in great difficulty in satisfying those to whom I am appealing about this matter because of the difference of opinion at home.

If we go abroad we certainly will get into further difficulties, which will not serve any useful purpose.

Mr. WILLIAMS. The reason I asked that question is because the situation in other countries has been referred to here, and I understood you to refer to Sweden.

Mr. OWEN. Yes; it has comparative stability now.

Mr. WILLIAMS. I was wondering whether conditions there——

Mr. OWEN (interposing). The figures ought to show that there is comparative stability in Sweden.

Mr. WILLIAMS. Whether or not there is some relationship in those countries between the price level and employment, as there is here—that is what I had in mind.

Mr. GOLDSBOROUGH. Mr. Williams has referred specifically to the condition in Sweden and the drop between 1926 and 1933. I think that is what he is directing your attention to and upon which he is asking your comment.

Mr. WILLIAMS. Yes; and the relationship between those things. If I am in error about my understanding, that is another thing.

I have understood that the argument here has been all along that there was a very close relationship between the price level and employment. Am I right in that assumption?

Mr. OWEN. You are right in the assumption that in the recent falling of the price level that we have had in this country that there has been a corresponding fall in factory employment and factory wages.

There is a fixed relationship which is shown, month by month and year by year, and the tables have been put in these hearings.

Mr. WILLIAMS. The question I asked a while ago, and about which I am very serious, is whether or not the same relationship exists, say, in England.

Mr. OWEN. I should say it would be approximately the same. That would be my inference, but my knowledge of the internal conditions in England is not expert and I am not really qualified to discuss in accurate detail the affairs of England.

I am only justified in my opinion by the opinion of Sir Reginald McKenna and Lord D'Abernan and many other men who have given their testimony in regard to this matter. They were quoted by Mr. John D. Miller in his appearance before the Senate Committee on Agriculture in relation to the stability of farm prices.

Mr. WILLIAMS. While we are on the question of price levels, I understand we are talking about the general wholesale price level.

Mr. OWEN. Yes.

Mr. WILLIAMS. But that is made up of the prices of individual commodities?

Mr. OWEN. Yes.

Mr. WILLIAMS. It is a fact, is it not, and always has been, and perhaps always will be, that there is a wide variation, so far as individual prices are concerned?

Mr. OWEN. Oh, yes.

Mr. WILLIAMS. There are some commodities that are perhaps too high, and at the very same time others are perhaps too low?

Mr. OWEN. I do not know what you mean by too low and too high. They are high and low according to their quantity in the market.

Mr. WILLIAMS. I mean relatively.

Mr. OWEN. I do not think you should use the words "too high" and "too low," because they are not too high when they are very scarce, and not too low when they are very abundant.

Mr. WILLIAMS. I am speaking of the prices of food products and of clothing, and such commodities, which may be too high for the laboring man or too high for consumers, or the prices of building material may be too high for the man wants to build a home. I am of the opinion that there are times when those materials are too high in price.

Mr. OWEN. The all-commodity index has no relationship to the individual prices of oats, or barley, or steel, or copper. The all-commodity index only means this, that in 1926 it took 54.7 billion dollars to handle the turn-over through the wholesale markets, and that was put at the arbitrary figure of 100 in order to have a basis of comparison with 1927, and so forth.

Mr. WILLIAMS. Perhaps I do not know what I am talking about. Did not that mean that the average prices were higher than they were in 1932?

Mr. OWEN. You are now making a comparison of the index of 1926, and conditions then existing, with the present. I was talking about the definition of the all-commodity index which I thought you did not clearly appreciate from the questions you asked.

The all-commodity index was an arbitrary figure set in 1926 on the basis of 54.7 billion dollars as representing the total proceeds of all commodities enumerated passing through the wholesale markets. That is all it means.

It means then that the next year, if the index should go up, it would necessarily indicate that there had been an increase in money. That is the theory, because it is not to be assumed that all commodities created by all people of the United States going to the wholesale markets would vary very much from one year to another, and therefore it was assumed that the next year the commodities would be approximately the same, and therefore, if the index went up it would mean that there was an increase in money, correspondingly.

Mr. WILLIAMS. It would mean also an increased price, would it not?

Mr. OWEN. Of course, it would mean an increase in price, on the average, of everything.

Mr. WILLIAMS. I so understood it.

Mr. OWEN. Of everything, not of some things.

Mr. WILLIAMS. Of course, that would mean individual commodities that make it up, necessarily?

Mr. OWEN. Some commodities would increase and some would decrease, and you put the average in there, so neither one is really considered in the total.

Mr. WILLIAMS. But the sum total of it is that if there was an increase in the index it would mean an average increase in price?

Mr. OWEN. It means an average increase in money, and, of course, in the price, because that is the statement you make.

Mr. WILLIAMS. I think I understood it all the time.

So it would mean an increase in price?

Mr. OWEN. In the average price.

Mr. WILLIAMS. That is what I mean.

Mr. OWEN. Some of them would be lower.

Mr. WILLIAMS. In getting that general average it must be higher in some cases, otherwise it would not be a fair general average if you did not consider both those that were higher and lower?

Mr. OWEN. On an average means what it says; it means some might be lower and some higher, but take it on the average, take it on the whole, there would be an increase, and that increase can only be explained by the increase in money.

Mr. FORD. Would this be a fair statement: Assuming that it had gone to 100, and that that is looked to as an ideal, would it be possible in that case to have cotton selling at 5 cents and copper at 20 cents?

Mr. OWEN. Yes, sir.

Mr. FORD. Considering the fact that cotton, representing as it does such a large area of the country, were in that depressed state, would a price level necessarily bring prosperity because of the stabilization of the price level? It might, in the case of copper, but how about cotton?

Mr. OWEN. The effect of a stable price level is to leave the country free to deal with these arbitrary increases or decreases as individual spots needing attention.

Where there is a monopoly price on copper the effective method of dealing with that would be through the process of controlling monopoly by action of law.

In the case of cotton, where it is overproduced, there must be some means of regulating that surplus, regulating the creation of the volume of cotton.

That could be done in various ways, and is being attempted to be done in various ways, by persuading people raising cotton to do it, by way of a vote as to whether there shall be a contraction of acreage, and those are individual cases.

But the whole body politic, or the whole economic body, I should say, is influenced where you do not have stability in your money supply, and when that is stabilized, on the average, then you can deal with the sore spots, such as extreme prices for cotton, or lumber, or other things, whether the price is up or down.

Mr. FORD. May I ask one or two other questions?

If we were to pass something similar to the amendment which was offered here recently, directing the Board of Governors of the Federal Reserve System to do some certain thing, such, as for instance, as to enter into open market operations, or in connection with measures for the control of our monetary system, that would be a direct direction from Congress, and it would not make any difference whether there was 1 member of the Board or 50 members. They would be doing what they were told, and the number of members on the Board would not have any effect, would it?

Mr. OWEN. I think having a member from each of the districts would cause the membership to better reflect the opinions and the needs of the country.

Mr. FORD. But if we were giving them direct directions, that would not be material.

Now, there is another question I would like to ask you.

In 1929 the Board had no control other than the influence it might use in connection with call money; it had no control at that time over margins.

If it had had those two controls, and if Congress had said that 4 percent was the limit on call money——

Mr. OWEN (interposing). I did not know that it had.

Mr. FORD. I say if it had done that, had put a restriction on call money of 4 percent and had been given control over margins, would not those two things have enabled the Board to control the market situation in 1929, before the crash?

If they had said that instead of 20-percent margin they would have to have 75-percent margin, would not that have cut down the volume of business on the exchange?

Mr. OWEN. I think it would have gone a long way toward affecting speculation.

Mr. FORD. If the Board had also had the right to say that no call money should pay in excess of 4 percent, would not that have had a good effect?

Mr. OWEN. It would have kept out $3,000,000,000 of foreign money that helped to destabilize our market.

Mr. FORD. It would have kept a lot of other money out of the market that went in at 8, 10, 15, or 20 percent, and it would have kept a lot of corporate surpluses from being used on the market. I think it is agreed that that was due to the fact that neither of those powers was in the hands of the Board.

Mr. OWEN. The only thing they had was just their persuasive influence on the stock exchange. You know and I know that the persuasive influence which motivated members of the stock exchange was the commissions they got on the sale of stocks, and the millions of dollars that individual operators made by buying today and selling tomorrow and making profits.

Mr. FORD. So, unless the Board was given those powers and enforced them, it is hardly fair to criticize them for doing something which they really could not have done.

Mr. OWEN. I think they did not use the powers they had wisely, but if they had had those powers they could have used them advantageously.

Mr. FORD. The other powers they had were as to open-market operations, and control over the discount rate; and they also had some power with reference to legal reserves, did they not?

Mr. OWEN. Yes.

Mr. FORD. They raised the discount rate, to the disadvantage of general business?

Mr. OWEN. I thought so.

Mr. FORD. But they had no power to control the call rate on Wall Street.

Mr. OWEN. No.

Mr. FORD. And in that respect Congress was derelict in not giving them that power?

Mr. OWEN. I think the Board could have exercised their influence over the New York banks and over conditions, if they had endeavored to do so.

Mr. FORD. Maybe they could, but I doubt if it would have had much effect.

I recall the case of one town where I saw people pay as much as $550 a square foot for land on a street where you could have taken a machine gun and shot all the way down the street and you would not have hit one building of any kind. That same property went up to a thousand dollars a foot because of wild speculation.

It could not earn one-tenth of 1 percent on a thousand dollars a foot or on a hundred dollars a foot. The same thing was true of the stock exchanges.

I am holding no brief for the Board. But I say that at the present time Congress might well take some action for the benefit of the

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country, and take some steps toward telling the Board what to do and insist that they do it, if they are willing to do it. It is not the Board's fault.

So far as I am concerned, I am willing to go along with some action of that kind, after we have discussed it and decided definitely what the action ought to be.

Mr. WILLIAMS. There is just one more question that I want to ask.

In your opinion, did the Board act wisely in raising reserves during 1936 and 1937? Was that a wise move, in your opinion, under the conditions then existing?

Mr. OWEN. I myself favored raising the reserves because it thereby diminished the power of the banks to either inflate or deflate; but I think that at the same time that was being done, the Board should have given the country courage by stating that it was the intention of the Board to increase the volume of money so as to increase employment in the country, that it was their intention to increase the volume of money by buying bonds, and they should have then shown that it was their intention to do that by buying the bonds.

Instead of doing that, they have not expanded credit through the Reserve banks.

Mr. WILLIAMS. Do you think that there was evidence of inflation at that time?

Mr. OWEN. The Board said that there was danger of inflation because of the size of these reserves. There was the potential power under the reserves for the banks to expand credit more than they thought would be judicious. In other words, under the old rate of an average of 10 percent, they could increase outstanding loans 10 times on an average against reserves by doubling them.

Mr. WILLIAMS. There was a potential expansion there for credit of about $30,000,000,000.

Mr. OWEN. Yes; and they wanted to cut that off by increasing the reserves.

I was in favor of it as far as that feature is concerned, but to do that on the grounds of preventing inflation, and using that word "inflation" to stigmatize expansion was wrong, and the failure to expand when this country was suffering the pangs of death from a lack of money I thought was the gravest error on the part of the Board, and when the Board used the argument against expansion and took action looking against expansion, and condemned expansion by their arguments and by their acts, they encouraged the people who had stocks to sell those stocks and to accumulate money for the reason that they could forecast an increase in the value of money.

Mr. WILLIAMS. Do you think it was rather a healthy situation on the stock market, for instance, when United States Steel had gone from 25 to 126 and Anaconda Copper had gone from 3 to 75? Was that an indication that the stock market was getting loose again, like it was in 1929?

Mr. OWEN. It is my opinion that when United States Steel is working at a capacity of 90, and has a right to expect to continue to work at that capacity, that that stock is worth 126; but whether it is or not is not the point. That is merely one illustration of many.

You take Bridgeport Brass, which a year ago was 23 and now is 7½. That is a company 75 years old, one of the most stable in the country, and their employment fell off 75 percent during the latter part of the year 1937.

Mr. WILLIAMS. Have you the information with respect to the income of the banks in 1937?

Mr. OWEN. No; I do not. I have the information with regard to my own bank.

Mr. WILLIAMS. Well, if you have not, of course, I do not want that for your individual bank.

Mr. OWEN. I am a friend of the banks.

Mr. WILLIAMS. So am I.

Mr. OWEN. I am a friend of the banks, and I am in favor of having a law that will absolutely protect not only the big banks, but the smallest bank in this country.

Mr. WILLIAMS. I want to ask you this question—if you have the information concerning the income of the banks of the country as a whole, and of comparative industry.

Mr. OWEN. You can get that over the telephone from the Comptroller of the Currency. I do not have it in mind, but I am satisfied that it is substantial.

Mr. WILLIAMS. There was a very substantial net income made by industry last year, generally.

Mr. OWEN. Yes; I think there was, but not what it ought to have been. It ought to have been twice what it was.

Mr. WILLIAMS. You do not mean——

Mr. OWEN. That is my judgment.

Mr. WILLIAMS. You think they ought to have had twice as much income as they had in 1937?

Mr. OWEN. I think we ought to have increased the production of this country to $120,000,000,000 instead of sixty or seventy million dollars.

Mr. WILLIAMS. Perhaps so, but I do not believe industry should get all of the profit out of it.

Mr. OWEN. I am in favor of industry getting substantial profits. This country is run on a profit basis, and I think that we should conduct the Government in such a way that people who are engaged in their service and in their capital in creating value should be allowed and encouraged to make a profit.

Mr. WILLIAMS. I think that we all agree with that. Under our system they must have something; otherwise they cannot run.

I noticed a statement in the New York Times, with respect to the reports of 1,020 big corporations. They simply gave the number of big corporations, without naming them. The statement was that their net income last year, after everything was paid, was 10.7 percent.

Do you think that that is a fair income?

Mr. OWEN. I think a 10 percent income is good; yes.

Mr. WILLIAMS. That is very good, isn't it?

Mr. OWEN. It seems to me that it is; yes. I should like to see it better.

Mr. TRANSUE. And they included in their expenses very good salaries for some of their officers.

Mr. WILLIAMS. Oh, yes; that includes General Motors and others, who paid big salaries after paying the tax on undistributed profits which they claimed would ruin them.

That net income of course includes the recent period, from September 1 to the end of the year, which was not so good.

Mr. OWEN. No; not so good, not so good. Something happened.

Mr. WILLIAMS. But even counting that in, counting it all in, they still had that net profit.

Do you think the banks of the country made any more than that?

Mr. OWEN. No; I do not, but I do not absolutely know. I should think the banks on the average made somewhere around 8 percent, but that is just a guess on my part. I do not know.

Mr. WILLIAMS. I was just wondering what the comparison would be. Some of us who are inclined to talk about the banks may have the impression that their income was not as good and has not been as good, especially in the last 6 or 8 years, as the income of industry.

Mr. OWEN. Many of the banks have made nothing in the last 2 or 3 years, because they were liquidating their past losses.

Mr. WILLIAMS. Yes; and they are still heavily in debt with preferred stock that the R. F. C. holds.

Mr. OWEN. I think that our banking system should be so conducted as to put the full power of the credit of the United States behind every little bank in this country. We can depend upon the honesty of their management. They have insurance against burglary and against larceny by their own officials, and we have the security of the Federal Deposit Insurance Corporation.

Mr. WILLIAMS. Let me ask you a question on another matter, and then I am done: Is it your view that we should have an independent banking system?

Mr. OWEN. Absolutely. I think the banks ought to be allowed to run the banking business, and the Government ought to run the monetary end of it, and safeguard those banks against self-destruction.

Mr. WILLIAMS. By that do I understand you to mean that it is not necessary for these little State banks to be members of the Federal Reserve System?

Mr. OWEN. I think it is far better for them that they should be the beneficiaries of this System, because they are transacting business of great importance in a small way among little people, and I think they ought to be cherished by the Government of the United States and not treated as aliens. I think that they ought to be invited to come in, and the System made so attractive to them that they would be glad to come in.

Mr. WILLIAMS. Of course, they have not come in so far under the present System; that is, many of them have not.

Mr. OWEN. There have been various reasons for that.

Mr. WILLIAMS. Yes; there have been various reasons for it.

Mr. OWEN. But I think that they are engaged in interstate commerce business and that they are within the constitutional authority of Congress, and I think that Congress ought to make the System so attractive that they would be glad to come in.

Mr. WILLIAMS. They have exercised their right so far to stay out; that is, about 8,000 of them.

That is all that I have.

(At this point there was a brief informal discussion, off the record, as to the witnesses to be heard in the following week.)

Mr. FORD. Is Senator Owen through?

Mr. GOLDSBOROUGH. Yes; I think so.

Mr. FORD. I would like to move that the committee extend to Senator Owen its thanks for the splendid service he has rendered and for his patience and forbearance in answering our questions.

Mr. GOLDSBOROUGH. You have heard the motion, and I am sure that all of the members will heartily approve it.

All in favor of it will so signify by saying "aye."

(The motion was unanimously agreed to.)

Mr. OWEN. I am very grateful to the committee for the opportunity to appear and to make such contribution as my limited opportunities have made possible. Please accept my heartfelt thanks for the gracious manner with which you have treated me.

Mr. GOLDSBOROUGH. The committee will adjourn until half past 10 on Monday.

(Thereupon, at 12:07 p. m., an adjournment was taken until Monday morning, March 28, 1938, at 10:30 o'clock.)

GOVERNMENT OWNERSHIP OF THE 12 FEDERAL RESERVE BANKS

MONDAY, MARCH 28, 1938

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

The committee met at 10:30 a. m., Hon. T. Alan Goldsborough presiding. Other members of the committee present: Mr. Reilly, Mr. Williams, Mr. Spence, Mr. Farley, Mr. Meeks, Mr. Ford, Mr. Brown, Mr. Patman, Mr. Transue, Mr. Luce, and Mr. Crawford.

Mr. Goldsborough. Gentlemen, the chairman says that he has a bill in connection with the Reconstruction Finance Corporation that he will have to take up in the morning at half past 10, so we will not be able to hold hearings on the Patman bill tomorrow.

The clerk of the committee has a letter from Professor Spahr which states that today Dean Phillips, of the State University of Iowa, and Professor Bradford, of Lehigh University, would be heard.

As I indicated a few moments ago, the chairman will have another bill here tomorrow. The committee is anxious, of course, to accommodate these gentlemeen in every possible way. I am wondering if Professor Spahr can tell us now how he would like the program rearranged?

Mr. Spahr. Mr. Chairman, we will do the best we can to make such adjustments as we can. These gentlemen will have to be notified. We arranged for Professor Agger, of Rutgers, and Prof. Clyde Fisher, of Wesleyan, to come Tuesday.

Mr. Goldsborough. Could they come on Thursday and let Wednesday's schedule stand as it is?

Mr. Spahr. We will have to telegraph or telephone. We will make the best adjustment we can and then communicate the results to you.

Mr. Goldsborough. I am very sorry about this, but there is nothing I can do about it.

Mr. Spahr. We understand and we will adjust ourselves the best we can.

Mr. Goldsborough. Gentlemen, we are very glad to hear Dean Chester A. Phillips, of the State University of Iowa.

STATEMENT OF PROF. CHESTER A. PHILLIPS, DEAN, STATE UNIVERSITY OF IOWA

Dean Phillips. Mr. Chairman and gentlemen, I have prepared a very few typewritten pages which contain the substance of my views to be presented at this juncture, and with your permission I will proceed at once to the reading of this brief statement.

Prior to the establishment of the Federal Reserve System the oscillations of our financial pendulum were subject to no important personal controls. We were operating a system of banking in connection with which expansion went forward unchecked until brought up sharply and abruptly by the rigidly inelastic bank reserves. Then, as in 1907, there would be a sudden halt to expansion, with crisis, panic, and ensuing depression, acute but of relatively short duration.

The inauguration of the Federal Reserve System brought in new forces of an inflationary character and new controls of a personal nature. Prior to 1914 the control of our bank-credit system was automatic in nature; since that time our bank-credit arrangements have been increasingly adjustable by thumbscrews turned by human hand. With reference to the control of demand deposits which are one of the major factors governing the price level, the Board of Governors of the Federal Reserve System now holds very substantial powers, including control over rediscount rates, and over even the reserve percentages required to be maintained by member banks. The current recession may be regarded as attributable in part to a vigorous application of the brakes when within a year reserve requirements of member banks were increased 100 percent. Inducing contraction of the deposit and price structures appears to be feasible; generating expansion, however, at a time when prices are low and employment production and trade are at a low ebb may be as at present a matter of grave difficulty. In a word, even if we were to admit the desirability of stable prices, the problem of practicability would remain in part unsolved.

My own conviction is that any comprehensive and aggressive program of action toward stable prices in present-day societies would be conducive to results the like of which we witnessed in 1929, when after general prices had been unprecedentedly stable for the major portion of the twenties, there came a price and production collapse of unprecedented extent and nature.

If costs of production in terms of human effort fall and prices are not allowed to fall, a vicious element of inflation enters.

This vicious inflationary factor would not appear were prices allowed to fall in proportion as costs of production in terms of human effort fall. If the application of science and invention to industry resulted during a given period in cutting costs in two, then if through bank credit creation prices were kept stable or stationary it would be much as if costs had remained stable and prices had doubled; that is, inflation, by which we mean bank credit or other purchasing media created in excess of the volume essential to the maintenance of a price level that registers with costs as expressed in terms of human effort expended in the economic processes would emerge.

The impact of science upon industry during the twenties reduced costs; general prices for the first time in history established a plateau. The disparity between money prices which were stable and costs in the basic sense of human effort involved in production, which were falling, is of an inflationary nature and like inflation of the most patent and obvious variety, and in the twenties led to unsound business venture and to ill-advised economic commitments, with disaster probably unavoidable.

In a word, it would, in my judgment, be a fatal blunder seriously to attempt to stabilize prices at the 1926 or any other definite level when science in a broad sense is positively lowering costs. If costs in terms of effort fall, prices should fall. Seriously attempting to hold prices steady when costs are falling would be conducive to a series of booms and depressions through the years, for inflation in whatever form is in essence a stimulant, the reaction from the use of which, as was true in 1929, involves economic ills and maladjustments that linger long.

A vigorous, persistent, and inclusive effort would be made to keep the raftlike structure of prices floating down a gently falling current. That is, if costs are going to continue to fall.

Mr. Goldsborough. Are you referring now to wholesale basic commodity prices?

Dean Phillips. Yes.

Mr. Goldsborough. Proceed, sir.

Dean Phillips. The effort should not be limited to the utilization of rediscount-rate changes and open-market operations, both of which have been used with generally good effect chiefly by England; but the regulation of reserve requirements, the invocation of which was too emphatic, ought to be made to play a decidedly prominent role.

Attention should also be directed to the relatively neglected factor of installment credit. It is to be hoped that an effort will be made to harness the installment forces, the operation of which strongly contributes to the oscillatory character of American business.

The institution of installment credit accentuates business activity during a period of prosperity and depresses it during a period of depression.

Installment credit in 1935 and 1936 reached into the future, grasping income belonging to the future; then with lavish hand poured that purchasing power into the hopper of the then current prosperity.

Then last July, with repossessions mounting, the terms of installment selling were suddenly made much less liberal, with consequent, immediate, and contagious contraction in installment sales.

Our program of monetary and price control must not only take keen cognizance of installment credit, but inventories in production and consumption should be carefully studied and watched.

Whatever program is finally formulated for the more nearly definitive control of prices will, I think, be inadequate unless installment credit is clearly envisaged and included.

It may be said by way of summary and conclusion that peacetime monetary and banking policy would seem to call for the consideration and possible utilization, under various circumstances, of not merely one or two but of most of the well-known methods of credit and price regulation. Even changing the weight of the fine metallic content of our monetary unit might, under conditions now very remote, become advisable. Peacetime policy faces away from inflationary procedure. I refer here to procedure after the current depression has been superseded by recovery. In war, however, inflation might conceivably be found a needed stimulant to get things done quickly. I should like to emphasize the "might." It might be found a needed stimulant. For the present we may well think chiefly of a monetary policy for peace.

Finally, sight should not be lost of the undesirability of fully formulating a program far ahead because of our sheer inability to pierce the mists that lie between the present and the future.

Mr. GOLDSBOROUGH. Dean Philips, you speak of installment selling. I have attempted to emphasize the evils of installment selling in a great many statements that I have made. I am wondering if you could visualize how, under our present monetary system, the way it is conducted now, we could do business without installment selling which, of course, inevitably, as you have indicated—I presume that is what you meant to say—which inevitably ended in a collapse. How, under the present monetary system, can we have anything like an exchange of wanted goods and services that can be produced without installment selling?

Dean PHILLIPS. It seems to me, Mr. Chairman, that installment selling is an institution which ought to be managed, regulated, controlled, rather than destroyed. Installment selling can be utilized as a stabilizing force—pardon me, I think it can be used as a stabilizing force. If we are smart enough to devise ways whereby installment selling may be stimulated during periods of depression and repressed during periods of prosperity, then we will have a force working for us, for stability, rather than against it.

Mr. GOLDSBOROUGH. Now, it has been said—I think I have said it oftener than anybody else, and I do know that it is a wise thing, but I sort of got into the habit of saying it—that you cannot push a string. In other words, in periods of depression it is very hard to induce installment selling, is it not? That is the very time when it is difficult to do it.

Dean PHILLIPS. I am very much interested in your analogy. I agree with you emphatically about the difficulty of pushing a string. But I think there is another aspect to this that needs to be stressed, namely, that installment credit can be regulated. And that is the issue here. It can be regulated in volume, if only we will touch the matter of the period during which the installments run.

On July 1, 1937, the maximum period—and I suppose we could almost say the common period—for which installment credit was extended in the sale of automobiles, was reduced from 30 months to 18 months. On July 2, when prospective automobile buyers came into the establishments to buy cars, to their surprise they found that they could not buy the cars that they had expected to buy, because the down payment was increased and the time was shortened and the monthly installments were enlarged. Their budgets did not permit the purchase of the cars.

Now, if you can shorten the period over which installment credit extends on the upward swing of the cycle, you can certainly shorten it on the other side of the cycle. That is where the regulation comes from.

Mr. PATMAN. I want to ask a question, Mr. Chairman.

Mr. GOLDSBOROUGH. Proceed.

Mr. PATMAN. Are you satisfied with the present price level?

Dean PHILLIPS. I am far from satisfied with the present price level.

Mr. PATMAN. Would you have the price level higher than it is or lower?

Dean PHILLIPS. Somewhat higher, considerably higher.

Mr. PATMAN. If it were within your power, what would you do to raise it?

Dean PHILLIPS. If it were within my power?

Mr. PATMAN. Yes.

Dean PHILLIPS. Well, a number of actions could be taken that would be favorable to raising the price level. I interpret your question as being about this: Specifically, what suggestions would you make looking toward the elevation of the price level? Is that correct?

Mr. PATMAN. That is a fair interpretation of it.

Dean PHILLIPS. In the first place, I should be favorable at this juncture to reversing the action, in substantial part, that was taken by the Board of Governors in raising reserve requirements.

Mr. PATMAN. That is the 100 percent?

Dean PHILLIPS. Yes. I would go practically back to the original figures.

Mr. PATMAN. If you did that, we would have excess reserves of about $3,000,000,000, would we not?

Dean PHILLIPS. Yes, sir.

Mr. PATMAN. You do not think that is excessive?

Dean PHILLIPS. Oh, it is a large amount. But we are in the midst of a depression. Why should we not have excess reserves? We always have had.

Mr. PATMAN. I am not arguing the question with you.

Dean PHILLIPS. I know you are not. I am putting my statement in rhetorical question form.

Mr. PATMAN. What else would you do if something else should become necessary?

Dean PHILLIPS. I would be inclined to put the sterlization process more vigorously into reverse, ease money conditions. The bankers will say, "Oh, money rates are low, too low." But, gentlemen, I want you to remember—and I know you have it in mind already—that money rates today are rates charged in the nature of pure interest. Twenty-five years ago a risk element of significant proportions was included in the interest rate. That risk factor has been practically eliminated. Consequently, we ought to expect low interest rates.

Furthermore, we have reached a stage in our national conomic development where, like England of 1900–1910, we naturally tend to have low interest rates. Low interest rates should be with us indefinitely.

Mr. PATMAN. Do you believe that one of the greatest contributing factors of this present depression was the increase of reserve requirements made by the Board of Governors of the Federal Reserve?

Dean PHILLIPS. Very emphatically.

Mr. PATMAN. Do you not believe it is the greatest contributing cause?

Dean PHILLIPS. Personally, I am inclined to think that the shortening of the terms of installment credit was a more important factor, a more important cause, in this sense——

Mr. PATMAN. That only involves a small amount, though, comparatively?

Dean PHILLIPS. Well, that is a thing that is contagious. It is a circle that spreads. If you cease to make automobiles, then the factories cease to make steel and glass and the circle spreads and becomes broader and broader. And that is precisely what happened.

Mr. PATMAN. When did this order go into effect?

Dean PHILLIPS. July 1.

Mr. PATMAN. This last July 1?

Dean PHILLIPS. Yes; 1937.

Mr. PATMAN. That only involved automobiles, did it not?

Dean PHILLIPS. Refrigerators, radios, and other things sold on the installment plan.

Mr. PATMAN. In other words, everything handled by General Motors and people who were in competition with General Motors?

Dean PHILLIPS. I should not like to place General Motors quite so near the front as that.

Mr. PATMAN. I should not like to do that either. It just happens, in this case, that they do handle the items that you mention.

Dean PHILLIPS. General Motors was prominent; Chrysler was prominent—Frigidaire—well, that is part of General Motors. Kelvinator was prominent. Radio manufacturers were conspicuous.

Mr. PATMAN. And they came to an agreement that they would shorten the length of time over which people would be able to pay for what they had purchased?

Dean PHILLIPS. Largely because repossessions had become objectionably great.

Mr. PATMAN. And the automobile companies reduced the number of months from 30 down to 18; is that right?

Dean PHILLIPS. Yes, sir.

Mr. PATMAN. And they increased the initial payment and increased the amount of the monthly payments?

Dean PHILLIPS. Yes, sir.

Mr. PATMAN. And you think that was a great contributing cause to the depression?

Dean PHILLIPS. It was great in this sense——

Mr. PATMAN. Although you considered it necessary, it was a contributing cause?

Dean PHILLIPS. It would be a mistake for me to answer your question yes or no. It would call for a brief comment on my part to make my thought clear.

Mr. PATMAN. Go ahead.

Dean PHILLIPS. It was necessary in this sense. It was necessary in the sense that it was desirable that at some time that should have been done. Personally, I think it should have been done gradually, over a period of the preceding months—6 months.

Mr. PATMAN. Rather than quickly, as it was done?

Dean PHILLIPS. Yes, sir.

Mr. FORD. Do you have any figures for the volume of installment sales?

Dean PHILLIPS. I have not any figures, but they are significant.

Mr. FORD. Do you have it approximately?

Dean PHILLIPS. I cannot give you approximate figures, but they are very significant.

Mr. FORD. Somebody said that it was $7,000,000,000. Would that be right?

Dean PHILLIPS. Per annum, do you mean?

Mr. FORD. Yes; the volume of those sales.

Dean PHILLIPS. That would not seem unreasonable to me.

Mr. FORD. Then a sudden contraction in a flow of that magnitude would materially affect the exchange of that type of commodities almost immediately, and the fact that the automobile reaches back into almost every other collateral branch of production and manufacture, would mean that it would be a very contributing factor; is that right?

Dean PHILLIPS. Yes; it would. I would regard that as an important cause, because it was an inciting cause.

Mr. FORD. Speaking of this installment business, I should like to ask one more question. Do you consider the purchase of homes on an installment plan a factor in that situation?

Dean PHILLIPS. It is in the same category.

Mr. FORD. The period is much longer. It is in a little bit different classification, is it not?

Dean PHILLIPS. There is a difference in degree, but not a difference in kind.

Mr. PATMAN. You have stated that you would lower the reserve requirements, put the requirements back to where they were before the increase was made. And, if necessary, you would take this sterile gold and use it. If something else should be needed, what would you do, Dean?

Dean PHILLIPS. Well, I think I should give some attention to the taxation system, but I am not an expert in that field, and a great deal has been said on that subject. Something might be done. But I would want to refrain today from making a specific suggestion.

Mr. PATMAN. Since you have made such interesting statements in regard to this subject, I would like to ask you one further question. If you were President of the United States, or had the power of the President of the United States, and you wanted to do something quickly, what would you do? You know the stock market took a decided drop a few days ago. I do not agree with the people who say that the stock market does not influence business conditions in this country. I believe the stock market does. It occurs to me that something should be done quickly.

The President of the United States has the power to issue $3,000,000,000 of money under the Thomas amendment to the Agricultural Adjustment Act of 1933. The Executive also has power over the $2,000,000,000 stabilization fund. There is as much power in the Executive under the Silver Act, permitting an increase in the circulating medium through the issuance of money on silver at $1.29.

Of course, the Federal Reserve Board, the Board of Governors, have tremendous powers. Now, if you had the powers of the Executive and the Board of Governors of the Federal Reserve banks, what would be the first thing you would suggest to do now, to get us out of this depression?

Dean PHILLIPS. I should like to say that very frequently when they physician calls on the patient he does nothing except to administer plenty of water and to see that the patient has an abundance of fresh air, so as to give Nature a chance to assert itself.

Herbert Spencer, more than 50 years ago drew a very close analogy between society on the one hand and the individual on the other.

Mr. PATMAN. But suppose——

Dean PHILLIPS. Just a moment, please.

Mr. GOLDSBOROUGH. Let the gentleman finish his answer. It is very interesting, Mr. Patman, I think.

Dean PHILLIPS. I am glad to listen to your question, Mr. Patman, or I shall be glad to go ahead, whichever you wish.

Mr. PATMAN. I was going to say, Suppose the patient is sinking all the time? But go ahead.

Dean PHILLIPS. I regard that as a condition contrary to fact.

Now, Herbert Spencer drew this very close analogy between society and the individual. So far as I know no one has ever broken that analogy down, and it is very helpful to keep that analogy in mind in facing problems the like of which we are facing today.

There are times in case of the individual when the doctor does nothing. There are times in the case of economic society when, at a given juncture, nothing should be done. There are junctures when to do something will aggrevate the trouble, particularly from a psychological point of view. If the President of the United States were today to issue $3,000,000,000 in paper money, it would be an aggravation of one of the worst kinds, in my judgment, from a psychological point of view.

The recession of the stock market has, in my judgment, and will have, about the same effects that you suggest. I find myself in complete agreement with you on that subject, and I base my judgment on observation and experience and contact with business itself. But there is not much to do today about the stock market above what I suggested with reference to the restoration of the reserve figures and the desterilization of our gold on a somewhat more rapid scale.

I think I may have expressed myself slightly in accordance with my own views unintentionally, inasmuch as I observed that Representative Patman seemed to think that I would go the full distance back in restoring reserve figures. I should go 50 percent back. I should have gone 50 percent back long ago and then would have watched that 50-percent effect and then awaited further action, allowed further action to await the results of the first application of the medicine.

Mr. PATMAN. You think installment buying did aggravate the situation considerably last July 1st?

Dean PHILLIPS. Yes. I am pretty strongly convinced of that idea.

Mr. PATMAN. One other question. Congress in 1932 voted for a bill—at least the House of Representatives did—by Mr. Goldsborough asking that the 1926 price level be restored. That is the price level for 1921 and 1929, which we consider the same as 1926. That bill did not pass the Senate, and it did not become a law. The members of this committee have become convinced, I believe—a majority of the Members of Congress, I think, have become convinced—that there is a way by regulating the value of money to maintain a price level as at 1926. That is, by regulating the quantity of money, I guess we can call it, we can regulate the volume of money; and when I use the word "money," I refer to demand deposits in banks, which, of course, serve the same purpose as money. And by regulating the quantity of money we regulate value, and we can control the price level in that way and bring it back to where it was in 1926 and keep it there within 2 percent either one way or the other.

Do you consider that impossible, Dean?

Dean PHILLIPS. I do today.

Mr. PATMAN. You do today?

Dean PHILLIPS. Yes; I do today.

Mr. PATMAN. Well, over a period of years. Suppose we were to adopt a policy leading up to that? Do you think it is probable that we could arrive at that goal?

Dean PHILLIPS. No. Today I think it would be impracticable.

Mr. PATMAN. But suppose we were to adopt a policy leading up to that in the years to come or in the months to come. You do not think it would be possible to do it in that way?

Dean PHILLIPS. No; I think it would be impracticable.

Mr. PATMAN. Why do you say it would be impracticable?

Dean PHILLIPS. I think it would be impracticable for the same reason that I find myself unable to justify the wholesale creation of credit that would have been necessary to keep the price level of 1926 stable on through 1929, 1930, 1931, and 1932.

Prices dropped in 1929, beginning chiefly on the stock exchange because weakness had crept in extensively into our economic fabric. Weakness had crept in partly because prices were not allowed to fall when the costs of production, in terms of human effort, were falling.

Mr. PATMAN. You talk about prices not being allowed to fall. Do you not think that we have so many fixed charges—and Congress and the Government are responsible for many of these fixed charges—that it is impossible for prices to fall, especially in certain main commodities, like steel? If you will notice, the steel price today is about the same that it was a year ago. Practically everything else is falling, except aluminum and a few commodities like that where the price is fixed.

Certain people enumerate fixed charges, which would include, I presume, interest, taxes, electricity, water, gas, or fuel; then there are freight and passenger rates, and so many items like that that are fixed, how can prices fall so quickly? Also, labor is more or less fixed in some industries.

Dean PHILLIPS. The market is the answer.

Mr. GOLDSBOROUGH. Professor Phillips, I am not sure that your view with reference to the situation when Mr. Strong was endeavoring to stabilize the price level is the view of this committee. I think probably our view would be this: That while it is true that prices on the stock exchange rose a very great deal and industrials were fairly high during that period, it is also true that the price of basic agricultural products was very low throughout the entire period beginning in May 1920 through the crash of 1929. So that while Mr. Strong's policy of maintaining a stable price level, an average price level, was carried through, the difficulty was that agriculture had no buying power through that entire period. In fact, there was not only the mortgage debt but all other agricultural debt was increasing through that entire period.

So that I am wondering whether or not the conditions of agriculture, the fact that its buying power was tremendously reduced while at the same time installment selling was going on at a very accelerated rate and stock prices were being pyramided through the same process, whether that did not have a great deal to do with the crash, and not the attempt of Mr. Strong to maintain a stable price level. Or, do you not agree with the facts? You may not agree with the facts as I give them to you.

Dean PHILLIPS. Well, I think I agree with the facts insofar as they have been stated.

The following considerations seem to me to loom up rather big in significance in connection with the interesting question which you have propounded and the statement that you have made:

Earnings were satisfactory. In fact, earnings should be regarded—corporate earnings should be regarded during this period as being somewhat above average. They were so much above average, in fact, that a Harvard statistician, a friend of mine who went from Harvard to New York, went as a bear and kept sharpening his pencil sharper and sharper and making finer and finer calculations, and just before the crash he flopped to the other side, because he reasoned like this: If earnings are increasing at, say, 10 percent per annum—that is slightly higher than the rate at which they were increasing—if earnings are increasing, then my mathematics tells me that there is future in these stocks, and simple arithmetic does speak eloquently along that line.

The second consideration that I want to mention is that I have no brief for the fixation of prices beyond utilities, public carriers, and the like. I should not like to appear as championing that arrangement. At the same time, in connection with the agricultural situation, it must not be forgotten that their purchasing power, the purchasing power of that population, was not wholly unaffected by the bank lending of the period. Bank credit during that period was expanded. It was increasing rather decidedly. But prices were remaining stationary.

If prices had been allowed to fall, corporate earnings would have been reduced. The stock-market fiasco would have been truncated, to say the least, and the repercussions, the important repercussions that came from the stock-market crash would not have occurred.

You have raised difficult questions and some of these questions, of course, are exceedingly complicated and difficult.

Mr. Patman. Mr. Chairman, may I ask one question? Do you believe in the quantitative theory of money, professor?

Mr. Goldsborough. If we are to get an answer to that, we should have to stay here for several days, I should think.

Dean Phillips. Would you allow me, Representative Patman, to recite a brief incident before I answer?

Mr. Patman. Certainly.

Dean Phillips. I used to have a friend who was a student at Western Reserve University when President Thwing was president. He was in a Bible class of President Thwing one time and he said, "President Thwing, do you believe in a physical hell?" and President Thwing said, "In answer to your excellent question I would say both yes and no."

I think the answer is this: Over a long period of time, the answer is "yes." Over a short period of time the answer is "no."

Mr. Patman. What do you mean by a short and a long period of time?

Dean Phillips. By a long period of time I mean 15 years, 20 years, 25 years.

Mr. Patman. Do you think it would take 15 or 20 years?

Dean Phillips. Just about.

Mr. Patman. I am not advocating the issuance of $3,000,000,000 of currency. But suppose the President of the United States were to decide to pay the Government debts for a month or two in new currency? You do not think that would affect prices immediately?

Dean PHILLIPS. Yes. We would have a big boom and then we would have a terrific crash.

Mr. PATMAN. Well, it would affect prices?

Dean PHILLIPS. Oh, yes.

Mr. PATMAN. It would not take 15 years, would it, professor?

Dean PHILLIPS. I did not mean to say that it would take 15 years to affect prices. I think it takes 15 years for price forces to work themselves out. I would say 15 years, 20 years, 25 years.

Mr. PATMAN. So you do believe that the quantity of money will affect the price level and do it quickly?

Dean PHILLIPS. It does if handled under given conditions. At other times you may have an increase in the circulating medium without much effect. Let me try to make clear what I have in mind by an analogy.

Suppose we had a small reservoir of water out on the front lawn here. It is raining very hard. The tendency will be for that level to rise. But if there is seepage at the bottom just equal to the rainfall, there will be no rise in the level. And so, too with the increase of money. You may have a substantial increase in money, but no visible effect, because it may be offset by other considerations.

Mr. PATMAN. It depends on whether it goes into industry or people use it to buy goods and services, I presume.

Dean PHILLIPS. It depends on a thousand and one circumstances, some of which are visible and some of which are not.

Mr. FORD. May I make an observation there, since you are talking about water? Let us take a reservoir that is developed to irrigate, say, a thousand acres of land. If you let that water out gradually, through the channels, and plow the land, and so forth, and let the water sink in, it is very beneficial. But if you open the reservoir and let it pour out over the thousand acres, it would ruin the land, would it not? So that there is some argument for the time element. And I presume that would work with reference to money as well as water.

Dean PHILLIPS. I will remember your analogy, Mr. Ford.

Mr. LUCE. Bearing on this other point, some years ago—3 or 4, I should say—I read in one of the economic publications an article by a statistician who showed, at any rate, to his own satisfaction, that increases in the volume of money had never, with rare exceptions, produced their effect inside of 2 years. Once in awhile there had been results in 1 year. Did you happen to read that article?

Dean PHILLIPS. I do not recall that article.

Mr. LUCE. While I am speaking, may I make another inquiry? Unfortunately I was not here in the earlier part of your statement, much to my regret. But I gathered from what was subsequently said that you did not sympathize with Governor Strong's views in trying to stabilize money.

Dean PHILLIPS. His heart was in the right place. His action, in the light of history, seems to me to have been ill-advised.

Mr. LUCE. That action produced no speedy result, did it? That is, it was some years before the crash of 1929.

Dean PHILLIPS. Well, that action continued through a period of years, many months.

Mr. LUCE. But he had died——

Dean PHILLIPS. Before the crash; yes. I cannot recall the date of his death.

Mr. GOLDSBOROUGH. I think he died in 1928.

Mr. LUCE. 1928?

Mr. GOLDSBOROUGH. That is my impression.

Mr. LUCE. I thought it was a year or two earlier.

Mr. CRAWFORD. Dean Phillips, so that I may follow closely the reasoning of Congressman Patman and yourself, let us go back for a moment to the amount of excess reserves. I think the record shows you used the figure $3,000,000,000. Would that not be $4,000,000,000 or more, arrived at in this way? At the present time we have excess reserves of a billion and, say, seven hundred million dollars, or $1,560,000,000, which were the figures last week. About eight or nine hundred million dollars of that have accumulated since the reserve requirement was raised.

Looking at a chart here of the Department of Commerce, it shows that in the middle of 1936 the reserve requirements were $3,000,000,000, and in about September 1937 they had gone up to $6,000,000,000.

Mr. PATMAN. Do you mean $6,000,000,000?

Mr. CRAWFORD. $6,000,000,000, reserve requirements. Of course, all of that increase of $4,000,000,000 was not caused by the increased reserve requirements. But a very large part of it was, so I think the figure which you referred to in item 1 as to what you would do is closer to four and a half billion dollars than the $3,000,000,000 which you put in the record awhile ago. I just wanted to check to make sure that I am thinking along with you two gentlemen as to how you arrive at that.

Dean PHILLIPS. Yes; we are all seeing eye to eye. The recent increase in surplus reserves has been attributable to two factors. An increase in our gold stock—well, may I say three factors? There was a slight result from desterilization and also a substantial effect, which has come as a consequence of credit contraction. Whenever deposit liabilities shrink, reserves previously required to support those liabilities are set free, hence the surplus tends to grow during a period of depression.

I think the apparent disagreement there is attributable to my own failure to make quite clear my own position. When Congressman Patman asked me what I would do, I was answering about as much this question as his: "What would you have done?" I would personally have reduced reserve requirements long ago.

Mr. CRAWFORD. Suppose they reduced this step-up by 50 percent and added to your present $1,560,000,000 of excess reserve. Would that, in itself, greatly alter the power of the Federal Reserve Board to make its three slide rules effective? In other words, would not that infringe upon the position of the Board to carry out the things that it is supposed to be doing by reason of their having such an enormous excess reserve?

Dean PHILLIPS. There might be some slight disadvantage attaching to this increase in surplus reserves that I am perfectly willing to have come about; but my own judgment is that psychologically it would be helpful, and actually it would be helpful, that the advantage would outweigh the disadvantage.

Mr. CRAWFORD. May I go to another question which interests me more than anything else you have said? That has to do with the decreased cost of the human effort involved in the production of goods. Assume that industry A takes out the old machinery and makes new installations which reduces the human effort 25 percent, in the cost of a given commodity. I understood you to say the price of that commodity to market should decline, we will say, proportionately?

Dean PHILLIPS. I did not make that a specific statement.

Mr. CRAWFORD. Well, was that what you mean?

Dean PHILLIPS. Not quite.

Mr. CRAWFORD. Would you mind enlarging on that a little bit?

Dean PHILLIPS. In general, when labor-saving devices are introduced, they are introduced because the introduction will be inducive to an enhancement of profits which, in itself, would raise a presumption against a complete reduction in price matching the saving. There should be a substantial reduction, but I should not anticipate that it would be quite so great as the saving.

Mr. CRAWFORD. Let us forget that technicality, then, for a moment. It seems to me that that observation applied to Mr. A, running a plant, would come to his mind from three different directions: One, his technological improvement by the installation of labor-saving machinery as offset by increase in costs outside of direct labor and direct material, caused by, we will say, Government action, such as Mr. Patman has referred to; increased taxes, increased expenses incurred in order to conform to Government decrees, State, local, and national; increased labor costs per hour.

Now, take that first channel, do you believe it is possible for technological improvement over a period of years, over the last 10 years, and over the next 5 years as best you can see—do you believe it is possible for technological improvement applied to our industries to set-off increased costs which are being brought about by these other activities to which I have referred? And if so, if it is possible for technological improvement to offset those things, do you believe that technological improvement can go a step further and not only set-off those increased costs, but provide a leeway for this reduction in price to which you have referred?

Dean PHILLIPS. It is a little difficult for me to be sure that I am facing exactly the question that you ask and, therefore, I hope you will appreciate it if my answer does not quite register with your expectations.

Mr. CRAWFORD. Yes, sir.

Dean PHILLIPS. It is impossible, in my judgment, to ascertain quantitatively exactly the reductions in costs attributable to the introduction of labor-saving devices and procedures. About all that we can do is to look around us, as your Michigan State seal would suggest—look around us and observe and reach our conclusions on the basis of the best observations, the best information available, realizing very well that the conclusions are based upon something which cannot be definitive, final in its exactness.

As an observer, it would seem to me that we have had, particularly since 1918–1920, a most extraordinary reduction in costs, attributable to science applied to industry.

Mr. CRAWFORD. I agree with that statement fully.

Dean PHILLIPS. I cannot answer your question specifically. We have not the information. Your question calls for the possession of exact information which, so far as I know, is unobtainable. Did I answer the question?

Mr. Crawford. I think that is a pretty good answer. Now, as plants every day are improving in their technology, installing new machinery, they are reducing the amount of human effort; there is not any question about that. But if, by Government decree, we increase the rates of pay 25 or 50 or 75 percent—when I say increase the rates, I mean increase the rates of direct labor cost per unit turned out, and that automatically takes care of the increased units turned out per man-hour. So those increased rates, in my opinion, in many places are absorbing the savings in human effort. Now, to the extent that that is true, there would not be any room for reducing the price, according to your formula, would there?

Mr. Goldsborough. The market would be greater, would it not?

Dean Phillips. I should like to try to answer the question by going one step further and pointing out that to the extent that wages are increased, as you suggested, then the entrepreneur, the businessman, is under an increasing inducement, because of high wages, to invoke still further labor-saving devices. So that temporarily you have technological unemployment accentuated and technological unemployment, thus created, becomes a social problem.

Mr. Crawford. Now, taking your suggestion into the other channel, assuming the machinery is installed and the human effort is reduced and prices are reduced accordingly. Where does that leave the man who has obligated himself many years prior to that taking place on the basis of a higher selling price per unit? In other words, this question now brings us into the field of the debtor. Would he be interfered with in any way whatsoever through the reduction of price, according to your formula, or did you make that statement independent of what effect it might have on the debtor?

Dean Phillips. The debtor's status will be determined in part by the price level and not by the rate of profit. If the price level declines, the debtor is disadvantaged, because he pays his debts in bigger dollars. He is disadvantaged. But if his profits are adequate, there is at least a partial offset—at least a partial offset.

Mr. Crawford. This last question, directed more particularly to agriculture; whether or not the application of improved, new machinery has been resorted to in such a staggering manner in the last few years—and more coming this coming year? Permitting a personal reference, I have on my desk a new machine which I expect to purchase within the next 2 or 3 weeks. It will revolutionize agriculture so far as my participation is concerned, and do away with 80 percent of the labor involved. That is, reduce the man effort. But if prices are reduced on agricultural products, greater than the reduction in actual cost per unit, per bushel of wheat or per bushel of corn, as the case may be, then that comes within your last answer, does it not, where the debtor is handicapped by reason of a reduction in price?

Dean Phillips. The debtor, before he buys the machine—debtors in general have to keep those considerations in mind. It is one of the hazards of the business.

Mr. Crawford. That is all, Mr. Chairman.

Mr. Ford. May I ask just one question?

Mr. Goldsborough. Proceed.

Mr. FORD. Mr. Phillips, in your judgment, what effect would open-market operations have at the present time if the Board went into the market and started to purchase securities? Would that ease the situation, in your judgment, at all if done on a large scale?

Dean PHILLIPS. Not greatly. The effect would be in the right direction, but it would not be great.

Mr. FORD. You do not think it would have any direct effect?

Dean PHILLIPS. It would have some effect, but not great. The effect would not be great, I am confident.

Mr. FORD. It would not have a major effect?

Dean PHILLIPS. Far from it.

Mr. FORD. There is a theory at the present time that if the Board indulged in extensive open-market operations, they would loosen up the money situation materially.

Dean PHILLIPS. What help would come would be not so much from easing the money situation as in raising bond prices.

Mr. FORD. That, of course, would be a natural effect.

Dean PHILLIPS. That in itself would be helpful, but that is something that should be dealt with relatively lightly, it seems to me; it is a delicate subject.

Mr. FORD. There is a proposal before this committee at the present time to give the Board directions to go into the market and conduct open-market operations. I do not know just to what extent that order would go, but it would be an order of Congress for them to do it. The idea is that if they went in and purchased two or three billion dollars worth of securities it would place more money in circulation and have the tendency to counteract the present depression or recession, or whatever you want to call it. In your judgment would that be a sufficiently important factor to be worth while doing, coupled with the lowering of the reserve requirements, and so forth?

Dean PHILLIPS. My own strong feeling would be against that procedure for this reason. The Federal Reserve authorities today have very significant power controlling the credit structure. If the power is inadequate, then let Congress confer more power. But it is illogical, to my way of thinking, for Congress, which is made up of a cross-section of our—we will say our lawyers, our businessmen, farmers, and others—it is illogical to let laymen, however competent they may be in their own fields, step over en masse into finance and control financial operations directly. That is about what it would mean.

Mr. FORD. Here is a thing this committee has discussed at some length. There seems to be a feeling in the committee at the present moment that the Board has had the power but for some reason are refusing to use those powers as it is assumed Congress wants them to do. They are not doing things they ought to do and doing things Congress thinks they should not, for instance, in increasing the Reserve rate. Then there is another feeling that had the Board gone into the market and purchased securities that it would tend to ease things up. There is a strong feeling in the committee and there is considerable feeling in Congress to that effect, and that feeling is motivated or based on the constitutional authority for the United States Congress to coin money and regulate the value thereof. If they have the right to regulate interstate commerce, certainly they have the right to regulate the money, and it is assumed that is what Congress should do, instead of having a board appointed and allowing them to use their judgment, that Congress ought to say we want this done and this done and this done and give them directions, and put that in the law on the assumption that their doing that would bring about certain conditions that Congress thinks are desirable at this time. Do I state it clearly?

Dean PHILLIPS. I understand your question very clearly. It is easily conceivable that the Board of Governors will make some mistakes. Bank directorates, central banking, through history, have made great mistakes, but if Congress were to assume responsibility for the amendment of the Federal Reserve policy, you would have the control of our monetary system, banking system, price-making forces, in the hands of laymen who know a great deal more about other things in many instances than they do about this extremely difficult subject of finance.

Mr. FORD. Is it not conceivable, however, that placing that particular power which is one of the most vital powers that Congress possesses in the hands of a group of men might result in that that group of men might be motivated not by motives of improving the general welfare but by motives of profit that might accrue to them through some other action? I am not making that charge but I am simply asking the question.

Dean PHILLIPS. I should not want to let any answer of mine indicate for a moment that the motivation of the Board of Governors of the Federal Reserve was questioned.

Mr. FORD. It might be mistaken.

Dean PHILLIPS. Surely.

Mr. WILLIAMS. What, in your opinion, would result if the board of governors went into the open market and purchased a billion dollars of Government bonds in the next 2 weeks?

Dean PHILLIPS. Forecasting is one of the most difficult things to attempt.

Mr. WILLIAMS. I am only asking your opinion.

Dean PHILLIPS. Someone has said of forecasting: Let a man forecast and it will disabuse his mind of the notion. If the open-market operation to which you have referred were carried out, I suppose it would be a reasonably safe prediction that Government bonds would witness a stiffening in their price.

Mr. WILLIAMS. Undoubtedly that would be one of the results.

Dean PHILLIPS. Yes.

Mr. WILLIAMS. Would there be any other?

Dean PHILLIPS. The increase in the price of Government bonds would tend to spread to some extent—how great I do not know—to very high-grade industrials, railroads, municipal bonds, and utilities. It would tend to spread in the other categories.

Mr. WILLIAMS. What effect would it have on the excess reserves of the bank?

Dean PHILLIPS. It would increase the excess reserves.

Mr. WILLIAMS. What effect would it have on profits?

Dean PHILLIPS. I can speak only in terms of tendency. The tendency would be in the upper direction.

Mr. WILLIAMS. It would depress prices?

Dean PHILLIPS. No; it would tend to cause prices to go up.

Mr. WILLIAMS. I understood you to say prices from 1921 to 1929, speaking generally, were not allowed to fall. What do you mean by "not allowed to fall"?

Dean PHILLIPS. I might not have been justified in using that phrase, "were not allowed to fall." I used it because it seemed to serve the purpose of brevity and seems to have substantial justification. During the period under review Governor Strong, of the Federal Reserve Bank of New York, was the dominant influence, and he acted on the belief or conviction that the price level could be stabilized by increasing the purchasing power inherent in bank deposits.

In that respect he was a disciple of Irving Fisher. Irving Fisher says today that if Governor Strong had lived the price level would not have been allowed to break. Governor Strong admittedly had very great influence in Federal Reserve circles, and the policy of the Federal Reserve of that period was given color and complexion by his views, and it was the Federal Reserve policy which was primarily responsible in a regulatory way for the swelling in the volume of deposits that took place in the twenties, culminating in 1929.

Mr. WILLIAMS. What specifically did they do?

Dean PHILLIPS. Keeping the discount—they kept the discount rate at a level which made possible expansion. They participated in open-market operations in ways that were conducive to expansion of bank deposits.

Mr. WILLIAMS. They raised the discount rates up to as high as 20 to 25 percent.

Dean PHILLIPS. The discount rate?

Mr. WILLIAMS. The market rate.

Dean PHILLIPS. The call money market rate?

Mr. WILLIAMS. Yes.

Dean PHILLIPS. The Federal Reserve Board did raise the call money market rate.

Mr. WILLIAMS. They had no right to do that, and have no right to do that now, have they?

Dean PHILLIPS. I think not.

Mr. WILLIAMS. They have no power.

Dean PHILLIPS. No power over that particular rate; no direct power.

Mr. WILLIAMS. Not direct power.

Dean PHILLIPS. Not directly.

Mr. WILLIAMS. What did they place the discount rate at?

Dean PHILLIPS. It varied.

Mr. WILLIAMS. How high did it go?

Dean PHILLIPS. I believe that the maximum was fixed at 6 percent. That is my recollection.

Mr. WILLIAMS. Did they purchase or sell in the open market at that time extensively?

Dean PHILLIPS. Rather extensively.

Mr. WILLIAMS. During that period.

Dean PHILLIPS. Yes.

Mr. WILLIAMS. It was their policy, in your opinion, which kept or sustained the market price during that period.

Dean PHILLIPS. That policy was very important as a factor, highly important.

Mr. WILLIAMS. It seems to me that adds a great deal of force to the argument that that could be done now.

Dean PHILLIPS. Witness the results. Witness the apparent results of maintaining prices at a stationary level and when costs were declining. The results were abnormal profits to industry, abnormal security prices, commitments along business and investment lines that could not have occurred but for the abundant credit of that period.

Mr. WILLIAMS. However, as I understand your position now, that was simply bad judgment on the part of the board in permitting the situation to exist. As a matter of fact, do they in your view have the power largely to control the price level?

Dean PHILLIPS. Yes; largely, but not quickly.

Mr. WILLIAMS. What do you mean by that?

Dean PHILLIPS. I mean by that that when prices are low as they are today, when industry is slack, when the psychology of the people is pessimistic, when the spirit of enterprise is marked by lassitude, under those conditions there is not a great deal that can be done. You have to wait. You have to wait for the patient and his natural powers of recovery to assert themselves. Make conditions favorable and in time those favorable factors will be effective.

Mr. WILLIAMS. Your position is that the only thing you would do or that the Board ought to do in your view is lower the reserve again, the requirement.

Dean PHILLIPS. I would have done it long ago before things got so bad.

Mr. WILLIAMS. Would you do it now?

Dean PHILLIPS. Yes; I would do it now and show the good faith as an illustration of my willingness to say that I had made a mistake.

Mr. WILLIAMS. Would you lower the discount rate any?

Dean PHILLIPS. No; I do not think so.

Mr. WILLIAMS. You would not buy extensively Government bonds?

Dean PHILLIPS. No; I would not be a heavy purchaser, but from time to time it would be advisable to feel the way to see what the results are as an experiment.

Mr. WILLIAMS. In your opinion has the Board all the powers that they should have in order to accomplish what is desirable in the way of controlling the monetary policy of the country in the interests of the people?

Dean PHILLIPS. The only point at which I think additional power might be conferred has to do with the regulation of the reserve requirements to the other banks. They utilized all of the power that had been conferred upon them.

Mr. WILLIAMS. One hundred percent?

Dean PHILLIPS. Yes.

Mr. WILLIAMS. Would you throw down the bars entirely and give them the complete power?

Dean PHILLIPS. I would if I as a Member of Congress had confidence in the Board.

Mr. WILLIAMS. You said Congress has got to have confidence somewhere, and you said it has got to have confidence in some other administrative authority somewhere.

Dean PHILLIPS. Yes.

Mr. WILLIAMS. In your view has Congress in doing that, in giving the Federal Board the powers, exercised its duty under the Constitution to coin money and regulate the value thereof?

Dean PHILLIPS. In my own judgment, Congress has acted in a constitutional fashion.

Mr. WILLIAMS. There is nothing further, or is there anything there that Congress could do to carry out the constitutional mandate?

Dean PHILLIPS. No; it seems to me that there is not. We must recognize that no form of economic organization is perfect. No form of economic organization will give us what we regard as maximum results. Our democracy, it seems to me, has given us excellent net results. Drawbacks exist, weaknesses appear, but there is weakness everywhere in all forms of organization.

Mr. WILLIAMS. In your opinion, would the ownership of the Federal Reserve bank by the Government help the situation any?

Dean PHILLIPS. I think it would make matters much worse.

Mr. WILLIAMS. I agree with you; but I was wondering why, if we had reached the same reason why.

Dean PHILLIPS. Direct Government control that would be augmented in some measure by Government purchase of the banks would inject, it seems to me, an undesirable element of a political nature as opposed to the financial and economic considerations requisite.

Mr. WILLIAMS. It would put the Government directly into the banking business in addition to determining the monetary policy of the country.

Dean PHILLIPS. Not necessarily. Even France in nationalizing the Bank of France 18 years ago, as the phrase goes, nationalizing the Bank of France, left the ownership in the hands of private stockholders, socialistic France.

Mr. WILLIAMS. Have you given consideration or thought and study to the stabilization of price levels of the monetary management of other countries?

Dean PHILLIPS. To some extent, although I think it would be easy to exaggerate the benefits that we might derive from a scheme which would be operated successfully in a country like Norway or Sweden.

Mr. WILLIAMS. I was wondering whether any nation has ever been able through manipulation or management of their money to regulate the price level?

Dean PHILLIPS. The United States.

Mr. WILLIAMS. During the period of 1921 to 1929.

Dean PHILLIPS. Surely.

Mr. WILLIAMS. The United States made a better job than any other nation ever has before or since.

Dean PHILLIPS. I would not wish to comment.

Mr. WILLIAMS. Has any nation ever done it within 1 or 2 percent of a given level?

Dean PHILLIPS. Over a period of some years, but not under conditions the like of which we had in the United States.

Mr. WILLIAMS. It is not my understanding that has been done anywhere. I do not think it has. That is not my understanding of the figures.

Dean PHILLIPS. There are price levels and price levels. If you take one price level you may have stabilization; if you take another you have not.

Mr. WILLIAMS. I am talking about the general price level.

Dean PHILLIPS. Do you mean wholesale prices?

Mr. WILLIAMS. Yes. Not only here but any other country where the matter is under consideration. There is some standard everywhere.

Dean PHILLIPS. I think our example is on a parity, as far as success is concerned, with other examples to which one might point.

Mr. WILLIAMS. That success, in your view, finally resulted in disaster.

Dean PHILLIPS. Yes.

Mr. WILLIAMS. On top of that you do not think it is desirable, even if we could do it, to establish and maintain a stabilization of the price level, even if it could be done.

Dean PHILLIPS. Not in a country like the United States, where science with extraordinary success and vigor is being applied to industry with the result of cost reductions.

Mr. WILLIAMS. You are in favor of having a dollar the value of which would be the same today, yesterday, and forever.

Dean PHILLIPS. I am in favor of having a dollar which is as nearly as may be stationary in terms of the most immediate consideration, namely, human effort.

Mr. WILLIAMS. In cost of production.

Dean PHILLIPS. Human effort.

Mr. SPENCE. What do you think the framers of the Constitution had in mind when they said Congress should have power to regulate the value of money? What was their motive?

Dean PHILLIPS. I will attempt to answer your question negatively. I am inclined to think that the framers of the Constitution did not have in mind the considerations which have grown out of our extensive experience with changing price levels.

Mr. SPENCE. They were dealing with a very fluctuating currency.

Dean PHILLIPS. They had come out of a period of highly fluctuating currency.

Mr. SPENCE. That was an application of the legislative power, was it not?

Dean PHILLIPS. Legislative power?

Mr. SPENCE. What right has Congress to delegate its power to any board without direction? If Congress delegates all the powers delegated to them as legislative powers without any definition or without any direction or without any limitation, it is certainly the delegation of legislative power to an administrative board. Is not that true?

Dean PHILLIPS. Well, I prefer to allow persons who are thoroughly familiar with the constitutional phases of this matter to testify at that point. While I have my own notions, I think they are not deserving of your careful attention, and I will ask you to allow me to refrain from commenting extensively.

Mr. SPENCE. It would not be unusual for Congress to do that, because it has been in the habit of doing it, and this would be delegation of legislative power to an administrative board, and it is my humble opinion that they would be limited in some way or should be directed in order to make it conform to the Constitution.

Dean PHILLIPS. Congress, of course, had no conception of a situation wherein banking played the part that it plays today.

Mr. TRANSUE. What part—it was mentioned by Mr. Williams—what part is the Government to play in the regulation of the currency and what part is banking or private business? Do I make my question clear?

Dean PHILLIPS. I think so.

Mr. TRANSUE. Where is the line of demarcation between governmental regulation of the value of our money in that field and what part is private banking?

Dean PHILLIPS. When Congress fixes reserve requirements, Congress sets the bounds within which the bank operates, and in that very important sense controls the actions. Moreover, when Congress as it has done makes provision for the existence and the appointment and the work of the Comptroller of Currency and his field examiners, Congress is again exercising a very positive type of control.

Mr. SPENCE. Along the line of your prepared statement, you said a great deal about the changes in the conditions of installment buying. You thought that that had had an effect on our present condition, and I understand that was by a voluntary understanding or agreement with the purchasers of the goods, and that the Government had no part in changing the conditions under which installment buying was taking place. Is that true?

Dean PHILLIPS. The Government might have had a very considerable part.

Mr. SPENCE. How would the Government regulate the conditions, within the State, of installment buying?

Dean PHILLIPS. The Government did not exercise any influence there at the time, but it is an experience which should be instructive to Congress. I should like to make this further statement, that the idea of collusion among the financial agencies having to do with installment credit is not apparent. They undoubtedly were witnessing a great increase in their repossessions. They think that they had made a mistake, that they had been extending that credit for too long a period, charging too little as an initial installment. They recognized their mistake. They corrected their mistake in a way which it seems to me was inimical to the public interest. Government makes mistakes. Private industry makes mistakes. Let us both learn from our mistakes.

Mr. SPENCE. My point is that the great majority of those transactions were entirely intrastate traffic. How can the National Government pass any law that would affect the character of transactions intrastate? If they were in interstate commerce, or something in which the National Government has jurisdiction, all right, but I do not see how the Congress could pass a law affecting those transactions.

Dean PHILLIPS. My own personal preference would be that Congress try something else before passing a law. I would try cooperation as between the Secretary of Commerce and those agencies, voluntary cooperation. If that does not work, then talk about passing a statute.

Mr. CRAWFORD. I take it the banks have somewhat gone out of their way in order to absorb this installment financing, and when I say banks I mean members of the Federal Reserve system, banks, and depositaries, and some in the Federal Deposit Insurance Corporation. Would you include in your statement of our working through the Department of Commerce, that they also think about the activities on the part of those Government-controlled and Government-directed and Government-regulated banking institutions, with reference to that particular installment paper?

Dean PHILLIPS. Yes; I think your suggestion is very good, but it should be combined with the notion that many State banks are available for handling the paper in competition with the national institution and nonmember banks.

Mr. CRAWFORD. Most of them are insured by F. D. I. C.

Dean PHILLIPS. Most of them.

Mr. CRAWFORD. F. D. I. C. could have some control.

Dean PHILLIPS. It might seek control there.

Mr. TRANSUE. The fact that a bank has gone into that type of business which they do not want to do would evidence that there is no longer the field they used to have in all lines of production.

Dean PHILLIPS. Yes; and evidence of redundancy of reserves.

Mr. WILLIAMS. Do you think the Federal Reserve Board made a mistake in raising the reserve requirements at all?

Dean PHILLIPS. A judgment after an event is so easy to express as compared with the difficulty of formulating a sound judgment before the event. My answer to the question would not have very much meaning. I will answer it if you want me to.

Mr. WILLIAMS. I would like to have your answer. We have had a number of different answers and had it both ways. I was wondering from your experience and study of the question whether that was a wise move or not. No one is going to impute any improper motives.

Dean PHILLIPS. The increase of reserve requirements added to the fear of inflation. I did not share that fear. That is my answer.

Gentlemen, I think I ought to step aside, because Professor Bradford is here and has a statement to submit.

Mr. TRANSUE. Before you finish I just want to have you sum up. We have the problem of trying to do something to correct conditions as they are now. Will you sum up and tell us just what we should do, in your opinion?

Dean PHILLIPS. I should prefer, particularly at this late hour, to have you take my original statement and brief from that.

Mr. PATMAN. You do not have specific suggestions to specific questions?

Dean PHILLIPS. In response to some questions from you I made specific suggestions.

Mr. LUCE. In the matter of regulating money it is to be observed that Congress delegated to the executive branch our devaluing gold. Now, in connection with that, the President has recently repeated the view that he expressed, notably in the case of the ill-fated London Conference, to the effect that we ought to have currency that will result in fulfillment of contracts, in the transfer of value equivalent. Evidently an essential fact in that matter is to know the average life of the contract in order that as little injustice as possible may be done. I have seen but one estimate on that point where Professor Fisher at one time said that the average life of the contracts in this country was 11 months. I should say that I asked him at a later time if he was still of that opinion, and he said "no"; that he had changed his view on that matter. Are you aware of any estimate on that point?

Dean PHILLIPS. No; I am not. I would call your attention to the fact that there are many different kinds of averages.

Mr. LUCE. Has anyone attempted to say what average would work the least injustice? I speak of that because this bill follows out previous action of the committee, back in 1926 as a medium point, so to speak, but 1926 is now 12 years back. Can you suggest any way on which you can ascertain what ought to be the medium point?

Dean PHILLIPS. I should prefer, if it is agreeable to you, to have you refer that question to others who may give you joint responses. I should think that not one response but joint responses would be desirable. My own personal feeling is that maybe the perfect level of 1926 would be too high to be consonant with contract validity in the best sense.

Mr. FORD. I should think the Federal Reserve Board could make that estimate. They have the most volume.

Mr. GOLDSBOROUGH. We explained very fully on Friday the only thing we could do would be to have a session between 10:30 and 12, and we have had this session now between 11 and 12:30. The military appropriation bill is on the floor, and I think we will have to adjourn. Tomorrow Mr. Steagall has a matter that is coming up. This committee has no desire—in fact, I think the committee has every desire to hear in full the opposition to this bill, as well as those who are in favor of the measure, and no desire to hurry you in any way, but we cannot do much better than hear one witness a day, and I think I so expressed it on Friday. As far as I am concerned as acting chairman, after tomorrow we can come here every day until you finish, but I do not think we can do much better than an hour and a half. I personally will be here at 10:30 every meeting where I preside.

Mr. CRAWFORD. Do you think we could finish the R. F. C. bill tomorrow?

Mr. GOLDSBOROUGH. That is what Mr. Steagall thought.

Mr. PATMAN. How many more witnesses?

Mr. GOLDSBOROUGH. Five.

Mr. FORD. I have a witness from California who would like to be heard on the subject.

Mr. WILLIAMS. There was some suggestion here that Governor Eccles would be back here Monday.

Mr. GOLDSBOROUGH. He will be back but he does not have to hurry.

Mr. FORD. I would like to hear some of the Board. I think we ought to get a joint view of the subject. We listened to Mr. Eccles, Chairman of the Board.

Mr. GOLDSBOROUGH. We will do the best we can, Professor Spahr.

Mr. SPAHR. Professor Bradford is here and may not be able to come back. If he could introduce his prepared statement it might help the committee.

Mr. GOLDSBOROUGH. I do not think the committee would have any objection to that. Of course, the committee would like to have the opportunity of discussion as we have had this morning, but if Professor Bradford cannot come back I do not think the committee would have any objection to the introduction of his prepared statement.

STATEMENT OF PROF. FREDERICK A. BRADFORD, LEHIGH UNIVERSITY, BETHLEHEM, PA.

Mr. BRADFORD. I thank you, Mr. Chairman, for the opportunity of submitting my prepared statement, which I would have been glad to read to the committee, but as I may not be able to come back to another meeting of your committee I will just submit the statement.

Mr. GOLDSBOROUGH. It will be printed in the record.

Mr. BRADFORD. It is my understanding with respect to the bill under consideration by this committee that the present inquiry is chiefly concerned with a proposed amendment to the Federal Reserve Act. This amendment, I understand, would make it the duty of the Board of Governors of the Federal Reserve System to raise the commodity price level, as measured by the Bureau of Labor Statistics index, to 100 (the level for the year 1926). Therefore it would be the duty of the Board to stabilize this price level within a range of 2 percent above or below the 1926 level by means of open-market operations. It is also my understanding that the proposal contemplates the removal of members of the Board of Governors by the President upon resolution by either the Senate or the House of Representatives for failure to carry out the aforementioned mandate with respect to the price level.

I am opposed to the incorporation of such provisions in the Federal Reserve Act, and my purpose in testifying today is to state briefly the reasons for my position on this question.

My major reason for opposing the passage of the amendments referred to is that I am convinced from years of study in the field of money and credit that the proposed mandate to the Board of Governors of the Federal Reserve System is one that the Board would find impossible to carry out. There are both theoretical and practical reasons to support this conviction. The theory of the relation between the volume of money and credit and the commodity price level is extremely complex and it would be well-nigh impossible to discuss it with any degree of thoroughness at this time. As indicating in a general way my feeling in the matter, however, I should like to quote briefly from the Annual Report of the Federal Reserve Board for the Year 1923. In that report the Board said:

> It must not be overlooked that price fluctuations proceed from a variety of causes, most of which lie outside the range of influence of the credit system. No credit system could undertake to perform the function of regulating credit by reference to prices without failing in the endeavor.

And later:

> Credit administration must be cognizant of what is under way or in process in the movement of business before it is registered in the price index. The price index records an accomplished fact.

That last statement, gentlemen, contains the gist of the whole matter. Prices are the results of business operations that have gone before. The attempt to maintain a stable price level by reference only to a commodity price index may be likened to locking the stable door after the horse is stolen. It is putting the cart before the horse and confusing cause and effect. Moreover, as the Federal Reserve Board pointed out in 1923, the business operations which result from any given level of prices are by no means all amenable to credit control. Many factors other than the expansion or contraction of deposits affect business, employment, and prices. There is, therefore, no certainty that manipulation of the volume of deposits would attain the desired results. In fact, such manipulation would be more likely to unsettle business and bring about wide price fluctuations than to result in a stable commodity price level.

So much, very briefly, for the theoretical aspect of the problem. Turning to the practical phase of the question, we have at hand abundant evidence of the impossibility of maintaining a stable commodity price level through credit control. Not so long ago there were few more ardent believers in the ability to control business and prices through credit management than Mr. Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System. Although not agreeing with Mr. Eccles' theories, I have always had the highest respect for his honesty of opinion and for his consistency. I believe that he has done everything in his power first to raise commodity prices and then to stabilize business and prices through credit control. The Board of Governors has had fully as great powers as any central banking authority could wish, as well as the will on the part of its Chairman, to carry out the mandate contained in the proposed legislation.

Yet the result has been failure. According to a recent newspaper article, Mr. Eccles is quoted as saying:

> I think if we look to monetary policy as the sole factor to stabilize an economy we're going to be terribly disappointed.

I agree fully with Mr. Eccles in this opinion. In opposition to this viewpoint, the same newspaper article quotes Mr. Patman as saying:

> Everything was going fine until billions of dollars of money were destroyed by the Federal Reserve Board doubling reserve requirements.

Just how changing the name of a number of billion dollars of credits on the books of the Federal Reserve banks from "excess reserves" to "required reserves," when these reserve balances were not being utilized by the banks or business, can be termed "destroying billions of dollars of money" is difficult to understand. Member banks of the Federal Reserve System now have a billion and a half dollars of excess or unused reserves in spite of the raising of reserve requirements. It would be well to wait until this excess is utilized by business before complaining about the policy of the Board of Governors in raising required reserves. Both that and the Treasury policy of sterilizing gold imports were fully in the circumstances and, in my opinion, have had little to do with the present slump in business and prices.

Other examples of the inability of credit policy to control the volume of employment and business and the level of prices could be indicated, but it seems unnecessary to recite them here. The problem is too complex to permit of any simple means of control, such as that proposed in the bill under discussion. If this proposal were enacted into law, and if the House of Representatives or the Senate followed its prerogative of requiring the President to remove Board members for failure to maintain a constant commodity price level, I very much fear that the Board of Governors of the Federal Reserve System would become a rapidly revolving body. No member could hope to hold his position for long under such circumstances.

It is to be hoped that neither of the proposed amendments is enacted into law, and I wish to register my opposition to their enactment as emphatically as possible.

Mr. GOLDSBOROUGH. The committee will go into executive session.

(Thereupon, the committee went into executive session, and at 12:45 p. m. adjourned to meet again at the call of the chairman.)

GOVERNMENT OWNERSHIP OF THE 12 FEDERAL RESERVE BANKS

THURSDAY, MARCH 31, 1938

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

Hearings on H. R. 7230 were resumed at 10:47 a. m., Hon. T. Alan Goldsborough presiding. Other members of the committee present: Mr. Reilly, Mr. Williams, Mr. Spence, Mr. Farley, Mr. Ford, Mr. Brown, Mr. Patman, Mr. Luce, and Mr. Crawford.

Mr. Goldsborough. The committee will come to order.

Gentlemen, Professor Spahr is with us this morning to discuss H. R. 7230.

I think that Professor Spahr has a statement to make concerning the other witnesses who were to appear before the committee, but who were prevented from appearing by the committee's action on the Reconstruction Finance Corporation bill.

We would be very glad to hear you, Professor Spahr.

STATEMENT OF PROF. WALTER E. SPAHR, REPRESENTING THE ECONOMISTS' NATIONAL COMMITTEE ON MONETARY POLICY

Professor Spahr. Mr. Chairman and members of the committee, we realize the difficulties that this committee has faced and the pressure of other duties, and we are not desirous of asking for any more time. But it occurred to me that this morning I might close the testimony so far as the membership of our committee is concerned.

Mr. Goldsborough. May I say at this point that there are several members of the committee who have expressed interest in hearing the witnesses whose names you previously sent in. If they would like to be heard, the committee would certainly hear them, I am sure.

Professor Spahr. We appreciate that, and if the committee should like to call them, naturally that is the committee's privilege.

I have with me this morning testimony by Dr. Beckhart, of Columbia, which I should like to introduce in his absence at the close of my testimony, if that is agreeable to the committee.

Mr. Goldsborough. Without objection, that may be done.

Professor Spahr. As for myself, I did not prepare any formal statement, because I had prepared a brief statement in this little pamphlet, which includes the statement of 36 members of our economists' committee, and I should merely repeat what is in there, and all of you, I think, have copies of this pamphlet. It seems to me that it would be a great saving of time if I were permitted to insert in the record the statements of these 36 members.

Mr. GOLDSBOROUGH. Without objection, that may be done; but, Professor Spahr, I do not know whether you have tried cases before an appellate court or not, but my experience of many years is that the verbal statement brings about much better results than the written brief.

Professor SPAHR. May I add, Mr. Chairman, that there is a statement in here of 72 members of the committee, in which they merely signed a general statement regarding the bill. I should like to introduce that as well as the 36 analyses.

Mr. GOLDSBOROUGH. Without objection, that may be done.

(The statements of the 36 and the 73 economists referred to are reproduced below.)

THE PATMAN BILL (H. R. 7230) WHICH PROVIDES FOR GOVERNMENT OWNERSHIP OF FEDERAL RESERVE BANKS AND CHARGES THEM WITH THE RESPONSIBILITY OF STABILIZING THE PURCHASING POWER OF MONEY

Opinions of 36 members of the Economists' National Committee on Monetary Policy, 70 Fifth Avenue, New York, N. Y., March 1938

Opinions by—
- Agger, Dr. Eugene E., Rutgers University.
- Arbuthnot, Dr. Charles C., Western Reserve University.
- Barrett, Dr. Don C., Haverford College.
- Bogart, Dr. Ernest L., University of Illinois.
- Bradford, Dr. Frederick A., Lehigh University.
- Bratter, Herbert M., Washington, D. C.
- Cable, Dr. J. Ray, Washington University.
- Calhoun, Prof. Wilbur P., University of Cincinnati.
- Chapman, Dr. John M., Columbia University.
- Comstock, Dr. Alzada, Mount Holyoke College.
- Cox, Dr. Garfield V., the University of Chicago.
- Cumberland, Dr. William W., Wellington & Co., New York.
- Dowrie, Dr. George W., Stanford University.
- Dunkman, Dr. William E., the University of Rochester.
- Ennis, Dr. William D., Stevens Institute of Technology.
- Fisher, Dr. Clyde Olin, Wesleyan University.
- Fitzgerald, Dean J. Anderson, the University of Texas.
- Fraser, Prof. Herbert F., Swarthmore College.
- Haney, Dr. Lewis H., New York University.
- Kemmerer, Dr. Edwin W., Princeton University, president of the committee.
- Leffler, Prof. Ray V., Dartmouth College.
- Leonard, Dr. J. L., University of Southern California.
- Patterson, Dr. Ernest Minor, University of Pennsylvania.
- Preston, Dr. Howard H., University of Washington.
- Reed, Dr. Harold L., Cornell University.
- Robinson, Dr. Leland Rex, 50 Pine Street, New York City.
- Spahr, Dr. Walter E., New York University.
- Sprague, Dr. Oliver M. W., Harvard University.
- Steiner, Dr. William H., Brooklyn College.
- Tippetts, Dean Charles S., University of Pittsburgh.
- Tostlebe, Dr. Alvin S., the College of Wooster.
- Trant, Dean James B., Louisiana State University.
- Tucker, Dr. Rufus S., Westfield, N. J.
- Weisman, Prof. Russell, Western Reserve University.
- Wright, Dr. Ivan, University of Illinois.
- Young, Dr. John Parke, Occidental College.
- Committee statement signed by 72 members.

Assumptions to Which Very Few Special Students of the Subject Will Subscribe

Dr. Eugene E. Agger, Rutgers University

While I do not seriously disapprove the governmental ownership of the Reserve System, considered as an isolated question, I object to its being done for the purposes specified in the proposed bill.

The ownership of the Federal Reserve banks is essentially a small matter in this bill, but, in any event, it should be considered on its individual merits without involving it with theories of central bank policy. In its implications concerning such policy, the bill makes assumptions to which very few special students of the subject will subscribe. Within limits, central banking policy can be used to influence prices and the developing business situation, but it is fantastic to assume that such policy could alone assure a stable money unit. It would appear undesirable also, to maintain "dualism" in banking control as between the Federal and State Governments, if integration of the banking system is desired. Such integration is indispensable to banking organization even if the objectives sought be only those limited possibilities of control that modern experience indicates to be attainable. The enlarged Board of Governors appears to me unnecessary. It is expertness and understanding that is needed in the Board. Its size should be determined by such a need and not by a desire to make the Board "representative" of either geographic or functional interests. No member of the Board should "represent" any "interest." Whether or not the ownership of the Reserve banks be vested in the Government, the responsibilities of the Board of Governors should be expressed in broad general terms without attempting to specify objectives and leaving to the Board to do its job as changing circumstances make necessary.

Impossible to Stabilize Purchasing Power

Dr. Charles C. Arbuthnot, Western Reserve University

Government ownership of the 12 Federal Reserve banks would not prevent, but rather increase, the probability of injurious expansion of credit and currency. The way the Treasury Department has used its control over the banks of the country to serve its own purposes rather than to maintain sound credit and currency conditions indicates that Government ownership of the Federal Reserve banks would leave the Treasury Department still freer to save its face in unsound fiscal policies to the neglect of wholesome conditions for business and the general public.

It is an economic impossibility to stabilize the purchasing power of the dollar by banking control. It would be a political blunder to lead the people to believe that this is possible. The inevitable failure might lead to public resentment so strong as to result in wrecking the Federal Reserve System. Public men who create expectations that cannot be fulfilled are sowing the wind. They or their successors will reap the whirlwind. The extreme manipulations that would be resorted to before the public would be convinced that the scheme was unworkable, would upset the productive business of the country.

The proposal in section 2 that shares of stock of the Federal Reserve banks held by member banks shall be bought by the Secretary of the Treasury by the simple process of establishing a credit for these member banks on the books of the Federal Reserve banks, indicates the dangerous conception of bank credit in the minds of the authors of this bill. Such creation of purchasing power is magic, not economics. This "bookkeeping money" is in a class with "printing-press money." This attitude toward bank credit has been the cause of most of the banking troubles in this country.

Banking System Should Be Scientific

Dr. Don C. Barrett, Haverford College

Our banking system should be owned and managed with strict regard for the economic and scientfic principles and practices involved. Therefore, I am opposed to the Patman bill (H. R. 7230). The Congress and the administration are far more capable of compelling a privately owned and managed banking system to maintain excellent principles and practices of good central banking than they are of holding themselves, as owner and manager, to a high level of accomplishment for the public welfare in this important field.

No Reason Is Apparent to Warrant Taking the Step Proposed

Dr. Ernest L. Bogart, University of Illinois

When the Federal Reserve Board was reorganized and the Secretary of the Treasury and the Comptroller of the Currency were eliminated as ex officio members of the Board, a wholesome step was taken in removing governmental interference. The unfortunate experiences of the central banks in France, Germany, Austria, Russia, Italy, and even in Great Britain during and after the World War showed how the banking, commercial, and industrial interests of the country could be sacrificed to the temporary and often mistaken policies of the Government. Only the most pressing and urgent emergency could justify such action. Such a condition does not exist in the United States and no reason is apparent to warrant it now.

Opposed to Sound Principles of Central Banking

Dr. Frederick A. Bradford, Lehigh University

The bill is opposed to sound principles of central banking. If the Board of Governors should be increased to 15 members, in my opinion, one should be appointed by the board of directors of each Reserve bank and the other three by the President. This would give a Board of Governors not greatly different from the Federal Advisory Council, which has shown itself to be a body of sound judgment in central banking matters.

I object to the proposal that the Board of Governors should maintain a constant purchasing power of the dollar for a generation, as I consider it impossible for the Board to do this.

As to Government ownership of the Reserve banks, I approve of the statement quoted in one of the committee's proposed pronouncements on the Patman bill, H. R. 5010:

"The provision that the Federal Government should purchase the Federal Reserve banks probably would be a long step in the direction of greater financial control in commercial affairs by the Federal Government. This power would, in turn, give the Federal Government a greater amount of an undesirable type of control over our entire economic structure, and in time would very probably lead to an unfortunate type of central banking. In short, the provision runs counter to the principles of good central banking, and provides a potent instrument for jeopardizing the economic welfare of this country."

Under present circumstances, the Government practically controls the Federal Reserve System, but if no change is made in the present law, the situation in this regard should alter for the better in the course of time.

Would Change a Mechanism Already Functioning Satisfactorily

Herbert M. Bratter, Washington, D. C.

Not a few earnest and sincere Congressmen hold the view that the Federal Reserve System is being run by the country's bankers in their own personal interests and against the country's best interests. They therefore propose that the ownership of the 12 Federal Reserve banks be acquired by the Government so as to insure the banks being run in the interests of the Nation.

The proposal that the Government nationalize the Federal Reserve banks is not only unnecessary, but contains important elements of danger to the country's best interests. In full Government control of the policies of the Federal Reserve System is the object being sought, then nationalization of the Reserve banks is quite unnecessary, for there already exists Government control, de jure and defacto, in all matters of policy. The Federal Reserve System is today a public institution, privately financed by its members, but publicly directed.

Under the law, the Board of Governors is a public body appointed by the President of the United States. Three of the directors of each of the 12 individual Reserve banks are appointed by the Board of Governors of the Federal Reserve System sitting in Washington. Of the remaining six, three must be nonbankers. Only three need to be bankers. The chairman and deputy chairman of each bank are appointed by Washington, and the president and first vice president by each bank's board of directors, who are all subject to removal by Washington for cause.

Through controlling not only the banks' personnel, but also their credit policies, the Government, through the Board of Governors at Washington, controls the System. The Board of Governors of Washington not only previews proposed changes in discount rates, but it may initiate them. It controls, for example, reserve requirements, open-market operations, maximum interest rates paid by member banks on time deposits, and the volume of loans by member banks against a given amount of security. All the System's policies which influence national monetary conditions are already subject to complete governmental control.

The 12 Reserve banks are creations of Congress. Stock ownership in them by the member banks is compulsory, and moreover does not rest on the profit motive. The rate of return on the stock is determined and limited by Congress. Profits to the stockholders play absolutely no part in determination of the System's policies, which, being made by public bodies, are in the general public interest, not in the interest of the member banks. In any case, only a very small part of the resources of the Reserve banks are derived from the capital stock. Mostly, these resources are derived from powers conferred by Congress.

Thus, ownership of the stock of the Federal Reserve banks by the Treasury is far from the only way for the Government to control the Federal Reserve System. The fact that the System is nominally owned by its member banks does not mean that it is controlled by them. Ownership of the stock by the member banks is merely a method of raising capital for the Reserve banks. As to the policies of the System, the member banks, despite their ownership of stock, have very little to say on anything but local matters.

The functions of the Treasury and the Federal Reserve System are entirely separate and distinct, as is proper and desirable. The Treasury's business is to raise money and disburse funds for governmental purposes. The business of the Federal Reserve System is to regulate the supply and cost of money, adjusting them to the needs of trade and industry. It is very desirable to have these two independent bodies work harmoniously together, but, because of their different purposes, it is distinctly undesirable that they be merged.

Although two separate entities, the Treasury and the Federal Reserve System are in reality still but two arms of the same Government. But, being separate organizations, the two should and now do represent separate viewpoints. This should not be changed.

It is desirable that the Federal Reserve System as an institution continue to have local roots all over the country, as it has today. Were the System to become federally owned, it would naturally reflect national political rather than local business views. In a proper distribution of powers, the 12 banks should have the fullest possible say as to policy on local matters, while the Board of Governors in Washington should have full say on matters affecting monetary management.

Rigid civil-service rules, which under Government ownership would undoubtedly be applied to the System, would handicap the efficient functioning of the latter. At present the personnel is nonpolitical, and its activity businesslike.

There is no use making a far-reaching change of such importance in a mechanism which is already functioning very satisfactorily in the public interest. If at any time it does not so function, the Government always is endowed with full and adequate powers to change the System's administrators or its policies.

Opens Way to Political Pressure of an Undesirable Sort

Dr. J. Ray Cable, Washington University

I am opposed to Government ownership and operation of the Federal Reserve System. It would open the way to greatly increased political pressure of an undesirable sort. It would make close contact between business and banks more difficult to attain. It would tend to emphasize political expediency rather than financial solvency. The most fundamental need of any banking system is sound assets. This is a business and not a political problem. In my opinion, the passage of the proposed H. R. 7230 would disturb seriously the confidence of the business interests of the Nation. And in banking there is still no substitute for confidence.

Wrong in Principle, Threat to Banking System, Dangerous for Country

Prof. Wilbur P. Calhoun, University of Cincinnati

I am opposed to the enactment of the Patman bill (H. R. 7230) entitled, "A bill providing for Government ownership of the 12 Federal Reserve banks, and for other purposes." It is wrong in principle, is a serious threat to the integrity of our banking system, and is exceedingly dangerous to the economic future of the country.

The proposal that the Federal Government purchase the Federal Reserve banks and thus gain complete control over them is contrary to sound principles of central banking. It disregards completely all past experience with central-banking institutions. When considered against the background of recently adopted legislation, it is impossible to escape the conclusion that a very important consideration in the minds of many of the advocates of the bill is that is makes possible a very detrimental type of control over all economic activities by the Federal Government.

The bill would make this Government-owned, politically controlled central bank responsible for maintaining a stable price level. In my judgment this objective could not be achieved by any known type of monetary or banking manipulation.

Even if it were possible to stabilize the general price level, this accomplishment would not produce business stability or "prevent injurious expansion and contraction of credit and currency." The experience of the 1920's, when we supposedly had a relatively stable price level, is a practical refutation of any such belief.

Delegation of unlimited discretionary control over the reserves of member banks is a power which should not be entrusted to any small group of men. Possession of such power results in a strong urge to use it. The possibility of pronounced and unpredictable changes in reserve requirements for banks introduces into the credit system a dangerous element of uncertainty and instability.

Could Not Stabilize Currency and Credit

Dr. John M. Chapman, Columbia University

The provision that the Federal Government should buy the stock of the Federal Reserve banks would undoubtedly be a step toward a greater centralization of financial control over the banking system as well as economic system. This would be another step toward the nationalization of our financial system which would be most unfortunate at this time. Moreover, it is not now possible for the Board of Governors or any other organization to give us such a stabilized currency and credit system as is contemplated in section I of H. R. 7230. Neither the management of Government finances nor the supervision and regulation of our banking system in the past two decades lends support to the idea that the Board of Governors of the Reserve System would be able to give us such a currency system as is proposed in H. R. 7230. We do not now have the basic facts to make such control possible.

Experience Against It

Dr. Alzada Comstock, Mount Holyoke College

Experience of other countries shows dangers of too close connection of Government with central-banking system.

Nothing To Be Gained, Would Disturb Business Morale

Dr. Garfield V. Cox, the University of Chicago

I see nothing to be gained by Government ownership of the Federal Reserve banks, and I am sure that any serious threat now of the passage of such a measure would further disturb business morale at a particularly critical juncture. Also, I can think of no good reason for so great an enlargement of the Board.

Would Provide a Political Banking System Charged With an Impossible and Undesirable Task

Dr. William W. Cumberland, Wellington & Co., New York

Mr. Patman has introduced a bill in the House of Representatives (H. R. 7230) which is principally designed to change the Federal Reserve System from a bankers' bank to a Government bank and, when this is done, to use such Government bank as an experimental laboratory for establishing and maintaining commodity price levels.

Both economic history and economic logic cry out against both proposals in Mr. Patman's bill. Competent students of currency, banking, and finance are rather well agreed that such shortcomings as the Federal Reserve System has exhibited in its 25 years of life have been due to excessive influence by the Treasury. On numerous occasions its has seemed reasonably clear that the Federal Reserve Board and the Federal Reserve banks have taken action or refrained from taking action because of the interests of the United States Treasury. Sometimes the clear interests of agriculture, industry, and labor have been subordinated to the convenience of the Federal Treasury.

In short, the influence of the Government over central banking is already too great, and constructive reform would be in the direction of completely separating the central banking system from Government influence or control. Mr. Patman's bill is headed in precisely the wrong direction.

Price fixing has been a favorite pastime of inexperienced reformers throughout the course of history. It has been attempted by government, by labor guilds, by trade associations, and by economic dilettantes. Permanent success in price fixing has never been achieved, and usually the attempts have resulted in serious loss both to those immediately concerned with the fixed prices and to the community at large. Price fixers have to be human beings, and since they are human beings they are affected by the frailties of human nature. Few people propose price fixing except with the motive of raising prices before they are stabilized. Price fixing is thus a protest against the verdict of economic forces. Since that verdict is by definition, correct, the futility of attempting to set it aside by means of artificial agencies should be apparent.

Not only does Mr. Patman propose to substitute a political engine for a scientific central banking system but he also proposes to charge that political engine with a task which has proved to be impossible throughout the course of history and in addition is undesirable, even if it could be accomplished.

Government Should Be Official—Not Principal Player

Dr. George W. Dowrie, Stanford University

While it is highly desirable in a system of banking like ours that there should be set up machinery of public regulation and supervision, the Government's position should be that of an official in the game and not that of its principal player. The objections to this proposed act and others of the kind are that: (1) There are injected politics and Treasury domination; (2) individual initiative on the part of Federal Reserve and member banks is to be destroyed; (3) it sets up an unwieldy and Government-dominated Board and bank directorate.

Bill Is a Step Backward

Dr. William E. Dunkman, The University of Rochester

This bill is a step backward in banking control. This is indicated by enlarging the Board of Governors, putting the Secretary of the Treasury and Comptroller of the Currency on this Board, and encouraging small scale local banking. "Money" and "banking" are seriously confused when the purpose "to stabilize and maintain a dollar of uniform purchasing power" is to be obtained through centralized banking control.

Bill Proposes a Step Toward a Dangerous Situation

Dr. William D. Ennis, Stevens Institute of Technology

This bill proposes one more long step toward the kind of situation which is illustrated today in Germany, Italy, Russia—a situation which endangers the peace and security of the world.

The central banking system is the nerve center of business. By business we understand the aggregate of accomplishment by the country's productive workers. Its successful conduct and long-run growth depend on stimulation (which comes from within) and on fair interplay, which it is the function of government to assure.

Government's job—whatever else we may properly or improperly expect of it—is that of a referee. When deliberate fouling is practiced by those who play, it is government's place to interfere. But this does not mean that government should leave its post on the side line and enter the game itself. For it to do so leads to confusion and waste.

Public-utility regulation, railroad regulation—these are appropriate fields for government. In other fields, also, government has power and responsibility, but has failed to protect or punish. Our history of bank failures, swindling in securities, monopolistic practices, proves this. Government made the laws and hired the men to enforce them. But the laws were not enforced, the fouling went on, and the collapse came. Governmental processes have failed, in general, even to punish the outstanding offenders.

Such extreme degree of Government participation as was attempted in the National Recovery Act, Agricultural Adjustment Act, and so forth, tends toward and succeeds only under a system of absolutism. In particular, government control of the central-banking mechanism frees it of the last restraint. It makes possible a perpetual program of deficit financing, irrespective of popular mandates or controls. The taking over by Government of the Federal Reserve System, in my opinion, means an unbalanced Federal Budget in perpetuity—until the final crash comes.

A Pandora's Box of Problems

Dr. Clyde Olin Fisher, Wesleyan University

The enactment of this bill would open a literal Pandora's box of problems more serious than those it is designed to solve.

Fears Politically Manipulated Credit Extension

Dean J. Anderson Fitzgerald, the University of Texas

Time after time the President of the United States has explained an action of the Federal Government by stressing that it was necessary because the need was not met by private industry. I oppose the purchase of the Federal Reserve banks by the Federal Government because there is no need for such purchase.

The public interest is sufficiently safeguarded by the regulatory powers of the Congress and the Board of Governors of the Federal Reserve System. No institution has come through the trying years since 1929 with more praise or less criticism than the Federal Reserve banks. Why further nationalize them? A time-worn test of governmental operation has been, "Can the Government do it better?" In this case, pray, how?

The objective of price stabilization is impossible of attainment by the powers of a central banking system. Credit is only one of many price factors.

One looks forward with apprehension to any day that credit extension becomes subject to political manipulation. Credit has many differences in its techniques from businesses where the only problems are those of efficient nondiscriminating uniform service to all applicants, such as postal facilities and waterworks, which many have held to be particularly suited to Government ownership. The movement to nationalize central banking is just one phase of the agitation for the nationalization of commercial and investment banking. The United States should refuse to take this step.

System Should Be Free From Political Pressure—Could Not Stabilize Purchasing Power of the Dollar

Prof. Herbert F. Fraser, Swarthmore College

The objections to this bill fall principally under the head of Treasury-Central Bank Relationships. It has long been the accepted view among monetary theorists and also the practitioners of the art of central banking that the functions of the central bank can be more affectively performed if the bank is moderately free from the pressure of Treasury financing. It is also desirable to keep the bank free from the pressure of party politics. Nothing in the present situation in the United States, nor in the recent history of other central banks, seems to warrant or support any change in this view.

It seems to me that cooperation between the Federal Reserve banks and the Treasury is very much to be prefered to domination of the banks and the financial situation by the Treasury alone. We have already gone far enough in giving governmental agency control over the credit situation. Through the stabilization fund the Treasury is in effective control of foreign exchange; through the concentration of gold in the Treasury the ultimate monetary reserves are already in Government hands; through the large powers and place of the Treasury in the money market the Government is an important if not the dominating element; through numerous and large banking enterprises and agencies the Government is doing directly much important financing. I think that the Federal Government has all the financial powers that it can wisely and successfully use. If it owned the Reserve banks, the Reserve Board would in time become merely the agents of the Treasury. It is better that the Board should retain a considerable measure of independence, and that the Treasury should win its cooperation in the future as it has done in the past. It is equally desirable that the Board and the banks should consider the position of the members as well as that of the Treasury. Such consideration will disappear when the Government owns the banks and the Board sinks to the level of Treasury agents.

Finally, it is difficult to see what advantage would accrue to the Nation in having the ownership of the Federal Reserve banks transferred to the Government. The chief effect would undoubtedly be the elimination of whatever checks there now exist upon the utilization of Federal Reserve credit as a means of financing governmental Budget deficits. The Government has now sufficient regulatory powers over the Federal Reserve banks, and they can serve the Nation better as checks upon loose governmental financing so long as they remain quasi independent institutions, instead of becoming mere adjuncts of the Treasury.

One of the declared purposes of the Patman bill is the stabilization of the purchasing power of the dollar. There is no reason to believe that this is any more possible of achievement by the Treasury than by existing agencies. If it could be achieved it does not mean the stabilization of business; our greatest depression occurred after several years of a fairly stable price level. Finally, to suppose that it is possible of achievement by monetary and banking controls is to misconceive the causes of changes in the price level and their fundamental importance.

Substitution of Political for Economic Values Would Be Harmful

Dr. Lewis H. Haney, New York University

In my judgment, any measure that would substitute political values for economic values would be harmful. A politically "balanced system" means politics: (1) Bank credit should be closely correlated with local business conditions. (2) Money must have nonarbitrary objective value, to serve as a measure of economic value and a standard for credit. Neither could be possible under this bill.

Would Force Politics Into Banks and Banks Into Politics

Dr. Edwin W. Kemmerer, Princton University, President of the committee

Briefly stated, my principal objection is the following: This bill gives complete ownership of the 12 Federal Reserve banks to the Federal Government, and gives to the President of the United States the power to appoint, subject to Senate ratification, all 15 members of the proposed Board of Governors of the Federal Reserve System (3 of whom are ex-officio members) and all of the 9 members of each of the Federal Reserve bank boards. The bill even abolishes the Federal Advisory Council, which has existed since the enactment of the original Federal Reserve law, a council consisting of one member chosen annually by each Federal Reserve bank from its own district, and whose powers and duties are limited merely to conferring with the Board of Governors, to calling for information, and to giving advice which the Board itself is under no obligation to follow. The Federal Open Market Committee, which has large powers over the expansion and contraction of the Nation's money and circulating bank credit, and of whose 12 statutory members at present 5 are selected by the Federal Reserve banks and 7 consist of members of the Board of Governors, is by this bill made to consist exclusively of members of the Board of Governors.

Under the Federal Reserve Act this Presidentially appointed Board of Governors, and the 12 Presidentially appointed Federal Reserve bank boards of directors, acting under its supervision and direction, would possess large dictatorial powers over the loan and investment policies and practices, note circulation and deposit currency of our 12 Federal Reserve banks and of practically all of our fourteen-thousand-odd commercial banks.

The bill, if enacted, coupled with laws already on our statute books, would give to the President almost complete authority over the country's currency and banking system. On a scale never before known in our history or the history of any other Anglo-Saxon nation, it would force politics into the banks and the banks into politics. One of the outstanding lessons of history is the danger of this mixture of currency and banking with politics. The mere suggestion of it calls to mind memories of such American financial and economic disasters as those growing out of our continental paper money issues of about a century and a half ago; of Andrew Jackson's unfortunate war with the Second United States Bank, and the subsequent crisis of 1837; of the Civil War greenbacks, which remained unconvertible for 17 years, and depreciated at one time to as low as 35 cents on the dollar; and of the inflationary silver-purchase measures of the latter part of the last century and resulting panic of 1893–94.

Any turning over of our banking system on such a wholesale scale to Government control and management would, in my judgment, soon lead to its political exploitation, make it a football of party politics, and ultimately end in disaster.

The banking system of the country is affected with a very great public interest, and should always be administered with a keen reference to public welfare. To this end, it should be subject to effective Government supervision. With such supervision, however, conducted under the limits of sound statutory law, the banking system should be operated by bankers on banking principles and not by Government officials largely on the principles of political expediency.

Would Create a Dangerous Case of Political Entrance Into Banking System

(Prof. Ray V. Leffler, Dartmouth College)

The Patman bill to provide for Government ownership of the 12 Federal Reserve banks, and for other purposes, is unacceptable to the citizens of the United States because (1) it confuses the fields of public and business finance, (2) it aims at purposes which are hardly within the influence of bank-credit policies, and (3) it is very ambiguously stated and subject to different interpretations.

Government ownership of the Federal Reserve banks creates a dangerous case of political entrance into the banking system of the Nation. The chief danger of Government ownership of these banks is that these institutions would easily become the special mechanism of Government finance and cease to be central banks for commercial credit funds. The public welfare in matters of credit supply and policy would be submerged in the desires and financial needs of public officials. Political pressure and selfish aims would influence bank policies and the use of bank funds. The public interests are best obtained by privately owned central banks which are operated under carefully designed laws.

This bill is very vague and general in its statements, but the inference is clear that Government ownership of the Reserve banks would "prevent injurious expansion and contraction of credit and currency, stabilize and maintain a dollar of uniform purchasing power, and encourage the sound local bank." These aims of central-bank credit policy are very indefinite. Even a superficial study of the banking organization of this country and the effects of the different credit policies will show that the ideals stated in this bill are not simply matters of central-bank ownership or policies. It will be as impossible for Government-owned Reserve banks to achieve these ends as for privately owned ones. The banking system is only a part of a complicated economic mechanism, and we cannot obtain any desired result by merely changing bank ownership or policy. For this reason, it would be quite natural and necessary for politicians to advocate the next step—Government ownership of all local banks, and finally Government ownership of all industrial concerns. Our citizens should consider the nationalization of the Reserve banks and our industrial life with full understanding of the possible consequences.

This bill moves in the wrong direction when it permits any State bank in the Federal Deposit Insurance Corporation, under certain rules, to enjoy all the rights and privileges of the Federal Reserve System. In order to obtain a sounder and more effective banking system for the country, it is highly desirable that all commercial banks operate under a single national law. This bill would perpetuate and encourage great confusion in the operation of commercial banks and tend toward lower standards of banking.

The provision of the bill relating to the composition of the Board of Governors is another step backward. It would include the political officials in charge of Government finance. This provision was included in the original Federal Reserve Act and changed under the present administration because the influence of these officials on credit policies was considered as undesirable. This bill would also increase the size of the Board. This amendment is of doubtful value when efficiency and quickness of action may be desired in matters of credit problems.

Two other weaknesses appear obvious in the proposed legislation. The first relates to the provision that all of the directors of each Federal Reserve bank shall be appointed by the President of the United States. This method of appointment would certainly lend itself to political influence and packing of the boards. There would still seem to be good reason to have the representatives of the public and business interests chosen in some other way, even though the Government might think it desirable to choose the class A directors as suggested. The second weakness relates to the abolition of the Federal Advisory Council. This organization does not determine policies or participate in the operation of the banks. But it has been especially useful in making suggestions for changes in the law and other matters relating to the banks. Such a council would continue to be of service even under Government ownership of the Reserve System. Incidentally, it is doubtful if a maximum salary limit should be prescribed by law. Salaries must be paid according to the market for capable bank executives. In general, the maximum figure stated would be sufficient, but it would be more desirable to leave this matter to the board of directors of each Reserve institution.

In conclusion, this banking bill is designed to appeal to the masses who have been bewildered by the rapid changes in our economic structure and the many problems which have arisen. This proposed legislation is based on the simple fallacy that central banks, owned by commercial banks, have been primarily responsible for our economic ills. With this naive assumption, it is now proposed to bring Utopia by changing the ownership of the Reserve institutions. Certainly our citizens and Members of Congress will not be deceived into supporting such a simple and vague bill for the relief or correction of our economic difficulties. If this bill is given thorough publicity and study, its defeat will be inevitable.

In Line With Business Regimentation

Dr. J. L. Leonard, University of Southern California

The proposals of the Patman bill to create a new and larger Federal Reserve Board, to manipulate the currency and through it to establish and regulate a proposed price level, reaches a new height in legislative absurdity. It proposes an imaginative experimentation as a means of business regimentation and, if enacted, would lead only to confusion.

With reference to the bill: Page 3, lines 7, 8, 9. Bank control alone will not do it. It is a step in line with business regimentation.

Page 4, lines 18, 19, 20. Should not be a profit bank for Treasury. Greater surplus should be accumulated.

Page 5, lines 19, 20, 21, and so forth. Too large a Board. Inclusion of Secretary of the Treasury and Comptroller of the Currency on the Board is a return to a former weakness.

Proposal Has Many Objectionable Features

Dr. Ernest Minor Patterson, University of Pennsylvania

The Patman bill seems to me objectionable in certain ways, notably as follows:

1. In its provision, page 3, lines 9ff, to permit all banks to receive all rights and privileges of the system.
2. Its statement that it is to be the policy of Congress to stabilize and maintain a dollar of uniform purchasing power. With our present knowledge this

cannot be done and it is highly inadvisable to pass monetary legislation of this sort which can merely lead to disappointment.

3. I dislike the provision in section 5 which provides for the inclusion of three ex officio members, all of whom have functions which may not harmonize with their duties as members of the Board of Governors. In the same section it seems to me inadvisable to specify that there shall be no more than one appointed from any one Federal Reserve district. This specification is inserted, I take it, for political reasons, but would undoubtedly compel a President at times to appoint members for geographical reasons rather than merely because of ability.

4. The provision in section 6 that all of the directors are to be appointed by the President may also be questioned. It is, of course, true that the President has a similar power of appointment to the Supreme Court of the United States, but the fact that the appointments to the directorships in question are for limited terms is a difference of importance.

5. I regret the proposal in section 7 to eliminate the Federal Advisory Council. Their advice can be and in the past has been most salutary and furnishes a valuable restriction on unwise decisions.

6. Finally, the proposal in section 8 is one which makes the Open Market Committee too large a body. I would suppose that in practice the decisions of such a body would be made by a smaller number, and it would be much better to provide for the smaller number to start with.

In general, the bill contains so many features that are objectionable that I strongly oppose its passage.

History Shows Dangers of Mixing Politics and Finance

Dr. Howard H. Preston, *University of Washington*

No condition has arisen which calls for such a sweeping change in Federal Reserve ownership and control. The Banking Act of 1935 centralized responsibility for credit policy, but at the same time preserved some measure of district autonomy and retained the advantages of operation of the banks by directors selected because of business and banking experience.

In my opinion, Government ownership and operation of a central banking system is undesirable as a general principle. Wartime experience in Europe indicates that currency mismanagement and inflation were greatest in countries where the central bank was most subservient to the government. The Bank of England furnishes a good example of the satisfactory results of private ownership and control exercised in the public interest by a private board of directors. Our own financial history is replete with illustrations of the dangers of mixing politics and finance.

Specific objections to H. R. 7230 (75th Cong., 1st sess.) include:

(1) Member banks are required to carry reserve with the Federal Reserve banks and otherwise assume the responsibilities of membership. Affiliated banks, on the other hand, may enjoy all the rights and privileges of membership, but may withdraw from affiliation at any time. Presumably they would not forfeit their right to deposit insurance. This is discrimination and also weakens the power of regulation by the Board. An increase in reserve requirement, for example, might well be the signal for general withdrawal by affiliated banks.

(2) A board of 15 is unwieldy. Inclusion of the politically appointed Secretary of the Treasury, Comptroller of the Currency, and Chairman of the Federal Deposit Insurance Corporation is a backward step.

(3) Excluding all bankers and bank stockholders from the directorate of the Reserve banks is certainly restrictive and unjustified.

Highly Erroneous Theories of Role That Money and Credit Should Play

Dr. Harold L. Reed, *Cornell University*

The existing Federal Reserve statutes, particularly after amendment by the Banking Act of 1935, go at least as far as is desirable in recognizing the public responsibilities of the Federal Reserve banks. Proposals to change the System's structure are also objectionable in that they keep the managing authorities in a state of mental turmoil and thus divert energy from the solution of pressing current problems. Improvement of Federal Reserve policies is to be obtained more by concentrating thought upon these problems than by getting involved in questions related to the forms of administration and control. The passage of such a bill as Mr. Patman introduced (H. R. 7230) would inevitably be interpreted by a large faction of Congress as evidence of intent to apply currently fashionable, and, very likely, highly erroneous theories, of the role that money and credit should play in an ideal economy. What we need most of all is to create an atmosphere conducive to the building of sound traditions on the experiences of the Reserve banks. Some degree of independence for the System's management is necessary to develop such traditions.

Eventually, membership in the Reserve System should be required of all banks whose deposits are insured by the Federal Deposit Insurance Corporation. To accomplish this improvement, however, it is not necessary that there be Government ownership of the 12 Federal Reserve banks.

Political Control of Banking Processes Has Proved a Most Dangerous Practice

Dr. Leland Rex Robinson, 50 Pine Street, New York City

Political control of banking processes has proved a most dangerous practice. More than any other single factor it has been responsible for debauching currencies, skyrocketing living costs, and destroying business confidence throughout modern times. The reason is evident. Sound banking requires repayment of loans which are granted under conditions giving prospect of reimbursement from commercial, tax, or other sources of anticipated income. On the other hand, banking politically controlled easily degenerates into loans of dubious quality in answer to "pressure group" demands, and into the financing of government deficits through advances which are repaid, if at all, in a depreciated medium. Whether coins are clipped, as in earlier centuries, whether unsecured paper money overflows, as during our Civil War, or whether serious bank deposit inflation threatens, as at present, the result is just the same—costly inflation.

This does not mean that the central bank or banks should be entirely free of Government supervision. On the contrary, a considerable measure of such control is at present directly and indirectly exerted over the Federal Reserve and member banks. The Federal Reserve Board members are Presidential appointees. A greater control has been established than the Board has ever heretofore had over the member banks, and through them over the entire banking system. Unprecedented peacetime Government deficits have been financed by the banks to a point where the Nation's business is seriously threatened. The imperative requirement now is to disentangle banking from Treasury dominance and political pressure, and to let the banks fulfill their proper purpose of financing business needs under general standards of function and of conduct determined by the regulating authorities.

This Bill Violates the Lessons and Principles of Good Central Banking

Dr. Walter E. Spahr, New York University

The Patman bill (H. R. 7230) runs counter to the lessons and principles of good central banking, and it would charge the Federal Reserve authorities with a responsibility for stabilizing the general purchasing power of money which could not be fulfilled.

The lessons of central banking teach unmistakably that the administrative board of the central banking system functions in the best interests of the Nation as a whole when it is free from all pressure, whether that pressure come from the local commercial banks, the Government, or any other group. When this principle has been violated, trouble has invariably arisen, and the best interests of the Nation have been sacrificed.

It is the duty of the central government to prescribe in the organic law, providing for the central banking system, the conditions under which the system may operate, and also to create the necessary supervisory authority to see that the law is obeyed. But supervision is one thing, bank ownership and management are something else. Government ownership, involving bank management, prevents the central banking system from acting as that neutral agent with respect to all interests concerned and, consequenly, from acting in the best interests of the Nation as a whole.

Kisch and Elkin, in their book Central Banks (Macmillan and Co., Ltd., London, 1932 ed.), pages 20, 23, have summarized well the principles and lessons of good central banking in the following words:

"Just because the decisions of the bank react on every aspect of the economic activities of the country, it is essential that its direction should be as unbiased as is humanly practicable and as continuous as possible. But clearly, if the bank is under State control, continuity of policy cannot be guaranteed with changing governments, nor can freedom from political bias in its administration be assured * * *. But if the Government has a controlling influence over the bank, there are obvious ways by which the most powerful interests in the country can try to enforce their wishes. The road is open for political intrigue, and there can be no safeguard that the policy of the bank will be carried on without bias as the national interests require. It seems a paradox that when the object is to secure the execution of a national policy, that should not most readily be achieved by the creation of a State bank under official control; but even in the countries where the capital of the bank is held by the State, steps have been taken in certain instances to remove its administration from political influence and to give it a measure of independence from the Government."

Reflecting upon the world's experiences with government-dominated central banks, Kisch and Elkin say (p. 22):

"* * * If the control of the operations of the central bank lies directly or indirectly with the Government, it becomes fatally easy for the Government to finance itself for a time by means of book entries and short loans from the bank, a course which is the first step toward currency depreciation and inconvertibility."

In considering the encroachments of governments upon central banks in the former's raising of funds, Kisch and Elkin say (p. 37):

"* * * It is of cardinal importance that it should be made as difficult as possible for the Government to resort to the expedient of borrowing from the bank, a practice which, if continued, can only lead to a repetition of past disasters."

There is a definite and overwhelming consensus of opinion among the most competent authorities that the control of the note and deposit currencies of a country and of the price level is not improved but definitely weakened and endangered when governments assume or dominate the functions of central banks.

The fact that nearly all leading nations of the world, excepting those that have turned Socialist or Fascist and seek to dominate all major economic activities of their people, have generally avoided such a device should provide strong evidence in support of the accuracy of the preceding statement.

The second major feature of the bill—that charging the Reserve authorities with the responsibility of stabilizing and maintaing a uniform purchasing power—is unwise because the aim could not be fulfilled, and there are times when a stable price level is undesirable. Our experiences with the consequences flowing in part from the relatively stable price level of 1923–29, which rested upon a multitude of economic maladjustments, should provide a valuable lesson to us with respect to the latter point.

If a central banking system is to have the power to control the price level, it must also be given power to regulate Government spending, the Government's deficit, foreign trade, tariffs, inventions, discoveries, famines, floods, and, above all, wars. Furthermore, it seems clear that a very large proportion of the great fluctuations in prices arise more from unwise governmental action than from any other single source except war; and, of course, wars are almost entirely the result of Government policies and actions.

It is hardly worth while to comment upon the other features of the bill which are, after all, incidental to these two fundamental and most dangerous features. It might be pointed out, however, that section 4 would permit the introduction of the very unsound scheme, now being urged by some, of 100-percent reserves composed entirely of inconvertible paper money.

Seems to Be a Smoke Screen for Currency Management

Dr. Oliver M. W. Sprague, Harvard University

It is undesirable to be making continual changes in the organization of the Reserve System. A somewhat radical change was made 3 years ago, a change giving the Board of Governors practically complete power in the determination of policies. The proposed change seems to me to be somewhat in the nature of a smoke screen—not really designed to give the Government more power, but to insinuate into the Reserve Act a provision regarding currency management. I should suspect that if section 1, on page 3, were deleted, Mr. Patman and his friends would have no very keen interest in the measure.

A Nonpartisan System Needed; Stabilization Objective Could Not Be Achieved

Dr. William H. Steiner, Brooklyn College

I am opposed to the Patman bill on several counts. Government ownership of the Reserve banks is objectionable; what is needed is a nonpartisan system, operated in an objective manner for the public good by a body divorced from day-to-day exigencies of political life. Against this, Government ownership would militate. This objection is fundamental.

Again, the procedure proposed smacks of "lifting one's self by his own bootstraps," by crediting the members on the books of the Reserve banks with the amount of the stockholdings.

Moreover, the objective of stabilizing purchasing power assigned to the Reserve System cannot be achieved, even if it were desirable that it be achieved, which is doubtful.

The bill proposes a board of 15 members, drawn from the 12 Reserve districts, and, as drawn, would seem to invite dangers of sectional conflict, with members regarding themselves as representatives of sections rather than of the public at large.

The bill also suggests opposition to branch banking, which is desirable for continued progress.

A Dangerous Change

Dean Charles S. Tippetts, University of Pittsburgh

I do not see what is to be gained by Government ownership of the Federal Reserve banks. It would mean that the System would become, even more than it is now, an agency for the accomplishment of the Government's political aims—a very dangerous change in central banking practice. A central banking system must be independent; it must be responsive to economic rather than political conditions. It is also unwise to enlarge the Board as it would make it too unwieldy, and hard to get a concensus of opinion.

There is no good reason why nonmember State banks should have the rights and privileges of members.

While I am in favor of preventing injurious expansion and contraction of credit and currency, I do not believe we know enough yet to be able to accomplish it through central bank policy. A stabilized dollar may be desirable, but the case for it is not yet proved. We need to know when to act and how to act. This I do not believe is yet certain. I formerly believed that the problem was not so difficult. But, in view of our experiences during the past 10 years, it is a foolhardy person who asserts that he knows the answer to it. Money and credit management may easily become money and credit mismanagement.

Remedy May Be Worse Than Disease

Dr. Alvin S. Tostlebe, the College of Wooster

I disapprove strongly of the provisions contained in the Patman bill that would change the ownership of the Federal Reserve banks. I cannot think of any possible advantage to be realized thereby that does not carry with it offsetting disadvantages that are numerous and very grave. Under present law the Federal Government has important powers of appointment wherewith it can exert an influence on Federal Reserve policy that is very substantial. This is as it should be, for banking policy has a profound effect on the general welfare. On the other hand, existing law has made provision whereby practical bankers and businessmen share with the Government the responsibility of selecting those who will make Federal Reserve policy. This it seems to me makes for a highly desirable balance in point of view, which, if destroyed by the Patman bill, will cause banking policy definitely to suffer.

The declarations of congressional policy contained in the Patman bill respecting prevention of injurious expansion and contraction of credit and currency and of currency stabilization are unobjectionable to me, provided that, in pursuit of these policies Congress will act only in full realization of the limits of usefulness of any controls that it may wish to exercise, and of the difficulties that beset all such attempts. Since there is wide difference of opinion as to how money and credit control is best achieved, this approval of general policy must not be construed as a blanket endorsement covering every plan that might gain congressional favor. As a counsel of perfection the policy to stabilize the dollar is praiseworthy, but practically the obstacles to its complete realization are insurmountable. There is grave danger that Congress, in attempting to reach the unattainable, will be led to approve legislation which, as a remedy, will be worse than the disease.

Would Reverse Reforms Brought About by Reserve System

Dean James B. Trant, Louisiana State University

One of the purposes of doing away with the old subtreasuries and in organizing the Federal Reserve System was to prevent governmental financing from having a bad effect on the money market, and to allow credit policies to be based on commercial, agricultural, and industrial needs. The ownership of the Federal Reserve banks by the Government would reverse this notable reform and cause credit policy to be based on governmental financing.

If by stabilizing the purchasing power and debt-paying power of the dollar is meant the stabilizing of the general price level, it is unsound in both theory and practice because the consumer would not be given the advantage of reduced costs of production.

Would Lead to Government Monopoly of Money-Lending and to Communism or Fascism

Dr. Rufus S. Tucker, Westfield, N. J.

I am opposed to Government ownership of the Federal Reserve banks because I believe it would lead to worse and perhaps more frequent depressions than we have had. In my opinion, the chief cause of every serious depression in the last century has been the excessive use of bank credit, either to finance Government deficits or to provide a substitute for investment capital. In other words, bank credit has been called upon to do the work that should have been done by taxation and saving. Since credits are debts and have to be repaid, each period of credit inflation has to be followed by a period of debt deflation. A Government-owned banking system would certainly be more liable to be used to finance Government deficits and to finance the enterprises of private groups that have political influence. Easy credit is always an easy device to obtain temporary popularity with voters. Only private bankers can be relied upon to refuse loans for unsound projects, and even private bankers have in the past lent too much for projects which were individually sound enough but excessive in amount. Bank credit is a necessary fuel for the engines of commerce, but it is dangerous when used in excess. It is essential that the total supply of this fuel be kept below the danger point by some authority that does not stand to benefit either financially or politically by allowing it to be used in excess. If the Government does not own the banks, it may be willing and able to prevent excessive bank credit, but if the Government does own the banks all restraints are off, for very few public officials can be expected to have the intelligence, the courage, and the power to resist pressure for loans during business booms. Moreover, aside from its effect in causing depressions, Government ownership of the Reserve banks would be a long step toward a Government monopoly of money lending, which would give Government officials the power to determine what businesses should be carried on, and by whom. Such power has long been desired by Socialists as a step toward State socialism. I believe it would inevitably lead to corruption and a lower national standard of living, and eventually cause our democratic system to be superseded by either communism or fascism, to both of which I am opposed.

Bill Is Unsound; Its Implications Are Dangerous

Prof. Russell Weisman, Western Reserve University

The Patman bill is unsound; its implications are dangerous.

Nationalization of the Federal Reserve banks at this time when the Budget is still heavily unbalanced might very well be the spearhead of a new drive for credit expansion which in the present position of the public credit might undermine confidence in the Nation's financial structure and culminate in the dangerous inflation which so long has threatened.

The bill in question is dangerous, furthermore, on the score that it would impose upon the Federal Reserve System an obligation to stabilize prices and to control the purchasing power of money. In the light of the experience of the last 5 years, such efforts are foredoomed to failure; in any event, they should not be undertaken by the Federal Reserve System, which should have no part in Governmental efforts to control prices and production and to manage the entire economy.

Such Control Has Always Led to Economic and Monetary Chaos

Dr. Ivan Wright, University of Illinois

The Patman bill is unsound and would lead to Government control of all banking and its bad consequences politically.

Such control has always led to economic and monetary chaos in other countries. It makes political expediency the guide to monetary policy, and sound policies are cast aside.

The unsoundness of the Patman bill and the impractical purposes of it lead me to doubt whether Congressmen will give it serious consideration. I cannot see how such a measure could be applied without placing all economic matters under the strictest dictatorial control. Certainly we are not ready for that yet.

Would Open the Door to Political Manipulation of the Reserve System

Dr. John Parke Young, Occidental College

The proposal to have the Government own and operate the Federal Reserve System contains to my mind certain distinct disadvantages. In the first place, Government ownership is unnecessary since, at the present time, final control over the System already rests with the Federal Government through its power of appointment of the members of the Board of Governors of the Federal Reserve System. This control over the Board provides against the possibility that the System might be used contrary to the public interest. If the Government were to participate more actively in the detailed operations of the System, this would not improve the quality of management nor serve any apparent useful purpose. It would, however, open the door to political manipulation of the System and permit the personnel to be selected on a political basis.

The Board of Governors of the Federal Reserve System possesses a very large amount of power over the economic conditions of the country. It can do a great deal to make conditions prosperous or depressed. Its mismanagement or inefficient management can be the source of serious difficulty, in fact, of disaster, for the country as a whole. Government ownership and operation would provide a strong and probably irresistible temptation for the party in power to use the System for its own ends, to the great detriment of the country. The System should, therefore, be placed upon as high a plane as possible, and, like the Supreme Court, be completely out of politics.

The System is progressing satisfactorily and, I feel, should be left substantially as it is, at least for the present.

[Released for publication Monday, March 14, 1938]

Statement in Opposition to Patman Bill, H. R. 7230

Signed by 72 members of Economists' National Committee on Monetary Policy

We, the undersigned members of the Economists' National Committee on Monetary Policy, wish to register our opposition to the Patman bill (H. R. 7230), entitled "A bill providing for Government ownership of the 12 Federal Reserve banks, and for other purposes."

69972—38——20

The purchase by the Federal Government of the Federal Reserve banks would be a long step in the direction of an undesirable type of control over our economic activities by the central government.

The Patman proposal runs counter to the principles of good central banking and might easily jeopardize the economic welfare of this Nation. The bill would permit the substitution of politically manipulated banking for what should be a nonpolitical, scientific central banking system. Furthermore, the bill would charge this Government-owned banking agency with a responsibility for maintaining a stable average of prices which, in all probability, could not be fulfilled.

(Signed:) Eugene E. Agger, Rutgers University; Charles C. Arbuthnot, Western Reserve University; Leonard P. Ayres, the Cleveland Trust Co.; George E. Barnett, the Johns Hopkins University; Don C. Barrett, Haverford College; Benjamin Haggott Beckhart, Columbia University; James Washington Bell, Northwestern University; Ernest L. Bogart, University of Illinois; Jules I. Bogen, the Journal of Commerce and New York University; Frederick A. Bradford, Lehigh University; Herbert M. Bratter, Washington, D. C.; J. Ray Cable, Washington University; Wilbur P. Calhoun, University of Cincinnati; Neil Carothers, Lehigh University; John M. Chapman, Columbia University; Edward H. Collins, New York Herald Tribune; Alzada Comstock, Mount Holyoke College; Garfield V. Cox, the University of Chicago; William W. Cumberland, 120 Broadway, New York City; Charles A. Dice, the Ohio State University; George W. Dowrie, Stanford University; William E. Dunkman, the University of Rochester; D. W. Ellsworth, The Annalist, New York City; William D. Ennis, Stevens Institute of Technology; Clyde Olin Fisher, Wesleyan University; J. Anderson Fitzgerald, the University of Texas; Herbert F. Fraser, Swarthmore College; Roy L. Garis, Vanderbilt University; Harry D. Gideonse, the University of Chicago; Earl J. Hamilton, Duke University; Lewis H. Haney, New York University; E. C. Harwood, American Institute for Economic Research; Frederick C. Hicks, University of Cincinnati; John Thom Holdsworth, the University of Miami; Jacob H. Hollander, the Johns Hopkins University; Edwin W. Kemmerer, Princeton University; William H. Kiekhofer, the University of Wisconsin; David Kinley, University of Illinois; Frederic E. Lee, University of Illinois; Ray V. Leffler, Dartmouth College; J. L. Leonard, University of Southern California; James D. Magee, New York University; A. Wilfred May, New York City; Mark C. Mills, Indiana University, Margaret G. Myers, Vassar College; Alexander Dana Noyes, the New York Times; Melchoir Palyi, the University of Chicago; Ernest Minor Patterson, University of Pennsylvania; Clyde W. Phelps, Chattanooga University; Chester A. Phillips, the State University of Iowa; Charles L. Prather, Syracuse University; Howard H. Preston, University of Washington; Harold L. Reed, Cornell University; Leland Rex Robinson, 30 Pine Street, New York City; R. G. Rodkey, University of Michigan; Olin Glenn Saxon, Yale University; Joseph A. Schumpeter, Harvard University; James G. Smith, Princeton University; Walter E. Spahr, New York University; Oliver M. W. Sprague, Harvard University; William H. Steiner, Brooklyn College; Charles S. Tippetts, University of Pittsburgh; Alvin S. Tostlebe, the College of Wooster; James B. Trant, Louisiana State University; Rufus S. Tucker, Westfield, N. J.; Leonard L. Watkins, University of Michigan; Russell Weisman, Western Reserve University; William O. Weyforth, the Johns Hopkins University; Nathaniel R. Whitney, the Proctor & Gamble Co., Cincinnati; Max Winkler, College of the City of New York; Ivan Wright, University of Illinois; John Parke Young, Occidental College.

Mr. Patman. I want to ask him a question or two.

Who is this committee composed of?

Professor Spahr. The membership today is about 88 economists, and nearly all of them are academic men.

Mr. Patman. When were they organized?

Professor Spahr. They were organized in October 1933.

Mr. PATMAN. Who inspired the organization? Was it spontaneous?

Professor SPAHR. It was rather spontaneous.

Mr. PATMAN. What was the cause of it?

Professor SPAHR. There was a statement signed by approximately 44 men in September 1933 in protest of some inflationary proposal of the administration. I would have to check back on that to get the details of it, but that group of 44 provided the nucleus to which the other members were invited to join. After they issued that statement a group of us thought that it was a good idea for these men to put themselves at the disposal of the country for any value that they might have. So a group met in New York early in October or late in September to discuss the matter of whether or not it would be appropriate and fitting for a group of college men to organize. They thought that it might be well worth while, their idea being to be of such service as they might be. Their thought was, further, that there is not much use to confine their teaching to the classroom when the country might profit by their advice, if it had any value. Since then they have commended what they thought was good and protested against what they thought was bad.

Mr. PATMAN. Have you commended anything yet?

Professor SPAHR. Yes.

Mr. PATMAN. What did you commend?

Professor SPAHR. We approved the President's veto of the soldiers' bonus bill, and we approved the Bacon bill.

Mr. PATMAN. What was that?

Professor SPAHR. To repeal the Silver Purchase Act, we also approved the Townsend resolution, and the Bridges resolution.

Mr. PATMAN. And you condemned what?

Professor SPAHR. There are 22 statements. I would have to check them to be specific, and——

Mr. PATMAN. Anything that has a tendency toward expansion?

Professor SPAHR. Toward inflation.

Mr. PATMAN. You call expansion inflation, do you not?

Professor SPAHR. I should not.

Mr. PATMAN. I know, but anything in the direction of expansion you think will result in inflation?

Professor SPAHR. No.

Mr. PATMAN. You do not think so?

Professor SPAHR. No.

Mr. PATMAN. Name something that you approved, that was expansion but that was not inflation.

Professor SPAHR. That question is of such a nature that I would have to take the specific statements that we have issued.

Mr. PATMAN. Do you have those statements?

Professor SPAHR. Yes.

Mr. PATMAN. Would you mind filing them?

Professor SPAHR. I would be very happy to do that.

Mr. PATMAN. To show what you have favored and what you have opposed.

Professor SPAHR. Surely.

(The statements are as follows:)

STATEMENTS OF THE ECONOMISTS' NATIONAL COMMITTEE ON MONETARY POLICY COVERING THE PERIOD NOVEMBER 24, 1933–MAY 23, 1935

Issued through the office of the secretary-treasurer, 100 Washington Square, New York City

I. Inflation and the Gold Standard

The significant portion of a statement issued by the executive committee of the Economists' National Committee on Monetary Policy at the close of its meeting at the Hotel Pennsylvania, New York City, November 24, 1933:

"We believe:

"1. That the country is today being threatened with serious inflation.

"2. That inflation would be harmful to the Nation.

"3. That the interests which would suffer most from serious inflation are: (*a*) Our working people whose wages would rise less rapidly than their costs of living; (*b*) the beneficiaries of life-insurance policies; (*c*) our bank depositors; (*d*) hospitals; (*e*) colleges; and (*f*) other great scientific and public-welfare institutions, most of whose endowment funds are invested in bonds and mortgages.

"4. That while we recognize that the gold standard, as it has heretofore existed, is far from being a perfect standard, it is the best standard with which the world has had any extended experience, and is the only standard which offers any immediate hope of becoming an international standard.

"5. That an early return to the gold standard and cooperation with other nations for the improvement of that standard are desirable in the interest of a restoration of public confidence and of an orderly and enduring economic recovery."

(Signed:) James W. Angell, Columbia University; Neil Carothers, Lehigh University; Ray B. Westerfield, Yale University; Edwin W. Kemmerer, Princeton University; Wesley C. Mitchell, Columbia University; Ernest Minor Patterson, University of Pennsylvania; Walter E. Spahr, New York University; H. Parker Willis, Columbia University.

II. The Executive Committee Announces Its General Purposes

The significant portions of the statement issued by the executive committee on December 15, 1933, are:

"The executive committee of the Economists' National Committee on Monetary Policy met at the Hotel New Yorker to carry toward completion the plans of the monetary economists of this country to combat unsound monetary programs which they deem unwise, and to enlighten the public as to the economics of the monetary issues before this country * * *.

"The national committee is being restricted to approximately 100 members, all of whom are recognized authorities in the field of money.

"The executive committee * * * proposes to issue statements as circumstances seem to warrant. The members of this committee are definitely advocating the abandonment of the present monetary policy. The committee holds that the policies of the inflationists and devaluationists will injure the very classes they are endeavoring to help.

"It is also the purpose of the committee to make it clear to the country that the monetary advice now being given to the President is not representative of the opinions held by the great majority of the leading monetary authorities of this and other countries."

(The members of the executive committee present at this meeting did not sign their individual names to this release.)

III. A Statement of Disapproval of the Monetary Policies of the Government

On December 27, 1933, certain members of the executive committee at a meeting in Philadelphia drafted a statement on the monetary policies being pursued by the Federal Government and submitted it to a meeting of the general committee at the same place on December 28. After certain modifications were made, those present—about 40—voted to issue the following statement to the press in the name of the committee but without individual signatures. The release which appeared in the press, December 28, 1933, stated:

"We disapprove those aspects of the monetary policy pursued by the Government which are destroying public confidence in the value of the dollar, are distorting the normal movement of investment funds, and discouraging sound investments, thereby retarding an orderly and enduring recovery. It is undesirable to subject the money, the savings, and the trade of the American people to the uncertainties of arbitrary political policies.

"The present policy of monetary experimentation should be abandoned immediately.

"Efforts to depreciate the value of the United States dollar by manipulation should be stopped. A definite policy of returning to a gold standard should be adopted immediately.

"Announcement of the adoption of this policy would tend to dissipate the widespread fear of inflation and reduce the financial demoralization now retarding recovery. The necessary amount of money will flow into circulation with the increase in production activities.

"Criticism of the monetary policy of the Government is not to be interpreted as an attack upon the general recovery program of the administration.

"The Economists' National Committee on Monetary Policy, as the name of the organization would indicate, is composed of leading monetary economists of the Nation who are advocating a monetary policy in harmony with sound principles and the experiences of history.

"Membership of the national committee is composed of a large proportion of the 44 signers of the Bradford-Carothers letter sent to the President on October 22, who were invited to join, and of others nominated by these 44 and accepted by the executive committee. The membership is practically complete and will be restricted to approximately 100.

"This body of economists wishes to make it clear to the public that this organization is operating independently of all other groups and solely as a body of monetary economists. It is an educational organization, it has no ax to grind, it intends to do all in its power to inform the public on the current monetary issues, to go on record against monetary policies which it considers unwise in the light of monetary principles and history, and to offer constructive suggestions to the administration whenever the Government will entertain them.

"Since the committee represents no particular interests, it stands in need of funds to carry on its work and will gladly accept support from those who wish to contribute to its work, provided the funds are given without reservations and are placed at the disposal of the executive committee to be used as it sees fit. No funds have been or will be accepted on any other basis.

"The executive committee expects to publish, in the near future, a national roster of speakers, which will be placed at the disposal of the public, and to publish from time to time information which it believes the public and the Government should have."

IV. A Survey of the Opinions of 2,560 Members of the American Economic Association on Current Monetary Issues by the Economists' National Committee on Monetary Policy

(Published by the Independent Journal of Columbia University, February 19, 1934)

A STATEMENT TO THE AMERICAN PUBLIC

By a group of distinguished economists

In behalf of the Economists' National Committee on Monetary Policy, the executive committee has asked its president to draft the accompanying analysis of the replies to the questionnaire recently submitted to the individual members of the American Economic Association.

The growing demand for placing the banking system of the country in the hands of the Government, and the recommendation of the chairman of the Reconstruction Finance Corporation that nonliquid loans be freely made by the banks, emphasize the importance of the views expressed by the majority of those answering the questionnaire. They forcefully call attention to the dangers of unrestrained credit expansion now making itself felt in numerous ways.

The call for action designed to absorb more and more silver in an effort to raise prices, perhaps by some form of bimetallism, draws attention to the views of the economists on the silver danger. It appears clearly to be the opinion expressed by the large majority of those who responded that the policy of the United States tends toward further debasement of the currency by the injection of a larger element of that metal into the monetary system.

Events have further shown that in large portions of the country the present credit expansion policies are lightly regarded, as evidenced by the increasing feeling that in case of threatened default, repudiation may be employed as a method of disposing of Federal indebtedness, either through payment in fiat money, or through reduction of rates of interest to a vanishing point.

The statement, embodying as it does the views of a large number of professional students of economics, is thus of great significance, since it has already been partially borne out by developments. These seem to show that there is likely, during the coming months, to be a further substantial trend toward placing more and more of the Treasury deficit among bank portfolios.

For the Economists' National Committee on Monetary Policy, by the executive Committee:

Edwin W. Kemmerer, honorary chairman, professor of international Finance, Princeton University.
Ray B. Westerfield, president, professor of political economy, Yale University.
Walter E. Spahr, secretary-treasurer, professor of economics, New York University.
Arthur B. Adams, dean of College of Business Administration, University of Oklahoma.
James W. Angell, professor of economics, Columbia University.
James W. Bell, professor of money and banking, Northwestern University.
Neil Carothers, director, College of Business Administration, Lehigh University.
George D. Dowrie, professor of finance, Stanford University.
J. Franklin Ebersole, professor of finance, Harvard University.
John T. Holdsworth, dean, School of Business Administration, University of Miami.
David Kinley, president and professor of economics emeritus, University of Illinois.
Wesley C. Mitchell, professor of economics, Columbia University.
Ernest Minor Patterson, professor of economics, University of Pennsylvania.
Harold L. Reed, professor of economics, Cornell University.
William A. Scott, professor of economics emeritus, University of Wisconsin.
Oliver M. W. Sprague, professor of banking and finance, Harvard University.
H. Parker Willis, professor of banking, Columbia University.
John Parke Young, professor of economics, Occidental College.

STATEMENT OF THE INDEPENDENT JOURNAL OF COLUMBIA UNIVERSITY

February 19, 1934 [1]

The Independent Journal, hitherto concerned only with the comments of Columbia scholars upon contemporary public affairs, takes pleasure in devoting this entire issue to a study of what the Nation's economists think of the monetary policies of the administration.

This study was made by means of a questionnaire, formulated and sponsored by the Economists' National Committee on Monetary Policy, and sent to the great majority of responsible economists in the country. The part of the Independent Journal has been simply to issue the questionnaire and print the results, as follows:

1. A Statement to the American Public, in which the sponsoring committee points out the national importance of the study.
2. An interpretation of the results by Prof. Westerfield, of Yale, in National Monetary Policy.
3. A comment, An Appraisal, by Dr. Willford I. King, the noted statistician under whom the results were tabulated.
4. The statistical tables on these pages.
5. A factual summary of the successive steps in the administration's monetary policies, by Mr. Saulnier, The Record to Date.

The Independent Journal is indebted to Prof. Patrick M. Malin, of Swarthmore College, and to his associates, for the original conception of such a questionnaire.

This issue of the Independent Journal, delayed by the extensive statistical study to which it is devoted, was originally scheduled for January 18. The next issue will appear March 1.

[1] The Economists' National Committee on Monetary Policy wishes to acknowledge its debt to Dean Carl Ackerman and to Prof. Herbert Brucker, of the Columbia School of Journalism, for the splendid and generous aid which they gave this committee in preparing and mailing the questionnaire and in publishing the tabulated results and various analyses.

QUESTIONNAIRE

Following is the text of the questionnaire sent to individual members of the American Economic Association.

In addition to the 13 questions given here, the questionnaire contained 3 further items asking information as to teaching experience, degrees held, residence, and the like of those who responded to the questionnaire. This information will be found, in its relation to the replies to the questions below, under the headings printed vertically at the top of these pages.

1. Do you believe that the present trend in the United States is toward dangerous expansion of—

(*a*) Money?

(*b*) Credit?

2. Do you favor further administrative efforts to raise prices by monetary devices?

3. Do you favor the present (as in November to December) gold-buying policy of the United States Government?

4. Do you believe that inflation can be controlled under existing conditions?

5. Do you believe that inflation is likely to be controlled?

6. Do you favor an increase in the silver base of our currency—

(*a*) By additional purchases of silver?

(*b*) By bimetallism?

(*c*) By symmetalism?

(*d*) By using more silver and less gold in our Federal Reserve bank reserves?

7. Do you believe that American money and credit policies should be directed toward restoring prices to some predetermined level—for example, that of 1926?

8. Do you believe that the United States should in the near future take steps toward the return to a gold standard?

9. Do you believe that the United States should return to a gold standard—

(*a*) Immediately?

(*b*) Ultimately?

10. Do you favor returning to a gold standard with a dollar of—

(*a*) The former gold content (23.22 grains fine)?

(*b*) As near the 23.22 grains as practicable?

(*c*) A gold content corresponding, roughly, to present foreign exchange rates in gold-standard countries (about 15 grains)?

(*d*) A gold content substantially lower than that indicated in the preceding subquestion (say about 11 grains)?

11. Do you think it politically possible to return to 23.22 grains of fine gold (the old standard) within a reasonable length of time?

12. Do you favor a gold bullion standard?

13. Assuming that success is realized in effecting a return to a gold standard, would you then advocate a policy of altering the gold content of the dollar for the purpose of stabilizing the general price level?

NATIONAL MONETARY POLICY

An analysis, by Professor Westerfield of Yale University, of a questionnaire sent to American economists

The Economists' National Committee on Monetary Policy consists of 90 prominent American economists who now teach or have taught the subjects of money and banking in our universities or who have written meritorious works in this field; and there are a few who, after academic training, became economic counselors to large financial institutions. The membership was selected and limited in this way with a view to getting as authoritative opinions as possible on the monetary question.

The committee is operating independently of all other groups that are opposing or supporting the administration's monetary policies, and solely as a body of monetary economists. Except incidentally, it does not concern itself with the transportation, labor, tariff, or other policies of the administration, or with such instrumentalities as the Agricultural Adjustment Administration, Public Works Administration, Civil Works Administration, National Recovery Administration, and Reconstruction Finance Corporation. It is an educational organization, without obligation to anyone, and intends to do all in its power to inform the public on the current monetary issues, to go on record against monetary policies which it considers unwise in the light of monetary principles and history, and to offer constructive suggestions as opportunity offers. It is financed by contributions from interested persons, but no funds have been or will be accepted on any other basis than that they be given without any reservation whatever and be placed at the disposal of the committee to be used as it sees fit.

An activity upon which the committee is now ready to report is the elaborate questionnaire which, through the good offices of the Independent Journal of Columbia University, was recently sent to 2,560 members of the American Economic Association resident in the United States, covering the various aspects of the monetary question. The reasons leading the committee to sponsor this questionnaire were:

1. That it was felt that the administration was following a course advised by a narrow minority of the economists and it was deemed important to know the facts on this point;
2. That, except for the relatively few who speak and write on the subject, little opportunity is given to learn the views of the economists;
3. That it was thought, maybe presumptuously, that the administration would be interested in knowing how the economists stood on this question; and
4. That the committee was anxious to know how representative their views were of the economists in general.

Knowing that there would be a propensity to discredit the findings of the committee on the basis of bias, it has taken pains to have the whole conduct of the questionnaire in impartial hands. The selection of the list of addresses, the mailing of the questionnaires and the receiving and opening of the responses have been done by the Independent Journal of Columbia University, which, incidentally, generously shared the expense of the project. The tabulations and analyses were made by Prof. Willford I. King, secretary and treasurer of the American Statistical Association. Professor King, furthermore, is not a member of the Economists' National Committee on Monetary Policy. The public may rest assured that the tabulations and analyses as done by him are scientific and impartial.

Not only has our committee tried in every way to win approval of the findings of the questionnaire by freeing them from bias of the committee, but it is now publishing those findings in detail and not suppressing them. This contrasts with the action of the Committee of the Nation, with their somewhat similar but smaller questionnaire, the results of which were never revealed, on the ground that there was no unanimity of opinion among economists. The real reason for this suppression undoubtedly was the overwhelming opinion against the policies which they were advocating. Our committee believes that the administration, the general public, and the economists themselves should know where the economists stand on this vital issue.

The committee is fully aware of the difficulties and shortcomings of the questionnaire method of obtaining information on such a question. At the time of analysis by Dr. King 845 responses had been received; there is no way of telling just how representative those who replied may be of the total membership; it is probable, however, that they are the ones who are most alive to the question, who have been thinking most and who have the most decided views on the question. It was difficult to frame the questionnaire so as to bring out the varying shades of opinion and yet reduce it to the yes-or-no type of questions; but, with a view to easier tabulation and impartial interpretation, questions of this order were necessary. Most of the questions were framed with such detail as gave opportunity for expressing opinion with considerable precision. The time for submission of the questionnaire was none too good, for the Congress and the President were during that fortnight devaluing gold and giving a sense of finality to the administration's monetary policies.

As for public esteem, it is probably unfortunate for their profession that the economist shave not been unanimous in their opinion on the monetary and other big questions in recent years. And those who are so willed will say that the results of our questionnaire reveal but one thing, namely, that the economists are divided, that the administration is warranted in choosing between them, that there are as good arguments on one side as on the other.

This is a specious position. By the very nature of things unanimity on such questions is not to be expected or even desirable. The prerequisites to unanimity are that the question be naively simple, that the facts be fully known by all, that economic causation follow rigid scientific laws determined by previous experience, and that economists be devoid of sentiment; whereas the monetary question is frightfully involved and complex, the conditions are unprecedented, the number of functions involved defies mathematical formula and prediction, and the economists differ in information, mental capacity, and sentiments. Let him be as scientific as he will, a learned and capable economist is still influenced, when it comes to the interpretation of our confused situation and to the formulation of national policy, by his conservative or liberal feelings, by his patriotic, religious, or other bent. Under these circumstances it is too much to expect unanimous opinion from economists on the money question.

This want of unanimity is, however, no warrant for the careless discard of the majority opinion, unless, perchance, it can be conclusively determined that the minority includes the brainiest, the most experienced in monetary affairs, the most inspired and far-seeing, the most informed and ethical and socially minded. That the President's monetary advisers constitute such a hierarchy of mind and heart is open to serious question. But that the administration's monetary policy is advocated and supported by only a narrow minority of the economists, in all major phases and in almost every minor phase, is amply demonstrated by the responses to our committee's questionnaire.

Dr. King's tabulations of responses to the 21 questions asked, reveal the positions taken severally by the following groups:

1. The members of the Economists' National Committee on Monetary Policy.
2. The total individual membership of the American Economic Association.
3. Groups according to professional rank and business connection.
4. Groups according to educational training, as evidenced by college degrees.
5. Groups according to experience (past or present) in teaching the subjects: economics, money, statistics, and other social sciences.
6. Groups according to geographical areas of residence.

Some of these groupings are quite detailed. All told the tabulations provide specific information as to the opinion of 49 different categories of economists on 21 different questions. The number of "yes" and "no" answers, respectively, are given, as well as the proportions which the "yes" answers are of all. It is obviously impossible to cite but a few of these figures in the space of this article.

1. Of the committee 82.1 percent expressed the belief that the present trend in the United States is toward dangerous inflation of money, and 83.1 percent toward dangerous inflation or credit. The proportions were as follows for other groupings:

Dangerous inflation

	Money	Credit
	Percent	*Percent*
All responses	51.4	55.9
All professors	56.5	57.7
All holders of doctorate degrees	54.3	57.7

The committee appears to be more apprehensive than the other groups, by a considerable margin.

2. Only 2.7 percent of the committee, 26.7 percent of all respondents, 26.6 percent of the professors, and 22.9 percent of the holders of doctorate degrees favored any further adminisative efforts to raise prices by monetary devices. This is an overwhelming vote against further tinkering with the dollar. Practically all of the responses were mailed before the enactment of the Gold Reserve Act on January 30.

3. The gold-buying policy of the administration was condemned by 98.6 percent of the committee, 79.6 percent of all the economists, 83.3 percent of the professors, and 82.4 percent of the holders of the doctorate degree. This is a sweep-

ing condemnation of the willful depreciation of the dollar abroad, an action which presaged and ended in the devaluation at 59.06 cents on January 30.

4. Of the committee 39.7 percent thought that inflation can be controlled under existing conditions, but only 10.1 percent were sanguine enough to believe it will be controlled. The percentages of other groups were, respectively, as follows:

Inflation

	Can be controlled	Will be controlled
	Percent	*Percent*
All respondents	66.6	41.9
All professors	52.8	29.7
All doctorates	66.2	39.3

5. The percentage favoring an increased use of silver in any form was decidedly small, as is evident from the following table:

Additional use of silver by—	Committee	All economists	All professors	All doctorates
	Percent	*Percent*	*Percent*	*Percent*
Additional purchases	5.4	14.8	13.1	12.0
Bimetallism	1.4	4.2	1.8	3.4
Symmetallism	0	8.8	7.9	7.8
Silver bank reserves	5.6	12.2	12.3	11.5

This is a conspicuous and categorical stand against doing anything more for silver.

6. Since the administration has been so earnest in directing the money and credit facilities of the country toward reflation of the price level, it is interesting to note that only 9.9 percent of the committee support further efforts in this line, only 34.4 percent of all the economists, 34.2 percent of the professors, and 31.9 percent of the doctorates.

7. The Gold Reserve Act of January 30 is said, by the administration, to be a return to the gold standard. The respondents to the questionnaire had, before this date, advised as follows on this action. Of the committee 97.3 percent favored taking steps in the near future toward the return to the gold standard, 49.1 percent favoring an immediate return and 100 percent an ultimate return. The respective percents for the other groupings were:

Return to gold standard

	In near future	Immediately	Ultimately
	Percent	*Percent*	*Percent*
All economists	83.1	39.7	84.5
All professors	84.6	42.4	87.0
All doctorates	84.6	44.0	85.9

8. In returning to the gold standard the division of the committee and other groupings as to the weight of the new dollar was as follows:

Gold content of dollar	Committee	All economists	All professors	All doctorates
	Percent	*Percent*	*Percent*	*Percent*
23.22 grains	58.3	24.7	20.0	26.8
As near 23.22 grains as practicable	77.2	54.2	58.7	57.9
About 15 grains	36.0	49.8	51.9	50.0
About 11 grains	2.2	12.8	14.7	11.3

Of all questions in the questionnaire the respondents had greatest difficulty in answering this question because it did not clearly indicate whether the respondent was to select one of the alternatives or to rank them in preference.

But the general conclusion is that big majorities favored returning to 23.22 grains or as near that weight as practicable, the second choice being to have about a 65-cent dollar. The administration's decision to go below 60 cents had inconsequential support.

9. As to whether it was politically feasible to return to the gold standard with a dollar of 23.22 grains, within a reasonable length of time, only a quarter or a fifth of the economists in any of the groupings were optimistic. It is evident, therefore, that while majorities favored returning to the 23.22 grains or thereabouts, they did not urge immediate return, but rather immediate "steps toward" such return, probably a definite announcement of intention ultimately to return to it.

10. There was overwhelming support for the modernization of the gold standard represented in the gold-bullion standard. The percents favoring a bullion standard were of the committee 74.6 percent, of all economists 78.4 percent, of all professors 79.5 percent, and of all doctorates 76.8 percent. The Gold Reserve Act of January 30 provides for a modified form of the gold-bullion standard.

11. The economists are opposed, once the return to the gold standard is accomplished, to varying the gold content of the dollar for the purpose of stabilizing the general price level. Of the committee 88.7 percent are opposed, and of all the economists 63.3 percent, of all the professors 64.1 percent, and of all doctorates 64.1 percent. The President, therefore, has little support for his contemplated intention, as expressed in his reservation of power, to attempt to stabilize commodity prices by adjusting the gold content of the dollar.

12. As for geographical areas the economists of New England are the most conservative and anti-inflationary, and the economists of the Central States the most inflationary and favorable to depreciation of the dollar abroad by gold purchases, to heavy devaluation of the dollar, to further use of silver, and to experiment with the compensated dollar. This is an interesting conformance of economists to the traditional differences of thought between these two sections of the country.

RAY B. WESTERFIELD.

AN APPRAISAL

Dr. King comments on results

The monetary questionnaire to which this issue of the Independent Journal is devoted was tabulated under the direction of Willford I. King, secretary of the American Statistical Association. Following is his opinion of the results:

Replies were received from some 845 out of the 2,560 economists to whom questionnaires were sent. As compared to the usual percentage return on a questionnaire, this proportion is so large as to inspire considerable confidence in the fact that the economists replying constitute a fair sample of the economists of the Nation.

On the other hand, the possibility must be recognized that, since the questionnaires were sent out by a group favoring the gold standard, the economists not voting may have been considerably less favorable to the fixed gold standard than were those replying to the questionnaire.

However, even if there should be a certain amount of bias in the total returns, there is no reason to suppose that it would, in any way, cast doubt upon the accuracy of the comparisons made between the respective views of the different groups voting. Furthermore, there is every reason to believe that the percentages show which of the policies covered by the questions asked have relatively strong support and which have relatively strong opposition among the economists of the Nation.

WILLFORD I. KING.

NOTE.—The detailed statistics, published fully in the Independent Journal of Columbia University (February 19, 1934), are omitted here in the interests of conserving space. They have also been published fully by Prof. Roy L. Garis in his Principles of Money, Credit, and Banking (The Macmillan Co., New York, 1934), opposite p. 820.

V. COMMODITY-DOLLAR PLAN OPPOSED BY THE EXECUTIVE COMMITTEE OF THE ECONOMISTS' NATIONAL COMMITTEE ON MONETARY POLICY

(Statement released to the press from the Office of the Secretary-Treasurer, April 3, 1934)

Fearing that the Government is seriously considering the introduction of the commodity dollar as a device for price-level stabilization, the executive committee of the Economists' National Committee on Monetary Policy wishes to go on record, by means of the following statement, as opposing such a program.

Were an experimental monetary program of this kind undertaken by the Federal Government, in the belief that undesired future price changes can be controlled by varying the gold content of the dollar under the machinery contemplated by the commodity-dollar plan, it is the judgment of this committee:

(*a*) That in periods of rapidly rising prices the Federal administration would find it politically and economically inadvisable to attempt to bring prices back to the commodity basis by increasing the gold content of the dollar.

(*b*) That in periods of declining prices accompanying a business recession, prices might not be responsive to a change in the gold content of the dollar because of the absence of a business demand for more credit. Furthermore, efforts to counteract the decline by reducing the gold content of the dollar would tend to encourage unsound uses of credit and exaggerate unhealthy speculative tendencies, but probably would not prevent prices from falling ultimately, and,

(*c*) That the commodity dollar would, in practice, tend to become a device for changing the gold value of the dollar in one direction only.

It is believed that it would be very difficult, for political reasons, to increase the gold content of the dollar during periods of rising prices because of the fact that such action, if it be assumed that it would have an immediate influence on prices, would tend to reduce sharply the prices of export commodities including many which are of especial importance to agriculture, such as cotton, for example. Furthermore, an attempt to increase the gold content of the dollar when prices are rising would surely be attacked, politically and otherwise, as interfering with, and possibly as destroying, what might currently be judged to be "prosperity."

If, as sometimes contemplated by the commodity dollar advocates, the gold content of the dollar were to be varied only if foreign governments would undertake similar action with respect to their currencies, the commodity-dollar plan would lose its quickest and most responsive alleged influence upon prices because of the difficulty of obtaining concerted action quickly.

If reliance be placed upon increasing or decreasing the gold base of bank credit, as a means of stabilizing the price level, there can be no assurance that such a procedure would produce perceptible effects on the price level in any short periods of time.

With respect to the operation of the commodity-dollar plan in periods of declining prices, it must be remembered that wholesale commodity prices tend to decline before wages, rents, and the cost of living as expressed in retail prices. And inasmuch as the demand for credit depends upon all prices, attempts to prevent wholesale commodity prices from falling, by using the machinery of the commodity dollar, would probably result in so saturating the credit market with funds that many unsound uses of credit would be stimulated, as, for instance, in security speculation. The later and inevitable correction of such inflated security prices would tend to disturb confidence and make it difficult, or perhaps impossible, to cope with commodity price declines, once they have become precipitous.

It is believed that it would be impossible to keep the decision to increase or decrease the gold content of the dollar on a strictly scientific basis, because our national history shows that pressure on Congress and the administration by interested groups succeeds, from time to time, in obtaining relief for such groups or in positive promotion of their interests at the expense of the Nation. It is hardly reasonable to suppose that the acceptance of the commodity dollar device would end such pressure for preferential treatment.

No national monetary standard can function satisfactorily unless it is adopted by a large majority of the leading nations; and there is no prospect that the commodity dollar scheme will be generally adopted. A commodity dollar which is not adopted at least by the leading commercial and financial nations is not reconcilable with stabilized exchange rates which are so necessary to commerce.

Finally, it must be remembered that the value of the dollar is determined not alone by its gold content but to a large extent by psychological and other factors which, by affecting the velocity of currencies, can nullify efforts to expand or contract them.

(Signed:) Dr. Arthur B. Adams, University of Oklahoma; Dr. James W. Angell, Columbia University; Dr. James Washington Bell, Northwestern University; Dr. Neil Carothers, Lehigh University; Dr. George W. Dowrie, Leland Stanford University; Dr. J. Franklin Ebersole, Harvard University; Dr. John Thom Holdsworth, University of Miami; Dr. Edwin W. Kemmerer, Princeton University Dr. David Kinley, University of Illinois; Dr. Wesley C. Mitchell, Columbia University; Dr. Ernest Minor Patterson, University of Pennsylvania; Dr. Harold L. Reed, Cornell University; Dr. William A. Scott, University of Wisconsin; Dr. Walter E. Spahr, New York University; Dr. Oliver M. W. Sprague, Harvard University; Dr. Ray B. Westerfield, Yale University; Dr. H. Parker Willis, Columbia University; Dr. John Parke Young, Occidental College.

VI. Statement in Opposition to the Silver Measures Before Congress by the Executive Committee of the Economists' National Committee on Monetary Policy

(Issued to the press through office of the secretary-treasurer, April 20, 1934)

The executive committee of the Economists' National Committee on Monetary Policy is gravely concerned about the various silver measures introduced and proposed in Congress and wishes to go on record as opposing all these proposals, whether they involve the introduction of bimetallism or symmetallism, or the purchase of silver for the purpose of increasing our silver reserves or the circulation of silver or silver certificates.

This committee believes that the lessons of monetary history and the principles of money should have an important place in the consideration of monetary legislation in this country and, therefore, desires to express the following convictions:

1. That no additional silver should be purchased at any price.
2. That the purchase of silver bullion at artificial prices will not promote sound recovery but, on the contrary, will add to the liabilities of the Government and reduce confidence in the Nation's currency.
3. That the restoration of bimetallism at the market ratio would cause national injury and retard recovery.
4. That the restoration of bimetallism at a ratio of 16 to 1 would be a national calamity.
5. That a rise in the price of silver benefits materially neither domestic industry nor the foreign trade of the United States.

Perhaps a brief survey of our experiences with bimetallism and of the past efforts "to do something for silver" will be of some service in enabling the public to see the present proposals before Congress in their proper perspective.

The double or bimetallic standard, as established in 1792 with a mint ratio between gold and silver of 15 to 1 (gold having a value 15 times that of silver at the mint), never functioned well. Our experience has been that of alternating between gold and silver because of the well-known fact that, when the market ratio between gold and silver differs from the mint ratio, the metal undervalued by the mint will be driven out of the country or into hoarding by the cheaper metal. Since the market ratio between gold and silver varies from day to day and the mint ratio is a legal, artificial ratio rarely changed by a country, discrepancies between the mint and market ratios are the usual thing. The consequence is that when countries in the past tried to use bimetallism they usually found that they had alternating standards—either silver or gold—rather than a bimetallic standard. It is for this reason that no country in the world has had actually functioning bimetallism since the early 1870's. It should be emphasized that a very small discrepancy between the mint and market ratios will cause the overvalued metal to expel the undervalued one. Yet there are in Congress today men who are advocating the reintroduction of bimetallism at the ratio of 16 to 1, although the market ratio is about 78 to 1.

The experience of our country illustrates this fundamental weakness in bimetallism. In general, it may be said that during the years 1806 to 1834 we were in a silver period due to the fact that the market ratio between gold and silver was higher (as, for example, 1 to 15.5) than the mint ratio of 1 to 15. Most of our gold went to England and France. The coinage of the silver dollar was suspended from 1806 to 1836, and even our fractional silver coin was driven out by foreign silver coins and by the cheaper paper money. The result was that our attempt to maintain bimetallism during this period was very unsatisfactory.

In 1834, Congress changed the mint ratio to 16.002 to 1 and again in 1837 to 15.9884 to 1, the latter being commonly referred to as 16 to 1. This ratio reversed the relationship existing between the mint and market ratios, the mint ratio now under-valuing silver since the market ratio remained below 16 to 1. Under this mint ratio relatively little silver, as compared with gold, was coined. Silver disappeared rapidly, and this included fractional silver coins which were then of the same proportionate pure silver content as the dollar and were full legal tender. The resulting scarcity of "small change" caused great inconvenience in retail trade. In 1853 Congress discontinued the free coinage of all silver coins below the dollar and created the relatively light-weight fractional silver coinage which, except for a minor change in the weight in 1873, we have today. The silver dollar was left a standard coin, but it was coined between 1836 and 1860 only in trivial quantities, principally for coin collections or for shipment to China. This piece was sold by the mint as a curiosity, at a price of $1.05 or more in gold. Thus, the silver dollar, from the birth of this Nation to 1873, was a little-used coin, in a country that, though legally bimetallic, was in actual fact on a gold basis from 1834 to 1862, and on a paper basis from 1862 to 1879. The 16 to 1 ratio established in 1837 was never effective at any time in bringing the silver dollar into circulation.

In 1873 the coinage laws were revised and codified. The bill was before Congress for 3 years. In this revision the silver dollar was dropped. In 1874, there was a fall in the gold value of silver. It was then discovered that if the law of 1837 had not been repealed by the law of 1873, the coinage of silver dollars at the ratio of 16 of silver to 1 of gold would have been profitable. The silver interests began in that year a propaganda to restore the free coinage of silver at the ratio of 16 to 1 which, under the new calculation, would have been very profitable to the silver owners, and they have carried on propaganda to this end up to the present day.

On four occasions the silver interests have managed to get through Congress legislative measures which gave them a Government subsidy. In 1878 the Bland-Allison Act, passed over Hayes' veto, commanded the Treasury to buy not less than $24,000,000 worth of silver bullion per year and to coin it into silver dollars. In 1890 the Sherman Silver Purchase Act was passed. This greatly increased the amount the Government had to buy. In fact, it was virtually an arrangement by which the Government was forced to buy the total output of the American mines. The people declined to use, to any considerable extent, the clumsy silver dollar pieces, except in the West, where propaganda and the expense of sending them in for redemption encouraged their use, and in the South, where the unfamiliarity of the Negroes with printed symbols made paper money unpopular. Elsewhere the silver dollar was very unpopular. In 1878 the Treasury had devised the silver certificates which enabled the clumsy silver dollar to circulate by proxy, and which permitted the coin to lie buried in the vaults of the Treasury. By 1893 the bullion value of the silver dollar had fallen below 60 cents, and over 400 millions had been coined. In that year the strain on the gold supply resulting from adverse economic conditions and the dread of further silver coinage contributed to a financial panic which ushered in the grievous depression of the next 4 years. Subsequently, on the recommendation of President Cleveland, Congress repealed the silver-purchase clause of the Sherman Act which had been largely responsible for the panic.

Considering the similarity between the present efforts "to do something for silver" and those of 1878 and 1890, it would seem that we might profit from a part of President Cleveland's message of December 2, 1895, in which he referred to the Bland-Allison Act of 1878, the Silver Purchase Act of 1890, and the agitation for free coinage of silver. He said:

"Twice in our recent history we have signally failed to raise by legislation the value of silver. Under an act of Congress passed in 1878 the Government was required for more than 12 years to expend annually at least $24,000,000 in the purchase of silver bullion for coinage. The act of July 14, 1890, in a still bolder effort, increased the amount of silver the Government was compelled to purchase and forced it to become the buyer annually of 54,000,000 ounces, or practically the entire product of our mines. Under both laws silver rapidly and steadily declined in value. * * *

"Every dollar of fixed and stable value has, through the agency of confident credit, an astonishing capacity of multiplying itself in financial work. Every unstable and fluctuating dollar fails as a basis of credit, and in its use begets gambling speculation and undermines the foundations of honest enterprise.

"* * * I cannot rid myself of the belief that there lurk in the proposition for the free coinage of silver, so strongly approved and so enthusiastically advocated by a multitude of my countrymen, a serious menace to our prosperity and an insidious temptation of our people to wander from the allegiance they owe to public and private integrity * * *."

President Cleveland made other penetrating comments in his message to Congress on August 8, 1893, when he asked it to repeal the silver-purchase provision of the Sherman Act of 1890. What he said is peculiarly applicable to Congress today.

"The people of the United States," said the President, "are entitled to a sound and stable currency and to money recognized as such on every exchange and in every market of the world. Their government has no right to injure them by financial experiments opposed to the policy and practice of other civilized states, nor is it justified in permitting an exaggerated and unreasonable reliance on our material strength and ability to jeopardize the soundness of the people's money.

"* * * At times like the present, when the evils of unsound finance threaten us, the speculator may anticipate a harvest gathered from the misfortune of others, the capitalist may protect himself by hoarding or may even find profit in the fluctuations of values; but the wage earner—the first to be injured by a depreciated currency and the last to receive the benefits of its correction—is practically defenseless. He relies for work upon the ventures of confident and contented capital. This failing him, his condition is without alleviation, for he can neither prey on the misfortune of others nor hoard his labor."

The next favor to the silver interests was extended to them by the Pittman Act of 1918. Under the terms of this act more than 270 million silver dollars in our Treasury vaults were sold for the account of the United States and England to settle trade balances with the Orient. In order to replace this silver the Pittman Act required the Treasury later to purchase silver bullion at a price much above that in the world markets. This measure cost the taxpayers of this country more than $70,000,000.

At the World Conference in London in 1933, Senator Pittman obtained an agreement by five nations to purchase a total of 35,000,000 ounces of silver every year for 4 years. Under this agreement the share of the United States was not stated. In December 1933, President Roosevelt announced that this Government would purchase annually 24,000,000 ounces at a price of 64½ cents an ounce. This price was 21 cents above the market price for silver. The dollars resulting from these purchases will doubtless join the other millions in our Treasury vaults.

This, briefly, is the history of the silver movement in the United States.[1] Before the gold devaluation measure and with silver in the dollar worth as bullion about 30 cents, the market ratio between gold and silver was 1 to 70. Today with gold quoted at $35 per fine ounce and with silver quoted at 46 cents per ounce in the world market, the market ratio between gold and silver is about 78 to 1, and the silver bullion in the silver dollar is worth little more than 35 cents. The Government is liable for its dollar value, and every additional dollar going into the vaults is a national liability placing an additional burden upon the gold reserves. Furthermore, there was incorporated in the recent devaluation law—the so-called Gold Reserve Act of January 30, 1934—a provision authorizing the President to "devalue" the silver dollar in proportion to the devaluation of gold. This provision simply means that this coin, legally called a dollar, but in bullion value worth much less, may have its bullion content reduced still further.

There are now before Congress various silver bills. One is for the sale of $400,000,000 worth of American products for foreign silver at a valuation 25 percent above the actual value of the metal, the bullion to be coined into dollars. The second is for the purchase of 1½ billion ounces of silver. The third is for the restoration of bimetallism at a ratio of 16 to 1, which the President already has the right to do under the Thomas amendment. Still other silver bills, and combinations and compromises of those just mentioned, are before Congress. The first of those measures calls for a subsidy to silver producers and additions to the heavy Treasury liability for debased coinage. The second calls for the purchase of an amount of silver sufficient to destroy what little there is left of our American gold standard. The bimetallic proposal, if adopted, would be devastating in its financial effects and would force us onto a silver standard.

[1] NOTE.—Until the President, on July 19, 1934, signed the Silver Purchase Act which provided for the purchase of silver until it equals one-fourth of our stock of gold and silver.—The Secretary.

Since the pro-silver advocates, in searching for excuse for their measures, frequently refer to the Chinese "situation," the implication being—if, indeed, the direct assertion is not made—that the Chinese would be benefited by the measure designed to raise the value of silver, this committee wishes to quote from the recently published book, Kemmerer on Money, the following brief passage relating to this argument of the silver advocates. Kemmerer, who recently spent a year in China as currency and bank expert of the Chinese Government, says (p. 131):

"* * * China's commodity price level has been much more stable since 1929 than the price level in any gold standard country. Since January, 1933, however, commodity prices in China have been declining. The wholesale price-index number for Shanghai, for example, fell every month but one from January 1933, to November 1933, and in November stood at about 8 percent below the level of January. It is hard to believe that the proponents of silver in the United States, who have shown such great solicitude for the poor people of China and wept so many crocodile tears in their behalf, should want to adopt a policy that, by raising the value of silver in China and depressing commodity prices, would increase the debt burdens of the Chinese people, and, in short, impose upon China 'all the hardships of deflation from which the silver group proposes to relieve the American people by the remonetization of silver."

Congress, under this administration, has already placed on our statute books a series of unsound and potentially dangerous monetary laws; and to add to their potential dangers, or to convert these potential dangers into actual mandatory law, is to invite monetary, economic, social. and, perhaps, political disasters.

Signed: Dean Arthur B. Adams, University of Oklahoma; Dr. James W. Angell, Columbia University; Dr. James W. Bell, Northwestern University; Dr. Neil Carothers, Lehigh University; Dr. George W. Dowrie, Leland Stanford University; Dr. J. Franklin Ebersole, Harvard University; Dean John Thom Holdsworth, University of Miami; Dr. Edwin W. Kemmerer, Princeton University; Dr. David Kinley, University of Illinois; Dr. Wesley C. Mitchell, Columbia University; Dr. Ernest Minor Patterson, University of Pennsylvania; Dr. Harold L. Reed, Cornell University; Dr. William A. Scott, University of Wisconsin; Dr. Walter E. Spahr, New York University; Dr. Oliver M. W. Sprague, Harvard University; Dr. Ray B. Westerfield, Yale University; Dr. John Parke Young, Occidental College.

NOTE.—Dr. H. Parker Willis was in Europe and, consequently, not able to sign.

VII. An Appeal to the People of This Country to Elect Sound-Money Representatives to Congress by the Economists' National Committee on Monetary Policy

(Issued to the press through the office of secretary-treasurer, October 1, 1934)

The undersigned members of the Economists' National Committee on Monetary Policy believe it necessary for the country's welfare that the next Congress shall have a majority who, regardless of political, party stand unqualifiedly for a sound-money program. Unless such members are elected, we believe this country may be plunged into an orgy of currency inflation which will culminate in disaster and in the impoverishment of the great mass of our people. We agree with the President of the American Federation of Labor that among those who will suffer most are the wage earners. Others who will suffer seriously are those who save and the holders of insurance policies.

There are developing today conditions and movements which point definitely toward dangerous inflation and to the further mutilation of our currency system in the near future. The so-called committee for the Nation and others have already begun a drive for further devaluation of the dollar. Recently the northeastern group of presidents and secretaries of the State farm bureaus joined in the same movement. The silver advocates are dissatisfied with the last Silver Act, and those who urge the issue of unsecured or fiat paper money have revealed definite intentions of forcing such paper money on the country.

Another dangerous tendency is seen in the fact that our commercial and Federal Reserve banks are becoming gorged with Government bonds in connection width the Treasury's program of financing, and are growing progressively less liquid, a condition that may lead ultimately to large and excessive issues of bank notes against these bonds. Even today Government bonds and much of our currency are for practical purposes interchangeable. Additions to our present supply of inconvertible paper money will have ultimate effects not greatly unlike those resulting from the outright issue by the Government of unsecured or fiat paper money.

The present prices of Government bonds should, furthermore, not mislead the public, for their market is artificially maintained by the Treasury and by the huge absorptions on the part of the banks. Such unusually large bond issues cannot be floated indefinitely except by a process of progressive inflation. The time must arrive when this procedure of Government financing must be discontinued and when either the burdens of taxation must be greatly increased or the public debt be paid through inflation in a greatly depreciated dollar.

Just as there is a limit to the amount of bonds which the banks and the public can absorb, so are there limits to the tax burdens which people can bear. As a consequence, there is the very clear possibility that the Government may resort to the outright issue of fiat money to meet its current expenditures unless strenuous efforts are made by the Government in the near future to restrict its expenditures and to balance its Budget. Furthermore, as many aspects of the Government's recovery and reform program show progressively less satisfactory results, there will be an increased determination on the part of Congress to employ progressively more desperate measures; and the chief one will most probably be an increasing resort to paper money inflation.

We believe that it is imperative to elect to Congress experienced, level-headed, sound-money men who understand that the problem of bringing about economic recovery is not a question of increasing the money supply but a question of enabling business, particularly the durable-goods industries, to resume its productive activities with a reasonable assurance of conditions under which a profitable outcome may be anticipated. All possible obtsacles in the paths of such resumption should be removed. A large proportion of consumer purchasing power is derived from the activities of such production. Under conditions of sound business recovery the money and credit in circulation are a result, not a cause, of increased production and consumption. About 90 percent of our medium of exchange is composed of checks and drafts drawn against bank deposits. Most deposits result from loans and investments; and loans, particularly, increase and decrease as a consequence of the increase or decrease in business activity. Thus the amount of currency in circulation is normally the thermometer recording the health and activity of business—except that when a currency is artificially inflated an increased supply of such currency causes and is evidence of an unhealthy and dangerous condition in business.

Paper money issued will in a large part be deposited in banks, raising deposits; and all deposits are payable only in such money. Corruption of money means equal corruption of bank deposits. Through devaluation of the dollar, the scale of our monetary thermometer was changed on the assumption that this change alone would improve business conditions. Similarly, the last Silver Act was passed on the assumption that diluting and weakening our gold base still further would stimulate business to a healthy activity. These assumptions have been proved wrong. The chief results have been to change the scale of our monetary thermometer, to mutilate and weaken our currency system, and to inject into it provisions that will constittue an increasing danger to this country until removed.

We therefore urge, with all the earnestness at our command, that the voters of this country elect to the next Congress only those candidates who, regardless of party, (1) will oppose any further weakening of our currency structure, (2) will oppose any further devaluation of our monetary unit, (3) will oppose any further prosilver meásures, (4) will oppose paper money inflation in every form, (5) will oppose bimetallism, symmetallism, and the commodity dollar, (6) will vote for the repeal of all the currency provisions of the Thomas amendment of May 12, 1933, (7) will insist on a return to an outright gold standard with a unit of weight not less than the present 15 5/21 grains of standard gold, and (8) will urge upon the Government cooperation in the international stabilization of currencies.

(Signed:) James W. Angell, Columbia University; Charles C. Arbuthnot, Western University; Leonard P. Ayres, Cleveland Trust Co.; George E. Barnett, Johns Hopkins University; Don C. Barrett, Haverford College; James Washington Bell, Northwestern University; Jules I. Bogen, Journal of Commerce; Frederick A. Bradford, Lehigh University; R. P. Brooks, the University of Georgia; Charles J. Bullock, Harvard University; Wilbur P. Calhoun, University of Cincinnati; Neil Carothers, Lehigh University; J. Ray Cable, Washington University; William W. Cumberland, Wellington & Co.; Charles A. Dice, Ohio State University; William E. Dunkman, University of Rochester; J. Franklin Ebersole, Harvard University; D. W. Ellsworth, the Annalist; William D. Ennis, Stevens Institute of Technology; Fred R. Fairchild, Yale University; Roy L. Garis, Vanderbilt University; Harry D. Gideonse, University of Chicago; E. C. Harwood, Massachusetts Institute of Technology; Frederick C. Hicks, University of Cincinnati; John Thom Holdsworth, University of Miami; F. Cyril James, University of Pennsylvania; Edwin W. Kemmerer, Princeton University; William H. Kiekhofer, University of Wisconsin; Elbert A. Kincaid, University of Virginia; David Kinley, University of Illinois; Ray V. Leffler, Dartmouth College; Esther Lowenthal, Smith College; Ernest Minor Patterson, University of Pennsylvania; Clyde W. Phelps, Chattanooga University; William A. Rawles, Indiana University; Harold L. Reed, Cornell University; Leland Rex Robinson, New York City; R. G. Rodkey, University of Michigan; Olin Glenn Saxon, Yale University; William A. Scott, University of Wisconsin; James G. Smith, Princeton University; Walter E. Spahr, New York University; Oliver M. W. Sprague, Harvard University; Alvin S. Tostlebe, College of Wooster; Rufus Tucker, Westfield, N. J.; Russell Weisman, Western Reserve University; Ray B. Westerfield, Yale University; William O. Weyforth, Johns Hopkins University; Nathaniel R. Whitney, Proctor & Gamble Co.; H. Parker Willis, Columbia University; Max Winkler, College of the City of New York; Ivan Wright, University of Illinois; John Parke Young, Occidental College.

VIII. Economists' National Committee on Monetary Policy Again Demands a Return to Sound Money

(This statement was released to the press from Chicago on December 27, 1934. It constitutes a brief summary of the results of a questionnaire which had been submitted to the members of the committee before the Chicago meeting. The tabulated results of the questionnaire and this summary of the high lights were presented to about 45 members in a general meeting held at Chicago on December 27, 1934. The group attending instructed the secretary to issue the following statement to the press in the name of the committee and without individual signatures.)

Today the Economists' National Committee on Monetary Policy, composed of 95 of the leading monetary economists of this country, made known the fact that its members had recorded their position on the principal money and banking questions now before the Nation by replying to a questionnaire submitted to them by the officers of the committee. Among the many questions on which the members voted the following are of particular interest at this time:

On the basis of the returns, 94 percent held that an immediate declaration by the administration as to whether it intends to return to a gold standard is important to economic recovery; there was a 100-percent vote to the effect that the United States should return as soon as possible to a fixed gold standard; 77 percent favor a gold bullion standard; 98 percent were opposed to any further purchases of silver; there was a 100-percent vote to the effect that current silver purchases are dangerous as an inflationary measure; 93 percent held that it is not desirable to have part of the reserves of central banks or part of the monetary base consist of silver; 78 percent believe that the present trend in the United States is toward inflation by the dangerous expansion of money; 97 percent believe that there is a trend toward inflation by a dangerous expansion of credit; and 88 percent believe that it is unlikely that inflation will be controlled.

On practically every aspect of the current program for managed currency the committee showed a strong opposition: 92 percent voted against the establishment of a managed currency; there was a 100-percent vote against the Fisher plan of changing frequently the weight of the gold unit; and 95 percent voted that insofar as there is to be any currency management it should be in the hands of the Federal Reserve authorities.

The committee's vote was 100 percent opposed to a Government owned and operated central bank; it was 100 percent opposed to vesting the powers of currency issuance in the hands of the Secretary of the Treasury; 81 percent, thought the Secretary of the Treasury, should be removed from the Federal Reserve Board.

The committee voted 100 percent to the effect that changes in the official price of gold could not be used successfully to stabilize the commodity price level; the members voted 100 percent against the gold buying policy of the United States; and 87 percent held that there was no important or dependable relation between the official prices of gold and the general price level.

The committee's vote against the commercial banking system being Government owned and operated was 100 percent; 62 percent favored requiring all State commercial banks to take out national charters.

Relative to the price level, 93 percent held that prices should be left to find their own level; 95 percent held that no efforts should be made to restore the price level of 1926; 97 percent held that the Swedish experience, and 95 percent that the English experience, with managed currency, do not prove the desirability of trying a similar system in the United States; there was a 100 percent vote to the effect that the Federal Reserve System did not have the capacity to stabilize the price level prior to 1933; and 94 percent held that it is not possible to give it that power.

Approximately 88 percent of the committee thought the Government should appoint a commission of experts, similar to the Macmillan Committee in England, to make a careful study of the money and banking questions before the country and to submit a program before any further legislation on these questions is undertaken. A similar consensus of opinions on the same and similar questions was published in the press just a year ago when this committee issued a public statement at a meeting held in Philadelphia.

IX. Memorandum in Opposition to Title II, Banking Bill of 1935

(H. R. 5357, S. 1715)

SUBMITTED TO CONGRESS BY THE ECONOMISTS' NATIONAL COMMITTEE ON MONETARY POLICY

(Issued through the office of the secretary-treasurer, March 7, 1935)

The undersigned members of the Economists' National Committee on Monetary Policy wish to point out to the country that the so-called administration banking bill of 1935, recently introduced in Congress (H. R. 5357 and S. 1715) endangers the development of sound commercial banking in this country in the following principal respects. These warnings relate only to title II of that bill.

1. *Providing for political control of the Federal Reserve Board and Federal Reserve banks.*—The Federal Reserve administrative authorities, instead of being given the independence which is appropriate to the officers of a nonpolitical central commercial banking system, will be brought under direct control of the President. It is proposed to accomplish this end by providing that the membership of the Governor on the Federal Reserve Board shall expire when he is no longer designated as Governor by the President. This provision will enable the President to advance any member to the governorship, then remove him, and in this manner the complete personnel of the Board can be changed quickly and will be subject at all times to Presidential control. Thus the Board can become a politically controlled board with little opportunity to exercise independent judgment.

The same will be true of the governors and vice governors of the Federal Reserve banks, since it is proposed that they be appointed by the directors of the Federal Reserve banks after approval by the politically controlled Federal Reserve Board.

The lessons of central banking teach us that the farther a central banking system is removed from political domination, the better it is for the country.

2. *Providing for the conversion if illiquid assets of Federal Reserve banks into legal tender notes.*—The proposal to repeal the requirements with respect to commercial paper collateral for Federal Reserve notes is unsound. It will enable the Federal Reserve banks to issue legal tender notes against frozen or illiquid assets admitted under the tolerance or policies of a politically controlled Federal Reserve Board, and will destroy the prospect of restoring the so-called "elastic"

characteristics of these notes—a feature which financial leaders have striven to obtain for nearly 50 years. Although the Glass-Steagall amendment of 1932 and the emergency banking legislation of 1933 gave these notes what is commonly called an inelastic characteristic by permitting the use of Government securities as collateral, it was supposed that this change was temporary and that efforts would be made, after the emergency had passed, to restore the "elastic" feature of these notes. Instead of providing us with a note currency which bears the appropriate relation to the sound short-term needs of business, thus avoiding inflationary tendencies, the bill provides the means for the issue of notes against Government bonds (and other assets, regardless of liquidity) and, consequently, opens the way for a huge bank note inflation in this country. The bill enables the Government, through the banks, to convert the national debt into bank notes until the surplus banking reserves of the country are exhausted. The Federal Reserve Board, furthermore, is given the power to reduce the reserve requirements of member banks as it sees fit, thus increasing immeasurably the possibilities of inflating the currency. The passage of such a measure will invite ultimate disaster for this country.

3. *Providing that noncommercial and illiquid paper may be eligible for rediscount at Federal Reserve banks.*—The proposal to make "any sound asset" of a member bank eligible for discount at a Federal Reserve bank opens the way to converting what should be a commercial banking system into an illiquid noncommercial system. The supply of noncommercial paper eligible for rediscount should be further restricted, not enlarged. This bill makes a politically controlled Board the sole judge of the soundness of the assets to be admitted to the Federal Reserve banks. It is the function of a central banking system to maintain at all times a liquid portfolio, since the System holds the ultimate reserves of the Nation's banks.

4. *Providing for the broadening of member bank loans on real estate.*—The proposal to permit member banks of the Federal Reserve System to loan an amount equal to 60 percent of their time and savings accounts or an amount equal to their entire capital and surplus on real estate, for periods of 20 years and up to 60 or 75 percent (depending upon circumstances) of the value of property, is unsound. Making such loans is not an appropriate function of a commercial banking system. Real estate loans of a far more restricted nature have caused great losses and have been a source of great trouble for the commercial banks of this country. This is one of the outstanding lessons of the decade of 1920–30, with its holocaust of bank failures and paralyzing losses. To increase the possibility of such losses and difficulties is hardly rational.

All measures designed to correct weaknesses in the Federal Reserve System should seek to increase, rather than destroy, its independence of political influence. They should increase, not reduce, its commercial nature. They should assure, not impair, its liquidity. And they should free it from Government financing rather than link it more closely to the fiscal needs of the Government.

(Signed:) Arthur B. Adams, the University of Oklahoma; Eugene E. Agger, Rutgers University (with reservations as to par. 2); James W. Angell, Columbia University; Charles C. Arbuthnot, Western Reserve University; Leonard P. Ayres, the Cleveland Trust Co.; George E. Barnett, Johns Hopkins University; Don C. Barrett, Haverford College; James Washington Bell, Northwestern University; Ernest L. Bogart, University of Illinois; Jules L. Bogen, Journal of Commerce and New York University (with reservations as to par. 2); Frederick A. Bradford, Lehigh University; R. P. Brooks, the University of Georgia; Charles J. Bullock, Harvard University, Neil Carothers, Lehigh University; J. Ray Cable, Washington University; Wilbur P. Calhoun, University of Cincinnati; Edward H. Collins, New York Herald Tribune; Alzada Comstock, Mount Holyoke College; William W. Cumberland, Wellington & Co.; George W. Dowrie, Stanford University; Eleanor Lansing Dulles, University of Pennsylvania; William E. Dunkman, University of Rochester; D. W. Ellsworth, the Annalist; William D. Ennis, Stevens Institute of Technology; Clarence W. Fackler, New York University; Fred F. Fairchild, Yale University; J. Anderson Fitzgerald, the University of Texas; Roy L. Garis, Vanderbilt University; Lewis H. Haney, New York University; E. C. Harwood, American Institute of Economic Research; Hudson B. Hastings, Yale University; John Thom Holdsworth, the University of Miami; B. Cyril James, University of

Pennsylvania (with reservations as to par. 2); Edwin W. Kemmerer, Princeton University; Elbert Alvis Kincaid, University of Virginia; David Kinley, University of Illinois; William H. Kniffin, Bank of Rockville Centre Trust Co. (with reservations as to par. 4); Frederic E. Lee, University of Illinois, Ray V. Leffler, Dartmouth College; Esther Lowenthal, Smith College, Arthur Marget, University of Minnesota (with reservations as to pars. 2–3); A. Wilfred May, New York City; Mark C. Mills, Indiana University; Margaret Myers, Vassar College; Melchior Palyi, the University of Chicago; Ernest Minor Patterson, University of Pennsylvania; Clyde W. Phelps, Chattanooga University; Howard H. Preston, University of Washington; William A. Rawles, Indiana University; Harold L. Reed, Cornell University (with reservations); Leland Rex Robinson, New York City; R. G. Rodkey, the University of Michigan; Olin Glenn Saxon, Yale University; Joseph A. Schumpeter, Harvard University; William A. Scott, University of Wisconsin; James G. Smith, Princeton University; Walter E. Spahr, New York University; Oliver M. W. Sprague, Harvard University (with reservations as to pars. 2–4); William H. Steiner, Brooklyn College; Alvin S. Tostlebe, College of Wooster; James B. Trent, Louisiana State University; Rufus S. Tucker, Westfield, N. J.; Ray B. Westerfield, Yale University; Nathaniel R. Whitney, Procter & Gamble Co.; H. Parker Willis, Columbia University; Max Winkler, College of the City of New York; Ivan Wright, University of Illinois; John Parke Young, Occidental College; Ralph A. Young, University of Pennsylvania.

NOTE.—When the hearings on the banking bill of 1935 were being held in the spring of 1935 by the House and Senate Committee on Banking and Currency, Dr. Spahr appeared before the House committee, Drs. Kemmerer, Sprague, and Willis appeared before the Senate committee, Drs. Spahr and Warren (Robert S.) were invited to appear before the Senate committee, and, although the hearings closed before they appeared, their prepared testimony was included in the published hearings. Dr. Westerfield was invited to appear before the Senate committee, but the hearings closed before he was to appear, and his testimony, unfortunately, was not received by the committee for inclusion in the published hearings. (See Banking Act of 1935), Hearings Before the Committee on Banking and Currency, House of Representatives, 74th Cong., 1st sess., on H. R. 5357, February–April 1935, corrected print, and Banking Act of 1935, Hearings Before a Subcommittee of the Committee on Banking and Currency, United States Senate, 74th Cong., 1st sess., on S. 1715 and H. R. 7617, April 19–June 3, 1935, United States Government Printing Office, Washington, D. C.

X. MEMORANDUM TO CONGRESS

Submitted by 62 members, Economists' National Committee on Monetary Policy in support of a monetary commission and opposing enactment of any important measure with reference to Federal Reserve System without careful study by recognized experts.

APRIL 2, 1935.

To Members of Senate and House of Representatives:

The undersigned members of the Economists' National Committee on Monetary Policy believe that there are no circumstances which make it necessary to engage at this time in any important legislation affecting the Federal Reserve System.

Considering the questionable provisions embodied in title II of the banking bill of 1935, it is especially important that there be no legislation for the present with respect to these aspects of the Federal Reserve System until a careful study has been made by a commission composed of recognized experts and a model bill is drafted. Such a commission should have sufficient time to study thoroughly our money and banking problems and, upon the basis of ample and carefully examined evidence, prepare a comprehensive and properly integrated plan which will reflect the best thought on the subject. Such a plan should then be enacted into law after adequate hearings, thus replacing the hastily prepared banking bill of 1935, which is now under consideration. Only a well-considered bill prepared by competent experts in an atmosphere of calm deliberation should be enacted into law.

Only minor technical changes in our banking law should be made at the present time, and then only upon the recommendation of the Federal Reserve Board, accompanied by a statement from the Board explaining that such changes are necessary because of existing conflicts in law or because some specified emergency demands that such technical changes be made at the present time.

(Signed): Arthur B. Adams, University of Oklahoma; Eugene E. Agger, Rutgers University; Charles C. Arbuthnot, Western Reserve University; Leonard P. Ayres, the Cleveland Trust Co.; James Washington Bell, Northwestern University; Ernest L. Bogart, University of Illinois; Jules I. Bogen, the Journal of Commerce and New York University; Frederick A. Bradford, Lehigh University; Charles J. Bullock, Harvard University; J. Ray Cable, Washington University; Wilbur P. Calhoun, University of Cincinnati; Neil Carothers, Lehigh University; Edward H. Collins, New York Herald Tribune; William W. Cumberland, Wellington & Co., New York City; Charles A. Dice, Ohio State University; George W. Dowrie, Leland Stanford University; Eleanor Lansing Dulles, University of Pennsylvania; William E. Dunkman, University of Rochester; D. W. Ellsworth, the Annalist, New York City; William D. Ennis, Stevens Institute of Technology; Clarence W. Fackler, New York University; Fred R. Fairchild, Yale University; J. Anderson Fitzgerald, the University of Texas; Roy L. Garis, Vanderbilt University; Lewis H. Haney, New York University; E. C. Harwood, American Institute of Economic Research; John Thom Holdsworth, the University of Miami; F. Cyril James, University of Pennsylvania; Edwin W. Kemmerer, Princeton University; William H. Kiekhofer, University of Wisconsin; Elbert A. Kincaid, University of Virginia; David Kinley, University of Illinois; William H. Kniffin, Bank of Rockville Centre Trust Co., N. Y.; Ray V. Leffler, Dartmouth College; J. L. Leonard, University of Southern California; James D. Magee, New York University; A. Wilfred May, Columbia University; Wesley C. Mitchell, Columbia University; Margaret Myers, Vassar College; Melchior Palyi, the University of Chicago; Ernest Minor Patterson, University of Pennsylvania; Clyde W. Phelps, Chattanooga University; Howard H. Preston, University of Washington; William A. Rawles, Indiana University; Harold L. Reed, Cornell University; Leland Rex Robinson, 50 Pine Street, New York City; Olin Glenn Saxon, Yale University; William A. Scott, University of Wisconsin; James G. Smith, Princeton University; Walter E. Spahr, New York University; Oliver M. W. Sprague, Harvard University; William H. Steiner, Brooklyn College; Charles S. Tippetts, University of Pittsburgh; Alvin S. Tostlebe, College of Wooster; James B. Trant, Louisiana State University; Rufus S. Tucker, Westfield, N. J.; Ray B. Westerfield, Yale University; William O. Weyforth, Johns Hopkins University; Nathaniel R. Whitney, Procter & Gamble Co., Cincinnati; H. Parker Willis, Columbia University; John Parke Young, Occidental College; Ralph A. Young, University of Pennsylvania.

I. The Bradford-Carothers Letter to the President, October 21, 1933

The Economists' National Committee on Monetary Policy in a sense grew out of a letter sent to President Roosevelt on October 22, by 44 monetary economists. This letter was prepared by Drs. Frederick A. Bradford and Neil Carothers, of Lehigh University. The signers of this letter became a nucleus around which the Economists' National Committee on Monetary Policy was built by those who first met at the Pennsylvania Hotel, New York City, on November 17, 1935, to consider the advisability of organizing a national committee. In a communication of November 29, 1933, sent by Drs. Westerfield and Spahr to the signers of the Bradford-Carothers letter (and to a few others) the following statement was made:

"The present plans are to limit the membership to economists who have made money and monetary problems a special study. The 44 signers of the Bradford-Carothers letter will constitute the original membership; you are asked to inform us whether you will join us in 'The Economists' National Committee on Monetary Policy.' It is also desired that you recommend names of persons highly qualified for membership. They may be either teachers or nonteachers, but should be professional economists. It is desired to have as able and agreeable a membership as possible. From the total list of nominees received from the original 44 members, the executive committee will select enough to build the membership to approximately 100."

The Bradford-Carothers letter was as follows:

OCTOBER 21, 1933.

The Honorable FRANKLIN D. ROOSEVELT,
The White House, Washington, D. C.

DEAR MR. PRESIDENT: The undernamed have long been engaged, in connection with academic work, with writing, with business, or with Government service, in the study of money and currency problems. We know that in this time of crisis and conflicting views even the most able leaders in our Government may be misled in regard to the attitude of the group of which we are a part.

We do not presume to urge upon you a course of action. We do not suggest that you accept our views in preference to those of others. We do wish you to know that we believe the following statements to be true.

(1) Inflation of the currency will injure the Nation.

(2) The degree of public confidence essential for economic recovery will be attained most quickly by a return to the gold standard.

Respectfully,

E. E. Agger, Rutgers University; B. M. Anderson, Jr., Chase National Bank; James W. Angell, Columbia University; Don C. Barrett, Haverford College; Benjamin Haggott Beckhart, Columbia University; James Washington Bell, Northwestern University; Jules I. Bogen, Journal of Commerce; Frederick A. Bradford, Lehigh University; William Adams Brown, Brown University; Neil Carothers, Lehigh University; T. N. Carver, Harvard University; John M. Chapman, Columbia University; Edward H. Collins, New York Herald Tribune; George W. Dowrie, Leland Stanford University; Eleanor Lansing Dulles, University of Pennsylvania; J. F. Ebersole, Harvard University; George W. Edwards, College of the City of New York; D. W. Ellsworth, the Annalist; Herbert F. Fraser, Swarthmore College; Roy L. Garis, Vanderbilt University; E. C. Harwood, Massachusetts Institute of Technology; John Thom Holdsworth, University of Miami; F. Cyril James, University of Pennsylvania; E. W. Kemmerer, Princeton University; E. A. Kincaid, University of Virginia; David Kinley, president emeritus, University of Illinois; James D. Magee, New York University; Wesley C. Mitchell, Columbia University; H. G. Moulton, Brookings Institution; Marcus Nadler, New York University; Ernest M. Patterson, University of Pennsylvania; H. H. Preston, University of Washington; George B. Roberts, National City Bank; R. G. Rodkey, University of Michigan; William A. Scott, University of Wisconsin; Walter E. Spahr, New York University; W. H. Steiner, Brooklyn College; Leonard L. Watkins, University of Michigan; Russell Weisman, Western Reserve University; Ray B. Westerfield, Yale University; H. Parker Willis, Columbia University; Max Winkler, New York City; Ivan Wright, University of Illinois; John Parke Young, Occidental College.

II. THE EXPERIENCE OF SWEDEN WITH A MANAGED CURRENCY

(This statement was released March 27, 1934, from the office of the secretary-treasurer of the Economists' National Committee on Monetary Policy on the authority of Secretary-Treasurer Spahr. Such statements do not bind the committee, since not less than three-fourths of the executive committee may speak in the name of the committee, and even they may not speak for the individual members.

Considering the multitude of reliable assertions then being made regarding the Swedish experience with a managed currency, the officers of this committee were anxious to give the American public the facts in the case. It so happened that a Swedish scholar, Dr. Erik T. H. Kjellstrom, who was temporarily in this country, had just completed work on a book called Managed Money, The Experience of Sweden (published by Columbia University Press, 1934, $1.75. Foreword by Prof. H. Parker Willis). He was asked to summarize his findings with respect to the Swedish experience so that the officers of this committee might present them to the public. This was done, and the secretary-treasurer prepared the following memorandum from Dr. Kjellstrom's notes. This memorandum was then read, revised, and approved by Dr. Kjellstrom.

Since endorsement of this memorandum by other members of the Economists' National Committee on Monetary Policy could hardly be asked, for the reason that the members would be unable to pass upon the accuracy of Dr. Kjellstrom's statements, the secretary-treasurer, with the knowledge and approval of President Westerfield, issued this statement to the public for any value it might have.)

The managed paper currency advocates of this country, those who believe that we should increase our currency until the price level reaches that of

1926 "and then peg the price level at that point," and those who insist that it is both undesirable and unnecessary to return to the gold standard, have pointed repeatedly to the Swedish "managed" currency program as a case affording adequate and conclusive proof of the validity of their major contentions.

Many monetary students, who had investigated with some care the nature and operation of the Swedish monetary program, soon arrived at the conclusion that the Swedish situation did not provide support for the chief contentions of the managed paper currency advocates but, on the contrary, demonstrated rather conclusively the widely recognized unsoundness of their contentions. But despite the fact that these scholars have pointed out these facts with increasing frequency and emphasis, the controlled inflationists, reflationists, and managed-paper advocates have continued to insist, as though oblivious to evidence to the contrary, that the Swedish program provides conclusive evidence of the soundness of their contentions.

Because of the wide interest in this controversy, and also because the public should be advised of the ascertained facts regarding the Swedish monetary program, the president and secretary-treasurer of the Economists' National Committee on Monetary Policy thought it desirable to call to the attention of as many interested persons as possible the fact that a study of the Swedish experience with managed currency has been completed and shows that the reflationists, controlled inflationists, and managed paper advocates cannot find in the Swedish situation adequate support for their chief contentions that managed money can lift a country out of a depression. This study on Managed Money, the Experience of Sweden, by Erik T. H. Kjellstrom, is about to be released by the Columbia University Press. The book, which will sell for $1.75, carries a foreword by Prof. H. Parker Willis.

As a result of urgent solicitation by the president and secretary of this committee, Dr. Kjellstrom, in cooperation with Prof B. H. Beckhart, consented, with the generous approval of the Columbia University Press, to give us an advance summary of the chief conclusions of this study in order that our committee might place them before the country at the earliest opportunity. The summary of Dr. Kjellstrom's chief conclusions is as follows:

Sweden, in September 1931, provided the world with its first known instance of a country renouncing one monetary standard and immediately following it with a new and independent standard. The chief purpose of this new standard was the preservation of the internal purchasing power of the krona, especially the krona in the hands of the consumer as measured by a cross section of the entire community. The program, which is essentially an emergency measure having for its ultimate purpose the mitigation of the economic depression, has three specific objectives: (1) The prevention of inflation of currency and credit; (2) preservation of the internal-purchasing power of the krona in the hands of the consumers; and (3) a gradual rise in wholesale prices, primarily domestic wholesale prices, as a means of stimulating domestic production in the hope that thereby the country will be lifted out of the depression.

The responsibility for carrying out these objectives is vested in the Bank of Sweden which acts independently of the Government and was expected to have the full cooperation of all financial institutions of the country. Such cooperation, however, has not been fully attained, and this is proving a weakness since it is not possible to attain the stated objectives or to bring to a successful conclusion such a managed-currency program merely by central-bank operation.

The Bank of Sweden, consequently, has relied on the ordinary instruments of currency control at the disposal of the bank, namely: Changes in the bank rate, transactions in the foreign exchange market, purchases and sales of gold both in Sweden and abroad, and also purchases of Government bonds. These last transactions, however, have been intended as a means of improving the liquidity of the banking system after the Kreuger crisis.

The immediate guide for, as well as criterion of, the policies if the bank is various price indexes including the consumption price index of the Bank of Sweden, the general development of production and trade, and statistics of unemployment.

For the foreign exchange transactions, the pound sterling has been used as an external guide, and, although the transactions in the foreign exchange market have had, and still have, as their objective the protection of the Swedish price structure, the Bank of Sweden has constantly been compelled to adjust its purchases and sales of foreign exchange to unforeseen circumstances, such as speculation and unfavorable developments in foreign money centers, notably the decline in the dollar during the banking holiday in the United States.

Thus far the following results have been obtained: (1) The danger of inflation was averted, (2) the process of deflation has been halted, (3) the internal purchasing power of the krona has been preserved tolerably well as measured by the index of the Bank of Sweden, (4) the desired gradual rise in the wholesale price level has not taken place, (5) production has not been maintained—partly due to strikes, (6) unemployment has increased, and (7) the "managed money" program has not been sufficiently effective to lift the country out of the grip of the depression.

Dr. Kjellstrom makes the following additional observations: (*a*) It has proved impossible to pump additional credits into the domestic market; a gradual lowering of the rediscount rate has not been a sufficient inducement to borrowers to make this possible.

(*b*) Quite contrary to the program of the United States, there has been no willful depreciation by Sweden of the external value of her currency in order to increase her exports. Gold has been purchased and sold with the end in view of minimizing the risk inherent in the Bank of Sweden's foreign exchange portfolio, and not as a direct means of raising domestic prices.

(*c*) The derangement of the Swedish price structure has been smoothed out by factors not directly influenced by the monetary program of the Bank of Sweden.

(*d*) Nonmonetary forces have served both to obstruct and to aid the policies of the Bank of Sweden.

(*e*) The Government has insisted upon maintaining its credit standard unimpaired, and also the liquidity of the commercial banks and the banking system as a whole. No attempts have been made to lower the standard of loans.

(*f*) There is at present a widespread desire to return to some truly international monetary standard, preferably the "old" gold standard.

Assuming the accuracy of Dr. Kjellstrom's conclusions, they should go a long way to explode the chief arguments of the managed paper currency advocates, controlled inflationists, and reflationists who seek to bolster their contentions by pointing to the Swedish experience with a "managed" currency.

The conclusions derived from the Swedish experience with a "managed" currency should provide some very valuable object lessons from which our Government most certainly should profit, considering our Government's apparent inclination to embark upon some such "managed" currency scheme.

III. Argument of Committee for the Nation Refuted

(Released by the secretary-treasurer from his office, December 17, 1934. This statement as originally released did not bind the Economists' National Committee on Monetary Policy because it had not been submitted to the committee for approval. At the meeting of the committee in Chicago on December 27, 1934, the release was read to the members present who authorized the president and secretary to issue it again, and in the name of the committee, should circumstances warrant. Since that time no circumstance has arisen which, in the opinion of these two officers, has justified the reissue of the statement. Considering the action of the committee at its Chicago meeting, this document now becomes an official document of the committee.)

The Committee for the Nation has been circulating in this country a book by Sir Charles Morgan-Webb, of England, called The Rise and Fall of the Gold Standard, the purpose being to impress upon the people here that England has given up all intention of returning to a gold standard, that she has embarked upon a managed currency or commodity standard program, that the book gives an accurate portrayal of the English position, and that the United States should follow England's leadership.

Mr. James H. Rand, Jr., of the Committee for the Nation, says in the foreword to the American edition that "Great Britain * * * has abandoned it (the gold standard) as no longer workable," and that "Britain recognized that the deflation extending to all gold-standard countries was due to a fixed weight of the commodity gold as money, after gold had changed so much in value that it could no longer be a stable or just standard. The British recognized that a standard evidencing uncontrollable changes in buying power * * * could no longer serve as a measure of value. * * *"

"The author, Sir Charles Morgan-Webb," Mr. Rand continues, "realized that some British businessmen and financiers wished additional information on the history of the international gold standard, the causes that led to its break-down and the reasons why England abandoned it and found it necessary to build a new and better monetary standard to take its place." Mr. Rand also quotes from the book a statement of the author which is in part as follows: "Any statesman who would deliberately intervene to interrupt the steady progress toward prosperity by tampering with the now established system of English currency which is functioning so admirably would experience a hundredfold the bitter resentment now felt toward those responsible for the restoration of the gold standard in 1925. Fortunately, it is improbable that any statesman will ever have the opportunity to propose that such a step should be taken."

In its advertising material sent out with the book that committee says in a copy of a letter addressed to President Roosevelt that "the final chapter of the book * * * shows today she (England) has abandoned the gold standard in favor of a managed currency in which stability of purchasing power is the major consideration." The same advertising material also says: "The leadership of England is convinced that they have found a permanent solution to monetary problems, which will prevent recurrence of the disasters to finance and business, occurring in all countries that used a fixed weight of gold as their money."

Doubting the accuracy of these statements and being especially concerned over the tendency of such material to mislead the President and the people of this country, the secretary of the Economists' National Committee on Monetary Policy checked with certain responsible people in England and found his doubts confirmed.

Sir Josiah C. Stamp has written the secretary as follows:

"I think I can state without hesitation that the adoption of a commodity standard is not the policy of the Government, nor of any official body of opinion in this country. I do not think that Sir Charles Morgan-Webb's book can be taken as representing anything more than his own personal views. He does not speak for a particular school of thought or, still less, for an official opinion or banking opinion.

"In reply to your further questions: (1) the British Government has certainly never made any official statement that we shall never return to a gold standard, (2) the Government has never made an official statement that England is planning to adopt a commodity standard, (3) no official steps have been taken by the Government toward the adoption of a commodity standard, (4) Sir Charles Morgan-Webb's recent study is not considered an authoritative presentation of official opinion of the Government."

Other friends of the secretary wrote to England for verification and a letter received from Mr. Ernest Hess, of Cohen, deSmitt, Bierer & Co., of 20 Copthall Ave., London, E. C. 2, says in part:

"In response to your enquiry I am sending you today under separate cover, the Times of October 4 of last year containing a speech of our Chancellor of the Exchequer in which he referred to the intentions of this country to return again to the gold standard when conditions are propitious for such a step. I do not think it would be possible for anybody in authority to make a more definite statement, even today, because as long as world conditions are in the state prevailing at present it is not possible to express more than a pious hope. * * *

"It is fully appreciated in this country that world conditions can not improve until sterling is again linked with gold. At the same time we cannot return to the gold standard until conditions over which we have no control are propitious for such a return. * * *

"In this country people are anxiously waiting for the time when they can invest again in American securities because they have gained the conviction that general conditions in the States are ripe for a recovery. However, as long as your President indulges in 'experiments' the necessary confidence is lacking. If he would only attempt a definite policy, even if it should be a wrong one, business people could adjust themselves to the new conditions, but unless we get finality with experiments a return of confidence in American conditions is possible neither at home nor abroad."

The significant part of Chancellor Chamberlain's statement, as reported by the Times (London, October 4, 1933) reads: " 'There is no standard which can compare in that respect (command the confidence of the countries using it) with gold'—(cheers)—'of which our country has a long experience. Therefore it seems likely that ultimately we shall return to a gold standard. * * *' "

IV. A Telegram to President Roosevelt Commending His Veto of the Patman Bill

On May 22, 1935, the President read his message vetoing the Patman bonus bill. Shortly after the President left the House of Representatives the veto was overridden by the House. The Senate announced its intention to consider the veto at 10 a. m. May 23. The rapidity with which these events moved made it impossible for the Economists' National Committee on Monetary Policy to consider the President's veto message and to make a public statement regarding the issue.

The secretary-treasurer, therefore, sent a telegram to the President stating that his veto message, insofar as it related to currency inflation, was in harmony with the positions previously taken by this committee. Believing the telegram would be ineffective if sent only to the President, a copy was sent to Senator Thomas P. Gore, who kindly introduced it on the floor of the Senate and had it inserted in the Congressional Record of May 23, p. 8356.

After taking this action, the secretary-treasurer notified the members of this committee of his action and all who replied approved it. The telegram and a subsequent letter to Senator Gore follow:

New York City, *May 23, 1935.*

Hon. Franklin D. Roosevelt,
The White House, Washington, D. C.:

May I, as secretary-treasurer of the Economists' National Committee on Monetary Policy, congratulate you upon the stand you took in your veto message in opposition to the inflationary features of the bonus bill. I also wish you to know that this committee, composed of 95 of the Nation's leading monetary and banking experts, most of whom are on the faculties of colleges and universities, has consistently opposed all inflationary proposals. Although lack of time has made it impossible for this office to gather together the individual votes of the members in approval of your admirable veto message of the Patman bill, I can assure you that this committee has consistently opposed the issue of fiat money. On October 1, 1934, it issued a public warning against paper money inflation in every form and at its Chicago meeting of December 27, 1934, the committee again registered a vigorous protest against currency inflation. Your position on this subject is entirely in harmony with the repeated recommendations and warnings of our committee with respect to the dangers involved in the issue of printing-press money, namely, that it invites an ultimate reckoning in uncontrollable prices and in the destruction of the value of savings with disastrous results not only for those who expect to benefit from the bonus bill but for millions of others who have savings accounts, investments, and life-insurance policies.

Walter E. Spahr.

Senator Thomas P. Gore,
United States Senate, Washington, D. C.

Dear Senator Gore: May I express to you, in behalf of our entire committee, my keen appreciation for your kindness in inserting in the Congressional Record my telegram to the President. Our committee has been very anxious to come to the support of the President whenever opportunity presented itself, and at this very crucial moment it was impossible to do anything beyond what was done in this telegram. For this reason I am tremendously indebted to you for making it as effective as possible under the circumstances.

With cordial regards,

Very sincerely yours,

Walter E. Spahr.

Literature Distributed by the Committee

(If you desire copies of any of this literature, please write the secretary-treasurer, Dr. Walter E. Spahr, 100 Washington Square, New York City. These publications are distributed free of charge. This is made possible by those who support this committee in its educational efforts. If you believe in the principles and purposes for which this committee stands, will you not also aid this committee so that it may reach others?)

Angell, James W.:
- *Gold, Banks, and the New Deal.
- The Broad Facts Concerning the Federal Finances and the Banking System.

*Indicates supply is exhausted.

Carothers, Neil:
*An Economist on the New Deal.
Experimenting With Our Money (Farrar & Rinehart, Inc., New York, 1934).
Rabble-Rousers.
This Money Business, radio address.
Cox, Garfield V.:
Inflation Burdens, radio address.
Daniels, Winthrop M.:
*The Passing of the Old Economist.
Fackler, Clarence W.:
Shall We Have Politicians as Bankers?
Fitzgerald, J. Anderson:
*The Business of Leading the "Lambs" to Slaughter.
Haney, Lewis H.:
How to Understand Money (Farrar & Rinehart, Inc., New York, 1935).
Hastings, Hudson B.:
*Sound Money.
James, F. Cyril:
*The Cost of the New Deal.
Kemmerer, Edwin W.:
The Public Debt and Inflation, radio address.
May, A. Wilfred:
*Schemes for Political Banking.
Reed, Harold L.:
The Commodity Dollar (Farrar & Rinehart, Inc., New York, 1934).
Robinson, George B.:
*The Government's Monetary Policies, 1933–34.
Shuttleworth, Frank K.:
*The Dollar and Real Incomes of Teachers and Wage Workers.
Spahr, Walter E.:
*Currency Inflation: Its Nature and Implications.
Orthodox Economics and the Recovery Program (Farrar & Rinehart, Inc., New York, 1934).
*Monetary Standards and Inflation.
Monetary Theories of Warren and Pearson (Farrar & Rinehart, Inc., New York, 1934).
An Economic Appraisal of the New Deal (Farrar & Rinehart, Inc., New York, 1934).
Money Tinkering and the Depression, radio address.
Westerfield, Ray B.:
Cambating New Deal Financial Heresies.
Wright, Ivan:
The Monetary Situation As It Affects the Economic Outlook for 1935.

MISCELLANEOUS

China Suffers from Our [Administration's] Failure to Heed Advice of Monetary Experts.
Goldsborough Bill Condemned by Economist as Dishonest.
Coughlin Bank Blast Is Found Full of Errors.
Bankers and the Banking Bill (an editorial from the New York Herald Tribune).
Debtors Misled by False Claims of Devaluationists—An Answer to Senator Thomas.

ECONOMISTS' NATIONAL COMMITTEE ON MONETARY POLICY

[Released for immediate use]

PHILADELPHIA, PA.—The following telegram was sent by 52 members of the Economists' National Committee on Monetary Policy to the chairman of the resolutions committee of the Democratic National Convention, and to Hon. James A. Farley, at Philadelphia:

"Reported in press that administration proposes a monetary plank continuing in hands of President present broad powers over our monetary unit, avoiding a return to convertibility on a gold basis, and permitting or endorsing present laws and Presidential powers with respect to silver purchases, possibly further devaluation of gold unit, and the authority to issue greenbacks and to utilize

*Indicates supply is exhausted.

further inflationary devices. The undersigned members of the Economists' National Committee on Monetary Policy disapprove such policies as inimical to the best interests of Nation. The so-called 24-hour-basis policy will keep business in perpetual state of uncertainty. Public entitled to specific statement as to the ultimate goal of present policy. Good faith with the American public and evidence of understanding the nature of a sound currency will not be established unless the money, banking, and fiscal planks include following:

"1. Provision for a balanced Budget largely by cutting expenditures.

"2. Pledge to insure freedom of Federal Reserve System from political domination.

"3. Provision for return to a gold standard at the present weight of the gold dollar unless international cooperation for restoring and improving the gold standard suggest the desirability of some slight change in the weight of our gold unit.

"4. Repeal law giving President power to devaluate our currency and return power to Congress.

"5. Repeal of Thomas amendment and Silver Purchase Act.

"6. Recommend appointment of a bipartisan commission, adequately assisted by experts, to make a thorough study of existing money and banking system.

"Signed: James W. Angell, Columbia University; Charles C. Arbuthnot, Western Reserve University; Leonard P. Ayres, the Cleveland Trust Co.; George E. Barnett, the Johns Hopkins University; Don C. Barrett, Haverford College; James Washington Bell, Northwestern University; Jules I. Bogen, the Journal of Commerce, New York City; Herbert M. Bratter, 140 Federal Street, Boston, Mass.; Charles J. Bullock, Harvard University; J. Ray Cable, Washington University; Neil Carothers, Lehigh University; William W. Cumberland, 120 Broadway, New York City; George W. Dowrie, Stanford University; Eleanor Lansing Dulles, University of Pennsylvania; William E. Dunkman, the University of Rochester; D. W. Ellsworth, the Annalist, New York City; William D. Ennis, Stevens Institute of Technology; Clarence W. Fackler, New York University; Clyde Olin Fisher, Wesleyan University; J. Anderson Fitzgerald, the University of Texas; Herbert F. Fraser, Swathmore College; Henry B. Gardner, Brown University; Roy L. Garis, Vanderbilt University; Lewis H. Haney, New York University; E. C. Harwood, American Institute for Economic Research; John Thom Holdsworth, the University of Miami; Jacob H. Hollander, the Johns Hopkins University; F. Cyril James, University of Pennsylvania; Edwin W. Kemmerer, Princeton University; Elbert Alvis Kincaid, University of Virginia; Frederic E. Lee, University of Illinois; J. L. Leonard, University of Southern California; James D. Magee, New York University; A. Wilfred May, Fifty-ninth Street and Fifth Avenue, New York City; Margaret G. Myers, Vassar College; Ernest Minor Patterson, University of Pennsylvania; Clyde William Phelps, Chattanooga University; Charles L. Prather, Syracuse University; Howard H. Preston, University of Washington; Joseph Schumpeter, Harvard University; Walter E. Spahr, New York University; Charles S. Tippetts, University of Pittsburgh; Alvin S. Tostlebe, the College of Wooster; James B. Trant, Louisiana State University; Rufus S. Tucker, Westfield, N. J.; Russell Weisman, Western Reserve University; William O. Weyforth, Johns Hopkins University; Nathaniel R. Whitney, the Procter & Gamble Co., Cincinnati; Max Winkler, College of the City of New York; Ivan Wright, University of Illinois; John Parke Young, Occidental College; Ralph A. Young, University of Pennsylvania."

A Warning to the Public, Signed by 80 Members of the Economists' National Committee on Monetary Policy

There is a very real possibility that the Congress which convenes in January will provide for the issue of approximately $2.5 billion of inconvertible paper money as a means of paying the soldiers' bonus.

If the soldiers' bonus bill should be passed, payments might be made in any one of various ways, but the most dangerous means which could be employed would be the issue of inconvertible paper money in the form of greenbacks (such as the inconvertible and unsecured United States notes of Civil War days). The probabilities that Congress may resort to the issue of such money are too great to be ignored by the people of this country.

The President has already taken a sound and statesmanlike position in opposition to this form of currency inflation in connection with his veto of the Patman bill on May 22, 1935. But the President's commendable stand against the issue of such money may be insufficient to prevent Congress from forcing its issue over a Presidential veto.

The reality of this danger is seen in a statement recently made by Senator Elmer Thomas, of Oklahoma, as reported by the New York Times on October 3. According to that paper Senator Thomas said on October 2 that arrangements had been made with congressional leaders to bring up the payment of the soldiers' bonus for a vote once more on January 13 in the House and on January 15 in the Senate, and that he had no doubt a bill authorizing the immediate payment of $2.5 billion would be passed. "Next year," he is quoted as saying, "is a campaign year. There is a block of 4,500,000 soldiers to be dealt with, and, just applying political psychology, you can figure there is no power under heaven that can defeat the bonus bill. Mr. Roosevelt may veto it, of course, in order to let it be passed over his veto, to save his face. But a bill will be enacted—either to raise the bonus money with bonds or to print new currency."

The issue of inconvertible paper money, sometimes called fiat money, is the most dangerous device which a country can use to finance any enterprise regardless of the nature of the purpose.

We believe that the possibility of the next Congress providing for the issue of such a money is so great that a general warning should be issued to the people of this country while there is yet time to develop an effective opposition to such a proposal.

We urge that all persons request their Congressmen and Senators to oppose the issue of such money; that all persons write their newspapers regarding this important issue; and that clubs and various organizations pass and publish resolutions in condemnation of the use of such a dangerous monetary device.

Ways also should be found to let the President know that those who advocate sound currency and disapprove all unsound monetary devices fully support the position he has already taken in opposition to the issue of such money.

(Signed:) Eugene E. Agger, Rutgers University; James W. Angell, Columbia University; Charles C. Arbuthnot, Western Reserve University; Leonard P. Ayres, the Cleveland Trust Co.; George E. Barnett, the Johns Hopkins University; Don C. Barrett, Haverford College; James Washington Bell, Northwestern University; Ernest L. Bogart, University of Illinois; Jules I. Bogen, the Journal of Commerce and New York University; Frederick A. Bradford, Lehigh University; Robert P. Brooks, the University of Georgia; William A. Brown, Jr., Brown University; Charles J. Bullock, Harvard University; J. Ray Cable, Washington University; Wilbur P. Calhoun, University of Cincinnati; Neil Carothers, Lehigh University; Alzada Comstock, Mount Holyoke College; Garfield V. Cox, the University of Chicago; William W. Cumberland, Wellington & Co., New York City; Charles A. Dice, the Ohio State University; George W. Dowrie, Stanford University; Eleanor Lansing Dulles, University of Pennsylvania; William E. Dunkman, the University of Rochester; J. Franklin Ebersole, Harvard University; D. W. Ellsworth, the Annalist, New York City; William D. Ennis, Stevens Institute of Technology; Clarence W. Fackler, New York University; Fred R. Fairchild, Yale University; J. Anderson Fitzgerald, the University of Texas; Herbert F. Fraser, Swarthmore College; Roy L. Garis, Vanderbilt University; Harry D. Gideonse, the University of Chicago; Lewis H. Haney, New York University; E. C. Harwood, American Institute for Economic Research; Hudson B. Hastings, Yale University; Frederick C. Hicks, University of Cincinnati; John Thom Holdsworth, the University of Miami; Jacob H. Hollander, the Johns Hopkins University; F. Cyril James, University of Pennsylvania; Edwin W. Kemmerer, Princeton University; William H. Kiekhofer, the University of Wisconsin; Elbert Alvis Kincaid, University of Virginia; David Kinley, University of Illinois; Frederick E. Lee, University of Illinois; Ray V. Leffler, Dartmouth College; J. L. Leonard, University of Southern California; Walter Lichtenstein, the First National Bank of Chicago; Esther Lowenthal, Smith College; James D. Magee, New York University; Arthur W. Marget, University of Minnesota; Mark C. Mills, Indiana University; Margaret Myers, Vassar College; Melchior Palyi, the University of Chicago; Ernest Minor Patterson, University of Pennsylvania; Clyde W. Phelps, Chattanooga University; Howard H. Preston, University of Washington; William A. Rawles, Indiana University; Harold L. Reed, Cornell University; Leland Rex Robinson, 50 Pine Street, New York City; R. G. Rodkey, University of Michigan; Olin Glenn Saxon, Yale University; William A. Scott, the University of Wisconsin; Joseph A. Schumpeter, Harvard University; James G. Smith, Princeton University; Walter E. Spahr, New York University; Oliver M. W. Sprague, Harvard University; William H. Steiner, Brooklyn College; Frank W. Taussig, Harvard University; Charles S. Tippetts, University of Pittsburgh; Alsin S. Tostlebe, the College of Wooster; Rufus S. Tucker, Westfield, N. J.; Leonard L. Watkins, University of Michigan; Russell Weisman, Western Reserve University; Ray B. Westerfield, Yale University; William O. Weyforth, the Johns Hopkins University; Nathaniel R. Whitney, the Procter & Gamble Co., Cincinnati; H. Parker Willis, Columbia University; Ivan Wright, University of Illinois; John Parke Young, Occidental College; Ralph A. Young, University of Pennsylvania.

PURPOSES OF COMMITTEE

1. To enlighten the public as to the economics of the monetary issues before the country.
2. To combat unsound monetary programs such as those of the inflationists, devaluationists, and commodity-dollar advocates.
3. To educate the public as to the desirability of an early return to a gold standard.
4. To issue public statements on current monetary issues as circumstances seem to warrant.
5. To make it clear to the country that much of the monetary advice given to the President is not representative of the opinions held by the great majority of the leading monetary authorities of this and other countries.
6. To offer constructive suggestions to the administration whenever it will entertain them.
7. To place speakers at the disposal of the public.
8. To distribute its own and other literature.
9. To suggest from among its members experts for those who wish such aid.

THE BONUS—AN INVITATION TO INFLATION

WARNING ISSUED BY THE EXECUTIVE COMMITTEE OF THE ECONOMISTS' NATIONAL COMMITTEE ON MONETARY POLICY

JANUARY 21, 1936.

Many political observers confidently predict passage of the bonus bill over a possible Presidential veto.

The rank and file of the people of this country should be made fully aware of the fact that, unless new taxes are levied simultaneously to produce sufficient additional revenue, the payment of the bonus will involve inflation.

Despite past experience with the dangers of inflation to virtually all classes of people in this and other countries, the rank and file of our citizens fail to understand the seriousness of the present situation.

The Economists' National Committee on Monetary Policy has already issued a warning against the payment of the bonus by the issue of greenbacks as that procedure would have a powerful inflationary result. That plan has apparently been abandoned in favor of the issue of approximately two and one-fourth billion dollars of Government bonds. Under present conditions these would probably have to be absorbed by the banking system. This method of financing an unbalanced Budget also is inflationary and, with the prospect of an increasing deficit, this latter means of paying the bonus might easily prove to be only slightly less inflationary than the issue of greenbacks.

If it were politically feasible to levy additional taxes from which two and one-fourth billion dollars could be collected within a few months, or if it were economically possible to sell a bond issue of this amount to those who have savings to invest, without disrupting the bond market and badly upsetting business, then the soldiers' bonus could be paid in cash without exercising an inflationary influence. However, both of these methods are clearly out of the question.

If payment is made by means of bonds, it is possible that most veterans would sell them within a few months. Should a considerable proportion of these new bonds be thrown upon the market over a short period of time, their prices probably would decline sharply and this might lead to great difficulties for the banks which have heavy investments in Government bonds and to the Government in its refunding operations.

We, therefore, conclude that under existing conditions there is no method by which the Government can pay in advance of maturity the soldiers' bonus without resorting to serious inflationary measures, and we strongly oppose any such prepayment.

(Signed:) Dr. James W. Angell, Columbia University; Dr. Leonard P. Ayres, The Cleveland Trust Co.; Dr. James Washington Bell, Northwestern University; Dr. Frederick A. Bradford, Lehigh University; Dr. Neil Carothers, Lehigh University; Dr. George W. Dowrie, Stanford University; Dr. Hudson B. Hastings, Yale University; Dean John Thom Holdsworth, The University of Miami; Dr. F. Cyril James, University of Pennsylvania; Dr. Edwin W. Kemmerer, Princeton University; Dr. Ernest Minor Patterson, University of Pennsylvania; Dr. Harold L. Reed, Cornell University; Dr. Walter E. Spahr, New York University; Dr. Ray B. Westerfield, Yale University; Dr. H. Parker Willis, Columbia University; Dr. John Parke Young, Occidental College.

RECOMMENDATION FOR THE ABANDONMENT OF THE UNITED STATES SILVER PURCHASE PROGRAM, SIGNED BY 82 MEMBERS OF THE ECONOMISTS' NATIONAL COMMITTEE ON MONETARY POLICY

[Released for publication Monday, May 25, 1936]

On April 20, 1934, the Economists' National Committee on Monetary Policy issued a public statement to the effect that it was "gravely concerned about the various silver measures introduced and proposed in Congress," and went on record in opposition to all the current proposals, whether they involved "* * * the introduction of bimetallism or symmetalism, or the purchase of silver for the purpose of increasing our silver reserves or the circulation of silver or silver certificates." These apprehensions were also based on the President's use, beginning with his proclamation of December 21, 1933, of the authority granted him under the Thomas amendment of May 12, 1933, to buy the annual product of American mined silver on terms set at his discretion. This proclamation also represented an attempt to put into effect the London Silver Agreement entered into at the time of the World Economic and Monetary Conference on July 20, 1933, and a related allotment agreement entered into between the representatives of the United States and certain other countries.

This committee stated in April 1934, "That the lessons of monetary history and the principles of money" show that the purchase of silver bullion at artificial prices will not promote recovery but, on the contrary, will add to the liabilities of the Government and reduce confidence in the Nation's currency * * * " and "* * * that a rise in the price of silver benefits materially neither domestic industry nor the foreign trade of the United States."

The advocates of "doing something for silver" nevertheless went even further and forced through Congress a most objectionable Silver Purchase Act, which became law on June 19, 1934. This act declared it to be the policy of the United States that the proportion of silver to gold in the monetary stocks of the United States shall be increased, with the ultimate objectives of having and maintaining one dollar of silver for every three dollars of gold; and to attain this end, the law authorized and directed the Treasury to buy silver at home and abroad at such rates, times, and terms as the Secretary of the Treasury deems advantageous to the public interest. The law also authorized the nationalization of all silver within the United States, and an embargo on, or regulation of, the importation of silver.

The new law was soon put into effect: Silver was nationalized at an artificially high price; the Secretary of the Treasury issued regulations controlling the exportation and importation of silver; and he proceeded to purchase huge amounts of silver at home and abroad as directed by law.

Although the London Silver Agreement obligated the United States to absorb annually only 24,421,410 ounces of the silver produced in the United States during the 4 years beginning January 1934, the President proclaimed the purchase of all the silver the American mines could produce during the 4-year period (the newly-mined silver taken over during the fiscal year 1935 was 30,863,349 ounces). The result was a stimulus to American production of silver, with a much greater benefit to American producers than perhaps even they had anticipated.

While the London Silver Agreement did not specify the price at which the silver should be bought, and such price may have been assumed to be the market price, the President in his proclamation of December 21, 1933, assured American producers of a return of approximately 50 percent above the then prevailing market price. Owing to the increase in the return to American producers as a result of the proclamations of April 10, and 24, 1935, American producers today are receiving over 77 cents per ounce compared to a market price of approximately 45 cents.

The consequences of the administration's silver program, in both its phases—that is, under the London agreement and the Silver Purchase Act—fulfill the predictions made by this committee 2 years ago. The American silver policy, by adding to the uncertainty as to the value of the dollar and thereby limiting prospects for currency stabilization and the benefits which would accrue therefrom, has been damaging to international trade and finance. Neither the economic nor the monetary situation in the United States has been benefited by this silver-purchase policy. After acquiring approximately 835,000,000 ounces of silver (as of January 16, 1936), at artificially high prices, thus diluting our currency base with a cheap metal, our Government is hardly any nearer than before to its goal of a 1:3 ratio between the monetary silver and gold.

It should be amply clear by this time that the program not only serves no useful purpose, but, on the contrary, is both wasteful and harmful. We, therefore, earnestly recommend to Congress:

1. That all silver purchases under the Silver Purchase Act of June 19, 1934, be stopped immediately and that the act be repealed.

2. That all silver purchases under the President's proclamation of December 21, 1933, be discontinued and that notice of the abandonment of such silver purchases be sent to the signers of the international silver agreement of 1933, which has already, in certain respects, been violated by various parties to the agreement. Since one of the announced purposes of the agreement was to stabilize the price of silver, the United States itself can hardly be said to have lived up to this phase of the agreement.

3. That all authority given the President to reestablish bimetallism or otherwise to subsidize the silver industry be promptly repealed.

4. That over a period of years the silver now held by the Treasury be disposed of as advantageously as possible.

(Signed:) Eugene E. Agger, Rutgers University; James W. Angell, Columbia University; Charles C. Arbuthnot, Western Reserve University; Leonard P. Ayres, the Cleveland Trust Co.; George E. Barnett, the Johns Hopkins University; Don. C. Barrett, Haverford College; Benjamin Haggott Beckhart, Columbia University; James Washington Bell, Northwestern University; Jules I. Bogen, the Journal of Commerce; Frederick A. Bradford, Lehigh University; Herbert M. Bratter, 140 Federal Street, Boston; Robert P. Brooks, the University of Georgia; William Adams Brown, Jr., Brown University; Charles J. Bullock, Harvard University; J. Ray Cable, Washigton University; Wilbur P. Calhoun, University of Cincinnati; Neil Carothers, Lehigh University; Edward H. Collins, New York Herald Tribune; Alzada Comstock, Mount Holyoke College; Garfield V. Cox, the University of Chicago, William W. Cumberland, 120 Broadway, New York; Charles A. Dice, the Ohio State University; George W. Dowrie, Stanford University; Eleanor Lansing Dulles, University of Pennsylvania; William E. Dunkman, the University of Rochester; J. Franklin Ebersole, Harvard University; D. W. Ellsworth, the Annalist; William D. Ennis, Stevens Institute of Technology; Clarence W. Fackler, New York University; Fred. R. Fairchild, Yale University; Clyde Olin Fisher, Wesleyan University; Herbert F. Fraser, Swarthmore College; Henry B. Gardner, Brown University; Roy L. Garis, Vanderbilt University; Arthur D. Gayer, Columbia University; Harry D. Gideonse, the University of Chicago; Lewis H. Haney, New York University; E. C. Harwood, American Institute for Economic Research; Hudson B. Hastings, Yale University; Frederick C. Hicks, University of Cincinnati; John Thom Holdsworth, the University of Miami; Jacob H. Hollander, the Johns Hopkins University; F. Cyril James, University of Pennsylvania; Edwin W. Kemmerer, Princeton University; William H. Kiekhofer, the University of Wisconsin; Elbert Alvis Kincaid, University of Virginia; David Kinley, University of Illinois; Frederic E. Lee, University of Illinois; Ray V. Leffler, Dartmouth College; J. L. Leonard, University of Southern California; Esther Lowenthal, Smith College; James D. Magee, New York University; Arthur W. Marget, University of Minensota; A. Wilfred May, New York; Margaret G. Myers, Vassar College; Alexander Dana Noyes, the New York Times; Melchior Palyi, the University of Chicago; Ernest Minor Patterson, University of Pennsylvania; Clyde W. Phelps, Chattanooga University; Charles L. Prather, Syracuse University; Howard H. Preston, University of Washington; William A. Rawles, Indiana University; Harold L. Reed, Cornell University; Leland Rex Robinson, 50 Pine Street, New York; R. G. Rodkey, University of Michigan; Olin Glenn Saxon, Yale University; Joseph A. Schumpeter, Harvard University; Walter E. Spahr, New York University; William H. Steiner, Brooklyn College; Frank W. Taussig, Harvard University; Charles S. Tippetts, University of Pittsburgh; Alvin S. Tostlebee, the College of Wooster; James B. Trant, Louisiana State University; Leonard L. Watkins, University of Michigan; Russell Weisman, Western Reserve University; William O. Weyforth, the Johns Hopkins University; Nathaniel R. Whitney, the Proctor & Gamble Co., Cincinnati; H. Parker Willis, Columbia University; Max Winkler, College of the City of New York; Ivan Wright, University of Illinois; John Parke Young, Occidental College; Ralph A. Young, University of Pennsylvania.

Statement—Advocating Repeal of the Government's Silver-Purchase Program Signed by 71 Members of the Economists' National Committee on Monetary Policy

[Released for publication Monday, June 14, 1937]

The undersigned members of the Economists' National Committee on Monetary Policy believe that the Government's silver-purchase program should be abandoned. The Silver Purchase Act of 1934 should be repealed, and with it should be discarded the policy of arbitrarily fixing prices for newly mined domestic silver by Presidential proclamation. Our Nation's present policy contributes to the inflation of the currency system through the issuance of silver coin with a nominal value in excess of its bullion value and particularly through the excessive issuance of silver certificates.

We see no justification for continuing a policy of subsidizing the producers of silver in this country by paying them a price higher than the world price. Entirely apart from monetary considerations, such legalized profiteering is to be condemned, but when such a policy carries with it, as it does, an added threat to the stability of the Nation's money, there can be little doubt as to its unwisdom.

We disapproved the administration's silver policy when it was inaugurated and have consistently urged its abandonment. The contentions advanced in its behalf have been demonstrated to be invalid, and there can now be no sound reason for not repealing promptly these unwise laws and the concomitant

Presidential proclamations along with the authority to promulgate them in the future.

(Signed:) Eugene W. Agger, Rutgers University; James W. Angell, Columbia University; Charles C. Arbuthnot, Western Reserve University; Leonard P. Ayres, the Cleveland Trust Co.; George E. Barnett, the Johns Hopkins University; Don C. Barrett, Haverford College; Benjamin Haggott Beckhart, Columbia University; James Washington Bell, Northwestern University; Ernest L. Bogart, University of Illinois; Jules I. Bogen, the Journal of Commerce and New York University; Frederick A. Bradford, Lehigh University; Herbert M. Bratter, Washington, D. C.; William A. Brown, Jr., Brown University; Charles J. Bullock, Harvard University; J. Ray Cable, Washington University; Wilbur P. Calhoun, University of Cincinnati; Neil Carothers, Lehigh University; Edward H. Collins, New York Herald Tribune; Alzada Comstock, Mount Holyoke College; Garfield V. Cox, the University of Chicago; William W. Cumberland, 120 Broadway, New York City; George W. Dowrie, Stanford University; William E. Dunkman, the University of Rochester; J. Franklin Ebersole, Harvard University; D. W. Ellsworth, the Annalist; William D. Ennis, Stevens Institute of Technology; Clarence W. Fackler, New York University; Fred R. Fairchild, Yale University; Clyde Olin Fisher, Wesleyan University; J. Anderson Fitzgerald, the University of Texas; Herbert F. Fraser, Swarthmore College; Henry B. Gardner, Brown University; Roy L. Garis, Vanderbilt University; Lewis H. Haney, New York University; E. C. Harwood, American Institute for Economic Research; Hudson B. Hastings, Yale University; Frederick C. Hicks, University of Cincinnati; John Thom Holdsworth, the University of Miami; Jacob H. Hollander, the Johns Hopkins University; F. Cyril James, University of Pennsylvania; Edwin W. Kemmerer, Princeton University; David Kinley, University of Illinois; Frederic E. Lee, University of Illinois; J. L. Leonard, University of Southern California; Esther Lowenthal, Smith College; James D. Magee, New York University; Arthur W. Marget, University of Minnesota; A. Wilfred May, New York City; Margaret G. Myers, Vassar College; Alexander Dana Noyes, the New York Times; Melchior Palyi, the University of Chicago; Ernest Minor Patterson, University of Pennsylvania; Clyde W. Phelps, Chattanooga University; Charles L. Prather, Syracuse University; Leland Rex Robinson, 50 Pine Street, New York City; R. G. Rodkey, University of Michigan; Olin Glenn Saxon, Yale University; Joseph A. Schumpeter, Harvard University; Walter E. Spahr, New York University; William H. Steiner, Brooklyn College; Frank W. Taussig, Harvard University; Charles S. Tippetts, University of Pittsburgh; Alvin S. Tostlebe, the College of Wooster; Rufus S. Tucker, Westfield, N. J.; Russell Weisman, Western Reserve University; Ray B. Westerfield, Yale University; William O. Weyforth, the Johns Hopkins University; Nathanial R. Whitney, the Procter & Gamble Co., Cincinnati; Max Winkler, the College of the City of New York; Ivan Wright, University of Illinois; Ralph A. Young, University of Pennsylvania.

Mr. PATMAN. This committee was organized in 1933, shortly after Mr. Roosevelt came in. You were afraid of inflation?

Professor SPAHR. Yes.

Mr. PATMAN. On account of what he had said, you were afraid of inflation?

Professor SPAHR. Yes.

Mr. PATMAN. Do you have any salaried employees of this committee?

Professor SPAHR. There are three. I am a partially salaried man. My salary is nominal.

Mr. PATMAN. Who pays the salaries?

Professor SPAHR. The executive committee.

Mr. PATMAN. Where do they get the money?

Professor SPAHR. From contributions.

Mr. PATMAN. From whom?

Professor SPAHR. There are close to 1,600 contributors.

Mr. PATMAN. Would you mind filing a list of your contributors in the record?

Professor SPAHR. I should not, but my instructions are, Mr. Patman, that we may not give out information without the approval of the executive committee.

Mr. PATMAN. But, as a member of this committee, I would like to have it.

Professor SPAHR. I should be glad to take it up with the executive committee, and they——

Mr. PATMAN. I ask consent that that be filed, along with his statement.

Mr. GOLDSBOROUGH. As I understood it, Professor Spahr says that he cannot do it without the approval of the executive committee.

Mr. PATMAN. He feels sure that they will.

Mr. GOLDSBOROUGH. Just a minute. While I do not think that the executive committee would be justified in declining to do it, you cannot tell him to do anything that he cannot do.

Mr. PATMAN. I request it, and ask him to file that, if he can get that information.

Mr. GOLDSBOROUGH. Without objection, of course, that may be done.

Professor SPAHR. May I say one thing more about the committee?

The committee is really an aggregation of individuals. Nobody may speak for any other individual of the committee. For example, when Dean Phillips was here the other day, he could not speak for anybody but himself, and I cannot speak for anybody but myself.

Mr. PATMAN. When you list these people who are contributors, who have supported this committee from 1933, will you state with whom they are associated, such as with certain companies or banks or universities or anything else, and also state the salaries of the personnel, and to whom they have been going?

You would not mind doing that?

Professor SPAHR. Not personally, I do not mind; no. The only reason that the executive committee set up a restriction was because a good many people pried into its affairs who did not have any right to do so.

Mr. PATMAN. But, you see, you are coming in here now, and we are entitled to know.

Professor SPAHR. I think so.

Mr. PATMAN. And I think your committee will be glad to furnish it.

Professor SPAHR. I think so.

Mr. PATMAN. Do you agree with the quantitative theory of money?

Professor SPAHR. As Dean Phillips answered that, I should say yes and no. I should make a little distinction from the statement he made the other day. If you have a sound currency, I should say that the quantitative theory works rather slowly. If you have an unsound currency, the quantitative theory works rapidly.

Mr. PATMAN. Since 7,000 national banks have access to the services and facilities of the Federal Reserve banks, and the 9,000 smaller banks do not have such privileges at their disposal, what do you think about the Congress adopting a policy of engaging the Reconstruction Finance Corporation to rediscount the paper of these State banks for the same rate that controls in the Federal Reserve district in which the bank is located?

Professor SPAHR. Without having given much thought to that, I should be somewhat inclined to do it.

Mr. PATMAN. Be inclined to favor it?

Professor SPAHR. Yes.

Mr. PATMAN. Don't you think we need a lot of little banks in the country, as long as they can be conducted on a sound basis, that they are helpful, rather than to have a few large banks in control of so much of the resources of the country?

Mr. GOLDSBOROUGH. I thought you had a bill here that you wanted to discuss.

Mr. PATMAN. Well, you see, I am proceeding in a way that I want to proceed. With all due respect to the chairman, we all have the same system of leading up to these things.

Professor SPAHR. My thought on that, Mr. Patman, is that a mixture of the large and small probably is a rather good thing. I see no objection—I think it is really desirable if a little bank, well managed, can continue to hold its territory as against a branch that might be established in there by a big bank, so at the present I would prefer to see both systems operate side by side, with careful regulation of branch banking.

Mr. PATMAN. In connection with this bill—and Mr. Goldsborough caused me to jump a little faster than I would have otherwise—the only objection we have to it is that these smaller banks are afraid to get into this Federal Reserve System, afraid that we will force a unified banking system which would possibly be disastrous to them, and about the only objection that I hear from the smaller banks is that they are just afraid to come in, so if we answer that by having the R. F. C. do the rediscounting for all of these 9,000 State banks, and have separate institutions, then that fear would not be there.

Professor SPAHR. I should say that my studies of that problem have led me to conclude that in due time all banks should be members of the Federal Reserve System.

Mr. PATMAN. That all banks will?

Professor SPAHR. Should.

Mr. PATMAN. I will admit that if they keep on crushing these little banks of the country, they will all have to get in, or be destroyed, and I think that there was a deliberate policy—and I hate to say this—to destroy the 15,000 banks that were destroyed. I think it was one of the most cruel acts ever committed by any government on earth. I know that some of them were not conducted on a sound basis, and I am sure that they should have gone out of business, but I am just as positive and just as sure that a large number of them were not broke, and the best evidence of that is that they have gone through years of liquidation, paid high receivership fees and all other expenses, and then have paid as much as 60 or 70 percent, and on up to 95 percent. That is conclusive that they were not broke at the time.

Professor SPAHR. I wonder if you are not comparing the period of liquidation, when they paid 60 or 70 percent, which was a more prosperous period, with the period in which they were closed.

Mr. PATMAN. That period would have followed if the banks had continued in business just the same. The banks going out of business did not change the subsequent period.

Professor SPAHR. If they had had to liquidate at the low point of the depression, their assets would have been very much less.

Mr. PATMAN. Why should the Government require them to do it?

Professor SPAHR. That is a question of a bank being liquid enough as required by law to meet its liabilities.

Mr. PATMAN. You know, they change banking practices. Right now I understand there is an order that if a bank buys a Government bond and pays 100 cents on the dollar for it, and that bond goes down in value, say to 90, the bank can still carry that bond as an asset at the value of 100 cents on the dollar. That is right, is it not? At any rate, that is my understanding.

Now, if they can charge rules and parctices to take care of a situation like that, why can't they be lenient in times of distress, in order to keep from closing banks? I think they were deliberately closed, and I want to start some kind of machinery that will encourage establishing sound local small banks, and we think that many of them will be saved by this bill——

Professor SPAHR. You are referring to——

Mr. PATMAN. I am talking about H. R. 7230.

Like it is now, there are six members of the Federal Reserve Board. There is one vacancy. Up until recently, there were only five members. Then there are five members of the different Federal Reserve banks that are members of the open-market committee. Up until recently, they had five members on the open-market committee who were bankers, and five members of the Federal Reserve Board. Do you think that that was a healthy situation, or should they all have been bankers, or should they all have been connected with the Government and not connected with the banks?

Professor SPAHR. I was quite satisfied with the system as it was set up in the open-market committee. The open-market committee, I think, was rather well planned.

Mr. PATMAN. You mean half bankers and half Government officials?

Professor SPAHR. Yes; I thought that that was a rather good plan.

Mr. PATMAN. To whom would you leave the issuance and the regulation of the value of money? Would you leave it to Government officials, who are under obligation to the people, and under oath to carry out policies and practices that will promote the general welfare, or would you leave it to bankers, not connected with the Government and who are not responsible to the people, but who are responsible only to their own stockholders?

Professor SPAHR. You have two questions there. I should like to break that question down.

Mr. PATMAN. I wish you would.

Professor SPAHR. The issuance of money is one thing, and regulation is something else. The Government must issue part of our currency; for instance, the Government is charged with the responsibility of adopting and maintaining a standard of value, a standard unit of value, such as a dollar of certain weight. The Government must do that, and it naturally follows that the Government should issue the certificates that rest upon the metal used.

Bank notes, however, in my opinion, should be issued by the banks, because that enables the banks immediately to convert deposits into notes for the convenience of customers, and since they are in touch with business and the general public, they can respond to the needs of business and the general public in a way that the Government could not.

Mr. PATMAN. It would be more elastic?

Professor SPAHR. Yes. We have had that division throughout the world, and it seems quite rational to have it.

The next part of your question dealt with the regulation of the value of money. May I go back to the issue involved, which you have in mind, and that is, the constitutional provision and its meaning.

May I ask you, Mr. Patman, whether you have ever looked at the legal tender cases on that point?

Mr. PATMAN. I have read them.

Professor SPAHR. If you have, you know that the Supreme Court, in all of its decisions, has ruled that the term "value of money" does not refer to the price level, but refers to the adoption of a unit.

Mr. PATMAN. Everything is measured in terms of money, regardless of whether you say "price level" or not. Whether you use that phrase "price level," it cannot mean anything else.

Professor SPAHR. Yes; it can. The value of money——

Mr. PATMAN. As money goes up in value, it becomes dear, and everything else goes down.

Professor SPAHR. That is quite true, but my statement is that the framers of the Constitution were not thinking of the price level when they used the expression "to regulate the value of money."

Mr. PATMAN. Whether they had it in mind or not, if you make dollars high, you make everything else cheap, do you not?

Professor SPAHR. That is a question of ratio, as you know.

Mr. PATMAN. And you make everything else high in proportion.

Professor SPAHR. I should like to take one of your statements and answer your question.

Mr. PATMAN. I wish you would.

Professor SPAHR. You have this statement in the Congressional Record, in which you talked about your amendments; you say:

> In other words, Congress must fix the bushel, the yard, and other weights and measures, but it is not required to fix the value of money. Congress, however, is charged with the duty of regulating the value of money.

I should like to say this about that statement: That everything you say there regarding the bushel, pound, and so forth, is quite true, but you will notice, in making your comparison at this point, that there was no provision in there that a bushel should measure so many apples or so much wheat; they simply fixed the size of the bushel, and that is true of the dollar for, in fixing the weight of the dollar, they never attempted to prescribe how many goods and services a unit of money should buy. I think that that is a fair comparison.

Mr. PATMAN. But, as you regulate the value of money, you regulate the amount of apples or potatoes that can be bought by this money. So, in regulating the value of money you necessarily determine the price level.

Professor SPAHR. It is true of your bushel, too, that you fix the size of a bushel, but the apple crop varies, and——

Mr. Patman. But everything does not revolve around the bushel, like it does around money.

Professor Spahr. That is quite true, but——

Mr. Goldsborough. Do you not think that we ought to get down to your bill?

Mr. Patman. I thought that we were talking about the bill.

Mr. Goldsborough. I will not interrupt you any more. I do not mean to do that.

Professor Spahr. I can close my part of the discussion very briefly by adding that I should like to suggest to the committee that the expression "value of money," as it is being used in this committee and throughout the country to mean the price level, was not the meaning of that clause in the Constitution, and you can find proof of this in the legal tender cases, *Knox* v. *Lee*, and *Juillard* v. *Greenland*. The words "value of money" mean the fixing of the weight, the denominations, and the fineness of the coins and currency issued by the Government.

Mr. Patman. We were discussing this open-market committee, and that led to this discussion that we are in now. Do you consider that the Federal Reserve banks are performing functions that should be performed by private banks? Do you consider that they are really in the banking business, the 12 Federal Reserve banks?

Professor Spahr. They are performing functions that are very appropriate for a central bank.

Mr. Patman. I agree with you, but are they really, in a true sense of the word, in the banking business?

Professor Spahr. I should think so. Of course, we always distinguish central banking from what an ordinary commercial bank may do.

Mr. Patman. Are they not more in the nature of the Treasury? I think that it is just as reasonable to say that the Treasury should be conducted by private individuals.

Professor Spahr. I should not agree with you.

Mr. Patman. As to have the Federal Reserve System conducted by private individuals.

Professor Spahr. I should not agree with you.

Mr. Patman. I think that there are certain things that the Government should conduct and perform. Among them of course are the national defense, the Army and the Navy, our highways, our schools, the Public Treasury, the levying and collecting of taxes—things like that should be conducted by the Government, and I think it is just as necessary for the Government to have control of the 12 Federal Reserve banks that issue the money as to have control of the Treasury.

Mr. Williams. Will the gentleman yield there?

Mr. Patman. Yes.

Mr. Williams. I would like to have you point out what banking function is performed by any commercial bank in this country that is not also performed by the 12 Federal Reserve banks.

Mr. Patman. Any banking function?

Mr. Williams. Yes.

Mr. Patman. Well, they are not in the banking business of extending loans to individuals.

Mr. Williams. They do extend loans to them, don't they?

Mr. Patman. Not to individuals at all.

Mr. WILLIAMS. They do.
Mr. PATMAN. No; just to banks.
Mr. WILLIAMS. Oh, yes.
Mr. PATMAN. No; just to banks.
Mr. WILLIAMS. You do not know what you are talking about.
Mr. PATMAN. Under that special act——
Mr. WILLIAMS. They extend loans to individuals, corporations, partnerships, and banks.
Mr. PATMAN. Yes; under that special act for a limited amount.
Mr. WILLIAMS. All right. Then they perform that function.
Mr. PATMAN. That is an exception, and a minor one.
Mr. WILLIAMS. All right. They do that. Now, mention one other thing.
Mr. PATMAN. What is the gentleman talking about?
Mr. WILLIAMS. You say that they are not in the banking business.
Mr. PATMAN. No; they are not. That is an exception, of course.
Mr. WILLIAMS. That is one thing. Mention one banking function that they are not engaged in.
Mr. PATMAN. They are not in the banking business in the true sense of the word.
Mr. WILLIAMS. Mention one——
Mr. PATMAN. They are not.
Mr. WILLIAMS. To say that they are not does not mean anything.
Mr. PATMAN. It means the truth.
Mr. WILLIAMS. I ask you point out one thing.
Mr. PATMAN. I say that the principal object of the Federal Reserve System, as I understand it, is to create a reservoir of credit, and to make this reservoir of credit available to all banks, instead of just to the people. Their principal duty, I always thought, was to rediscount paper.
Mr. WILLIAMS. Does not a bank do that?
Mr. PATMAN. Yes; a bank does that for individuals, generally, and corporations, but the Federal Reserve System was organized to do it only for the banks that belonged to that System. There is a special class or group set up.
Mr. WILLIAMS. Don't they discount paper of corporations and individuals?
Mr. PATMAN. If presented through proper channels.
Mr. WILLIAMS. Absolutely.
Mr. PATMAN. Seven thousand banks only are served by the Federal Reserve System. The Federal Reserve banks are not in the banking business generally, and in the true sense of the word, a bank is open for anybody who can bring in proper collateral to get accommodations, and to receive deposits. The Federal Reserve System does not receive deposits except from banks. They are restricted. Therefore they are not in the banking business.
Mr. WILLIAMS. They do receive deposits.
Mr. PATMAN. But from banks only.
Mr. WILLIAMS. All right; from banks only.
Mr. PATMAN. So they are restricted. They are not in the banking business.
Mr. WILLIAMS. It is a banking function to receive deposits. They cash checks, do they not?
Mr. PATMAN. They clear checks.
Mr. WILLIAMS. They receive deposits from the Government.

Mr. PATMAN. Of course.

Mr. WILLIAMS. And from all Government agencies. They receive taxes and customs; all of that is deposited in the Federal Reserve banks.

Mr. PATMAN. I would like to see you go and make a deposit there. Does the gentleman claim that he could?

Mr. WILLIAMS. I am not talking about that.

Mr. PATMAN. They are not, therefore, in the banking business.

Mr. WILLIAMS. They perform the same function, and you know that as well as I do. The main function of at least 11,000 of their employees, if not 11,500, is to engage in purely banking operations.

Mr. PATMAN. I do not agree with the gentleman.

Mr. WILLIAMS. That is a fact. Anybody that is familiar with the facts knows that to be true.

Mr. PATMAN. Out of 16,000 banks, 7,000 banks only can go there and be accommodated——

Mr. WILLIAMS. Yes.

Mr. PATMAN. Let me finish. They can put their deposits down, and receive a receipt for them. The 9,000 banks cannot do that. There are 127,000,000 people in this county, and not one of them can get the benefit of the services and facilities of a Federal Reserve bank. These people compose this Nation. Therefore, since they cannot, and you cannot, they are not in the banking business. The banking business is open for people to come and make deposits and receive accommodations. The Federal Reserve System is not. It is established only to serve those 7,000 banks, and it is not in the banking business.

Mr. WILLIAMS. The other banks could come in if they wanted to. They have seen fit to stay out.

Mr. PATMAN. No——

Mr. WILLIAMS. I will tell you what happened——

Mr. PATMAN. I think they are wise in staying out, and if I had charge of a small bank, I would not bring it in.

Mr. WILLIAMS. And still you want to bring them all in.

Mr. PATMAN. Yes; under this change of system.

Mr. WILLIAMS. You think that they are right in staying out, but you still, under your bill, want to bring them all in.

Mr. PATMAN. Yes; so they can withdraw at will. I do not want to force them in, but I want to make it attractive to them, and then, if a policy should be invoked that would be calculated to destroy them, they could withdraw at will. That is what I want.

Now, Dr. Spahr, the Federal Advisory Council has considerable power, doesn't it?

Professor SPAHR. Advisory.

Mr. PATMAN. Yes.

Professor SPAHR. Nothing compulsory.

Mr. PATMAN. I know, but they have a right to confer with the Board.

Professor SPAHR. Surely.

Mr. PATMAN. It is a legally constituted body. Do you think that the banks should control the Federal Reserve System, in preference to Government officials?

Professor SPAHR. Oh, yes.

Mr. PATMAN. The banks should do it?

Professor SPAHR. You say control?

Mr. PATMAN. Yes.

Professor SPAHR. What do you mean by that?

Mr. PATMAN. I mean control; I mean what it implies.

Professor SPAHR. But they do it today. They cannot——

Mr. PATMAN. I am not talking about that. If it were left to you, would you leave it to Government officials to control that body, or to the private banks?

Professor SPAHR. I would not leave it to either one.

Mr. PATMAN. You would divide responsibility?

Professor SPAHR. No. I would want Congress to lay down the principles and the requirements, through a well-conceived organic act.

Mr. PATMAN. Do you think that has been done?

Professor SPAHR. To a large degree, yes.

Mr. PATMAN. What are some of them?

Professor SPAHR. I refer to the Federal Reserve Act as amended.

Mr. PATMAN. They are very general in their nature.

Professor SPAHR. It should be so.

Mr. PATMAN. You think it should be very general?

Professor SPAHR. Yes.

Mr. PATMAN. And then be left up to whom?

Professor SPAHR. An independent banking board.

Mr. PATMAN. Composed of whom, with reference to Government officials or private bankers?

Professor SPAHR. I am quite in favor of having the board appointed just as it is today.

Mr. PATMAN. And you feel that private bankers should have considerable control or power over the Federal Reserve System?

Professor SPAHR. No. My suggestion, if I may complete it, is that I think that this Board ought to be independent of banks, business, Government, of any pressure from any source. In that way it can operate in the interests of the Nation as a whole.

Mr. GOLDSBOROUGH. Professor Spahr, if you believe in that, do you think that bankers should be on that Board?

Professor SPAHR. On the Advisory Council, or the Federal Reserve Board?

Mr. GOLDSBOROUGH. Either one.

Mr. PATMAN. Or the open-market committee?

Professor SPAHR. I have about three questions here.

Do you mean the Federal Reserve Board?

Mr. GOLDSBOROUGH. Do you think that they should appear in the picture at all?

Professor SPAHR. Certainly I do, because central banking is a tremendously intricate piece of business. and we need men of experience. The only thing that we need to do on that score is to see that those men are so situated that they will not be under pressure from any angle.

Mr. WILLIAMS. You mean by that that you ought to have men on the Board who are not actively engaged in the banking business, but men who have knowledge of the banking business?

Professor SPAHR. Oh, yes.

Mr. WILLIAMS. Of course, I agree with that.

Mr. PATMAN. Who are not bankers now?

Professor SPAHR. Yes.

Mr. PATMAN. In other words, the open-market committee is not constituted right? We should not have those five bankers on that open-market committee now, should we?

Professor SPAHR. Why not?

Mr. PATMAN. You said that they should be independent.

Mr. WILLIAMS. Oh, no; pardon me. I at least did not intend to say that. I was talking about the Board of Governors.

Professor SPAHR. So was I.

Mr. PATMAN. All right. The open-market committee has more power than the Board of Governors.

Mr. WILLIAMS. Oh, no.

Professor SPAHR. No.

Mr. PATMAN. They have the power to go out and buy unlimited bonds, and they can sell bonds. They can in effect veto everything done by the Board.

Professor SPAHR. Your Board is on the open-market committee.

Mr. PATMAN. I know it is, but you have five bankers there.

Professor SPAHR. Yes; but——

Mr. PATMAN. They are selfishly interested.

Professor SPAHR. I should not think so at all.

Mr. PATMAN. They represent their own banks, don't they?

Professor SPAHR. Exactly, but the Federal Reserve bank is a bankers' bank, representing the interests of the country.

Mr. PATMAN. A bankers' bank—you really said it there. But the Government is furnishing the credit to operate the Federal Reserve banks.

Professor SPAHR. No.

Mr. PATMAN. You said awhile ago you felt that somebody should be on this Board who had had banking experience, but who was not actively engaged in the banking business. Did I quote you correctly?

Professor SPAHR. Yes.

Mr. PATMAN. If you want people like that on the Board—and I agree with you; there is no difference of opinion between us there—if you want people like that on the Board, why should we not want people like that on the open-market committee?

Professor SPAHR. I——

Mr. PATMAN. Because the open-market committee has more power than the Board.

Professor SPAHR. I should have to disagree with you on that.

Mr. PATMAN. Why would you disagree with me?

Professor SPAHR. Because the open-market committee has a certain function to perform, which is a small part of the total picture of the Federal Reserve System, and they, after all, are controlled by the Board of Governors and——

Mr. PATMAN. They have more power in regulating the value of money than the Board of Governors.

Professor SPAHR. I should think not.

Mr. PATMAN. Can the Board of Governors authorize the purchase of bonds in the open market, without the open-market committee saying so?

Professor SPAHR. Not now.

Mr. PATMAN. That is what I say——

Professor SPAHR. But the open-market operations——

Mr. PATMAN. That is the reason that the Board of Governors is restricted by the power of the open-market committee, which is composed of five private bankers, and if you carry your statement to its logical end, I cannot see why you are not willing to say that while private bankers should not be on the Board of Governors, they should be on the open-market committee. I think one logically follows the other.

Professor SPAHR. I do not believe you said what you meant to say. I said that the Federal Reserve Board of Governors should have bankers on it.

Mr. PATMAN. I know, but you said that they should not be actively engaged in the banking business.

Professor SPAHR. Oh, yes.

Mr. PATMAN. Now, then, if you believe that with reference to the Board of Governors, how can you logically say that you do not believe the same thing with reference to the open-market committee?

Professor SPAHR. I do not think that follows, for this reason, that your open market committee is composed of two types of men. You have your Board, an administrative body, and then you have the other members of the open market committee, composed of the executive officers of the banks, and——

Mr. PATMAN. But you said that they should be independent.

Professor SPAHR. No; I am talking about the Board of Governors.

Mr. PATMAN. If you have another committee there that has more power than the Board of Governors, why shouldn't you have the same rule with reference to them?

Mr. WILLIAMS. The answer is that the Board itself has a majority on that committee, and controls that body.

Professor SPAHR. That is true.

Mr. PATMAN. I do not know whether it controls it or not. Suppose by a vote of 5 to 2 the Board lowers reserve requirements 50 percent to force expansion. Then the open market committee meets and by a vote of 5 bankers plus 2 Board members or 7 to 5 they cause Government securities to be sold to offset the Board's action in lowering reserve requirements.

Mr. WILLIAMS. It does.

Mr. PATMAN. They have not had a majority until just recently, and besides they do not always vote together.

Mr. WILLIAMS. That is just because of a vacancy. The law provides for a majority.

Professor SPAHR. I wonder if I might finish my statement——

Mr. WILLIAMS. Let me offer this observation. Of course, the law itself prohibits a member of the Federal Reserve Board from being a stockholder in a bank, or an officer, or anything else. He must be divorced from the active banking business.

Professor SPAHR. Exactly.

Mr. PATMAN. I am willing to rest my case, as far as I am concerned, upon your statement, that I agree with, that anyone who has anything to do with administering the Federal Reserve banking system should be independent of the banks, industry, and everything else, that they should not have a motive of any kind or serve any interest except the interest of the people, and for that reason you say that the private bankers should not be on the Board of Governors.

Professor SPAHR. Surely.

Mr. PATMAN. I am not willing to stop there. If they should not be on the Board of Governors, they certainly should not be on the open market committee, and they certainly should not be on the legally-constituted advisory council.

Professor SPAHR. When you used the words "private bankers," I did not mean that; I mean officials of the Federal Reserve banks should be on the open market committee, for they are officials of the Federal Reserve System.

Mr. SPENCE. You cited two cases where you said the Supreme Court of the United States discussed what they thought was in the minds of the framers of the Constitution when they gave to Congress the power to regulate the value of money. What are those cases?

Professor SPAHR. Knox against Lee, and Juillard against Greenman.

Mr. SPENCE. Have you the citations of those cases?

Professor SPAHR. I am sorry; I do not have them. They are both in the United States Reports.

Mr. WILLIAMS. They are known as the Legal Tender cases.

Professor SPAHR. That is right; and in those cases the United States Supreme Court summarized and reviewed all of the preceding cases, so that you can get in a nutshell the different cases in which the Supreme Court has ruled uniformly in that direction.

In closing I should like to add two points——

Mr. GOLDSBOROUGH. You are not hurried at all.

Professor SPAHR. One point is that I should like to call to the attention of the committee that 72 of these men on the Economists' National Committee have thought that the Patman bill was unwise. That is a fairly heavy weight of evidence coming from men who have no ax to grind; and I cannot see how anybody could assume that they have an ax to grind. Then there are 36 members who prepared their testimony for the benefit of the committee, and I think you will find that they are practically agreed regarding the unsoundness of the bill. Then I should like to say on my own personal responsibility that I know of no argument in favor of inflating the currency—and your bill is an inflationary bill.

Mr. PATMAN. Why do you say that? Where is the inflationary influence?

Professor SPAHR. Because you are trying to raise the price level to that of 1926.

Mr. PATMAN. Are you not in favor of the 1926 level in preference to what we have?

Professor SPAHR. I am in favor of the price level that will prevail when the economic situation is in the best possible balance.

Mr. PATMAN. That is a rather general statement.

Professor SPAHR. That is a very accurate statement of a condition that I am sure you would like to see and that I would like to see.

Mr. PATMAN. Do you think the price level is satisfactory now?

Professor SPAHR. I think the price level reflects the present conditions.

Mr. PATMAN. You are pleased with it?

Professor SPAHR. No; not at all. The present conditions are far from satisfactory.

Mr. PATMAN. What would you do with it?

Professor SPAHR. I would not inflate the currency.

Mr. PATMAN. What would you do to change it?

Professor SPAHR. I would do those things which would restore confidence.

Mr. PATMAN. Number 1 is what?

Professor SPAHR. That is a large order

Mr. PATMAN. You must save something in your mind.

Professor SPAHR. I have.

Mr. PATMAN. What is it?

Professor SPAHR. Taxation. Taxation in a manner that will restore confidence in business to the best of your ability, and that means that you would have to go over the whole list of bills that have been and are before Congress in order to see whether they will restore confidence. Of course, that is a large order, and it is beyond my power to handle a thing like that here. I would raise this further point, that there may be a question whether at this time confidence can be restored very quickly, because I think confidence is in a rather sad state, at least at the moment.

But I should like to point out this: That once the country embarks upon a period of currency inflation, it will run through a highly regular sequence of events. We have run through a cycle like that since 1933. It confronts us now. Here is the sequence of events: We had a severe depression and headache in 1932 and 1933. Then we inflated to get out, and inflation was part of the force that resulted in business expansion which also resulted in part from the operation of natural forces. In addition, we had some helpful forces coming from Government policies but, unfortunately, there was an inflationary series of measures operating. Prices rose, and as they rose, the cost of living rose, and people began to complain about high prices and the high cost of living. A government becomes frightened over such a situation and is likely to attack high prices. This our Government did. You will remember that in April 1937 there was an attack on high prices in this country, and that attack, combined with other forces that were operating to destroy confidence, tipped the scales toward a recession. We headed down into a recession and liquidation, and now we have our headache, which is the next step——

Mr. GOLDSBOROUGH. Professor Spahr——

Professor SPAHR. Might I complete my sentence?

Mr. GOLDSBOROUGH. Yes.

Professor SPAHR. Now we are seeing a reaction, a very normal thing from an inflationary period, and we are on the threshold now of making up our minds whether we will try to come out solidly this time, or whether we will repeat the preceding experience by inflating again and by going through the same cycle again, with another reaction to come later.

Mr. PATMAN. Would you——

Mr. GOLDSBOROUGH. I am very anxious to ask this question.

Mr. PATMAN. My question is on the same point.

Professor SPAHR. I should like to state this to this committee: That you now see demonstrated the things which I said while before this committee in 1933 and 1935 would happen. They have happened.

Mr. PATMAN. Are you in favor of the continuation of the relief program?

Professor SPAHR. Yes. Of course, that is a broad statement. I want relief administered properly and economically. We all do, I take it; we have to face the problem of relief. We are drawn into a situation where I think it has to be done.

Mr. PATMAN. Even some expansion?

Professor SPAHR. I do not think that expansion and inflation are the same thing.

Mr. PATMAN. I agree with you.

Mr. GOLDSBOROUGH. Professor Spahr, I myself would like very much to hear your opinion, and the reasons for it, on the question as to whether or not the stock of these Federal Reserve banks should be owned by the Federal Government. After all, that is the crux of this bill. Other matters, that we have been discussing this morning, are matters that we have been discussing in this committee ever since I have been on it, and it would be interesting to me to hear that specific question discussed.

Professor SPAHR. I oppose it, Mr. Goldsborough, and so do the 36 men who prepared this testimony, and so do the 72 men who signed that statement.

Mr. GOLDSBOROUGH. Does that include the entire committee?

Professor SPAHR. No. There are about 88 on it. Some of our members were abroad at the time, and we could not hear from them.

The statement that I submitted for the record is to this effect: I quoted from a book by Kisch and Elkin, which is a book on central banking; it is probably one of the best surveys of the experiences of central banks in which there is Government ownership and Government management of central banks. I quoted that because I thought it would give the best world picture on this point and the lessons that have been learned, and those lessons are, briefly, that where central banks have been owned by governments, they have almost invariably ended in trouble. Regulation is one thing, and that is desirous and necessary, but ownership and management are something else.

Mr. GOLDSBOROUGH. Will you give us your reasons for that opinion, because, after all, personally I am not interested in anybody's opinion unless I can get the reason which supports that opinion.

Professor SPAHR. The reasons are in that book by Kisch and Elkin, and I thought that you might enjoy referring to it.

Mr. GOLDSBOROUGH. I mean, can you not elaborate with reasons of your own?

Professor SPAHR. Yes; I should be glad to. I can only confirm what they have said, because they have studied practically all of the central banking systems of the world.

Mr. GOLDSBOROUGH. What countries had central banks owned by the government which have been unsucessful?

Professor SPAHR. The point is not that they have been unsuccessful as much as it is that where the government has owned them, as in Sweden, and does yet, they have set up unusual precautions to prevent the government from dictating the policies of the banks, so that the fact that the government owned the central bank became of negligible importance in the face of the restrictions which were set up to prevent the government from meddling in banking policies.

Mr. GOLDSBOROUGH. They owned them, and did not own them?

Professor SPAHR. They own the stocks, but the banks are as independent, even more independent of government——

Mr. GOLDSBOROUGH. That is not what Mr. Patman's bill provides. Mr. Patman's bill contemplates the ownership and control both of the Federal Reserve banks. Therefore, Sweden would not be a precedent for this situation.

Professaor SPAHR. Let me give you another case. When Germany's system was reorganized in 1924, one of the first sentences in that banking act was that this bank, the Reichsbank, shall be free from government control, and by that they meant management. I am not perhaps quoting the exact words, but that is the context of the statement.

Then, in connection with the Bank of France, you find similar statements made by statesmen, and those are quoted in the book by Kisch and Elkin, that the troubles of the Bank of France have risen largely in the periods in which Government officials have attempted to dictate the policies of the Bank of France, so that the bank became an agent of the Government, rather than the agent of all of the people throughout the Nation.

Mr. GOLDSBOROUGH. Can you point out one country, because I do not know of any myself, where the government owns the stock of the Federal Reserve banks and controls the policy of the Federal Reserve banks, as is contemplated in H. R. 7230, because in my opinion the Government has never controlled the Bank of Sweden, or the others, either.

Professor SPAHR. You undoubtedly know that the period in which the German system operated in the way I have indicated was very abnormal, and it was dominated and taken over——

Mr. GOLDSBOROUGH. There was a period of agitation and all that, but this would be a different proposition.

Professor SPHAR. The French system today, under the socialist government, would come fairly close to the type of plan outlined by Mr. Patman.

Mr. PATMAN. The socialist government?

Mr. GOLDSBOROUGH. You do not mean that the operation of the socialist government on a central bank would be the same as the operation of a democratic government on a central bank?

Professor SPAHR. No; it would not necessarily follow.

Mr. GOLDSBOROUGH. No. The operation of a socialist government on a central bank would be to have regimentation of all kinds, as I understand it.

Professor SPAHR. I should wonder if that is not the central thought in the Patman bill, to bring about central banking under the direct dictation of Government, in order to regiment the system, which would mean really regimenting the commercial banks, which in turn would mean regimenting our whole economic structure. If I wanted to be a dictator——

Mr. GOLDSBOROUGH. You are giving your own reasons now?

Professor SPAHR. Yes.

Mr. GOLDSBOROUGH. That is what we want.

Professor SPAHR. If I wished to be a dictator, I would not ask for more power than that.

Mr. PATMAN. But we stagger these appointments, so that no president could appoint a majority.

Professor SPAHR. But if you reserve to Congress the right to dictate the policies, it does not make much difference who is on the Board, if the members are going to be told what to do.

Mr. GOLDSBOROUGH. Now, Professor Spahr, will you tell me something else, because this to me is exceedingly interesting. The Government of the United States is not now a stockholder in the Federal Reserve banks, but the Congress of the United States can absolutely control in every respect the policy of the Federal Reserve banks and the Federal Reserve System, so that as a matter of fact the American people now, through their Congress, act as a majority stockholder, because they have the absolute control of the banking system.

Now, how would control over the Federal Reserve System be changed because of the mere fact that the Government owned all of the stock of the Federal Reserve banks? It would not give Congress any more control than it now has, would it?

Professor SPAHR. Not necessarily. I quite agree with you. It would not necessarily follow, but I should think it is a reflection of an intention as to what you are disposed to do, and that of course means looking at the bill in its entirety. It is merely a part, and I think a relatively unimportant part of the general bill.

Mr. GOLDSBOROUGH. Let me ask you another question. In one way or another, and I do not know how because I have not made an investigation of it, the people of at least certain parts of the country have been led to believe that H. R. 7230 takes away from the banks and the banking system and gives to the people the right to control their monetary system.

Now, is there anything in the transference of the ownership of the stock in the Federal Reserve banks from the banks to the Government which changes in any degree of itself the operation of our monetary system?

Professor SPAHR. No; I should not think so.

Mr. CRAWFORD. Mr. Chairman——

Mr. REILLY. I want to ask a question.

Mr. PATMAN. Wait just a moment on that point.

Mr. GOLDSBOROUGH. Proceed.

Professor SPAHR. He said "of itself." I answered to that point, "of itself."

Mr. PATMAN. Do you want your answer to stand?

Professor SPAHR. Yes.

Mr. REILLY. Is it not a fact that while the banks are privately owned, they are governmentally run?

Professor SPAHR. They are regulated, not governmentally run.

Mr. REILLY. Absolutely the Government dictates to them and tells them what to do.

Professor SPAHR. The Federal Reserve banks?

Mr. GOLDSBOROUGH. All of them.

Mr. REILLY. The Federal Reserve banks.

Professor SPAHR. No; I should not think that is true. You have regulated, through the Federal Reserve Act, what the Federal Reserve banks may do.

Mr. GOLDSBOROUGH. Congress has the authority to do it, and that is what Mr. Reilly is driving at.

Professor SPAHR. Oh, yes; quite true.

Mr. REILLY. Has not the Government practically gone the limit now, in practically limiting what they shall do and how they shall be run?

Professor SPAHR. I think it has gone too far.

Mr. REILLY. The Government dictates the interest rates. It dictates the reserves. It dictates the whole policy of the Federal Reserve System today.

Professor SPAHR. I agree with your question, in the sense that I think that they have gone too far. That is my personal belief, and I believe that I could find lots of support for that. They have attempted to compel the Federal Reserve Board of Governors to try to stabilize the price level; and if the Board were to attempt to do it, it could not possibly do so; and if it could do it, it would still be a mistake, and it is on that point that I wish to bear down as heavily as I can.

Mr. GOLDSBOROUGH. That is not in the bill as it is now.

Professor SPAHR. I interpreted that to be the heart of this bill.

Mr. GOLDSBOROUGH. It is suggested as a proposed amendment.

Professor SPAHR. Well, he has a statement in there that is broad enough to permit it; he has a commodity-dollar clause in there, and that is broad enough to permit it, and I should think that would make it mandatory.

Mr. PATMAN. That was the object of it, but we did not make it broad enough. That is the Goldsborough bill of 1932.

Mr. GOLDSBOROUGH. Oh, no; it is not.

Mr. PATMAN. I mean that the same principle is involved.

Mr. GOLDSBOROUGH. No.

Mr. PATMAN. Were you in favor of the Goldsborough bill of 1932?

Professor SPAHR. No.

Mr. PATMAN. You were opposed to it, too?

Professor SPAHR. Yes.

Mr. PATMAN. For the same reasons that you have given?

Professor SPAHR. Yes.

Mr. PATMAN. The criticism that Mr. Reilly made I do not think is justified, that the Government has gone too far in regulating interest rates. I think that it was very pleasing to the people involved that that was done by Congress, pleasing to the extent that the banks of the country saved about $250,000,000 a year on demand deposits. You did not make them angry in the least when you saved them $250,000,000 on that, and you did not make them angry, either, when you fixed it so that the interest rates on time deposits would be reduced, which saved them about $250,000,000 a year. That is half a billion dollars saved. So I do not think you will find any of them criticizing Congress for that.

Mr. FORD. I would like to make an observation right there.

The purpose of that regulation was not to save the banks any money. The purpose of that regulation was to keep the banks from competing for deposits, to the extent that many of them went broke as a result of doing it.

Mr. PATMAN. We are not talking about the purpose.

Mr. FORD. All right. That is what the purpose was.

Mr. PATMAN. Besides, there ought to be some competition.

Mr. GOLDSBOROUGH. Right at that point, you said a few minutes ago that you wanted to bear down on one question that you thought was involved in this bill, and the question that I am going to ask you does not reflect at all my views. I simply want to get your point of view, which I may not agree with at all; but this committee, I am sure, would be interested in hearing what you have to say about the advisability or the inadvisability of directing the Federal Reserve Board to establish a certain price level.

Professor SPAHR. I take it that the members of this committee realize that a price level is an average of prices at a certain time, that 1926 was just a base year, and that there is nothing sacred about 1926. I assume that all of you know that that average, of course, is merely a reflection of the prices that prevail. Each individual price that is averaged in there may be the result of a multitude of actions by people who are buying and selling, and I do not believe there is any individual or group of individuals that has ever thought of a better way of finding the true value of anything than to let the forces of supply and demand operate. Now, merely averaging up the results is to give just a picture of the forces of supply and demand as they operate in the economic system. Therefore a price average as it prevails at a particular time is a picture, just as a thermometer indicates the temperature of the weather. If the price level is low or high, it may or it may not have significance. The important thing, Mr. Chairman, I should say, is harmony of prices, and not a particular price level.

Mr. GOLDSBOROUGH. Do you not bring that into the picture at all?

Professor SPAHR. Yes. When we hit the depths of depression and begin to recover, the nature of the recovery is such that the price level will rise. It must, and it is helpless. It is a corrective factor in itself. It encourages producers and tends to hold back demand a little bit until production and consumption come into balance.

Now, a real stabilizer would have to operate against a natural, sound recovery, and that would be very unwise. But you would probably say in response to that, "We do not want to do that; we want to wait until recovery reaches a certain level, like 1926, and stabilize it."

I should say that I know of nothing in economic literature that can tell any human being where the proper price level ought to be after the country has gone through a recession and has recovered. For all we know, the best price level, the best balance, may be far above 1926 or it may be slightly below.

I say that as a challenge to this committee, that at least I have never seen any evidence in economic literature that would tell any human being what the next proper price level ought to be.

Mr. GOLDSBOROUGH. Oh, that is begging the question.

Professor SPAHR. I am sorry.

Mr. GOLDSBOROUGH. That is equivalent to saying that it is not worth while for us to try to do anything about it.

Professor SPAHR. No; I do not mean that.

Mr. GOLDSBOROUGH. Now, suppose that we should direct the Federal Reserve Board to establish a certain price level. Even though there is no economist in the world who can say that that is exactly right, if they maintained that price level, in a very short time, to the advantage of debtors and creditors, it would operate toward equity, even though the initial step happened to be erroneous. We cannot say that because we do not know what the final result should be, we are never going to take the initial step.

Professor SPAHR. I should make this statement apply to that. Your point regarding the debtor-creditor relation, I think, is one of the most important considerations regarding stability of the price level, but if prices are rising and prosperity is expanding, we must never forget that the debtors pay their debts out of income and not out of the price level. The important thing is their income, and that is, of course, the difference between their costs and selling prices—in other words, a question of harmony of prices. If prices rise until we reach the state of economic equilibrium then the central-banking system should use its mechanism of credit control in an effort to keep things balanced, because their indexes of business activity will show that things are rather well balanced and that there is a healthy situation throughout the country. The Board would have a fairly good idea that things are nicely balanced, and, therefore, their instruments of control ought to tend to maintain that nice stability. Then your debtors and creditors would be receiving the benefits which you, of course, have in mind, and which anybody would have in mind. But if the economic system gets out of balance for some reason—for example, if war or some catastrophe that is beyond human control should occur, the whole economic structure is disturbed. Prices get out of line; wages get out of line; profits may disappear, or they may become excessive, and all sorts of maladjustments would appear.

To average up those maladjustments may really give a stable price level, but such an average does not mean much; we have learned that from the experience of 1929. From 1923 to 1929 the price level was very stable, but lying underneath it were all sorts of maladjustments that finally carried the whole structure down on us.

Mr. GOLDSBOROUGH. State some of those maladjustments. Some of them have been stated here.

Professor SPAHR. I should say that we had a policy of very easy money rates, which made it very easy for the Federal Reserve System to expand credit, both through the open market and the rediscounting of the member banks.

Then installment credit was cultivated, because industrialists had stepped up their plant production to meet the demands of war. After the war they had a narrow market, and, in order to have a market for the goods, they cultivated installment buying and selling to an unprecedented degree.

Then agricultural prices fell sharply in 1920 and 1921, and they never recovered; they continued on a prewar level. There was a very serious maladjustment in our economic system between industrial prices and agricultural prices, and then when installment buying began to exhaust the purchasing power of our people, and people could not buy any further, industrialists and others could not find markets, and what did they do? They went to the stock market, and invested their surplus funds. Those surplus funds boosted prices up still more and we had our final orgy in the stock market.

Those are but a few of the maladjustments that we had, but the wholesale price level was a very misleading indicator of what was going on. A lot of economists were misled during that period, because they thought that a nation that possessed our central banking system was sufficiently powerful, through the stabilization of prices—if they really did it, which is an open question, but they at least were trying to do it, I think—these economists thought that the Reserve System was sufficiently powerful to prevent that secondary reaction from World War maladjustments. A good many writers were very optomistic about it. Some of them said that we would never suffer a recession again. Then suddenly we were caught; and when we look back we can see how mistaken we were regarding the real stability which we thought existed, but which did not.

Mr. FORD. Wasn't it something like an automobile with 4-wheel brakes and one brake dragging?

Professor SPAHR. Yes; I think that is all right.

Mr. WILLIAMS. Do you think that under our present laws, the Federal Reserve Board has sufficient power to regulate the monetary affairs of this country in the interest of the people?

Professor SPAHR. Yes; I do.

Mr. WILLIAMS. You do not think that they need any more power?

Professor SPAHR. No; I do not.

Mr. WILLIAMS. If you were a member of that Board, or if you were the Board and had the authority to exercise the powers given it, what would you do now? What do you think ought to be done?

Professor SPAHR. I do not believe that I can think of anything that I would do as a member of that Board, except to sit tight, which is not satisfactory to a lot of people. But there are certain things in times like these that they cannot do, except to wait. Money rates are low. Rediscount rates are at the lowest point in our history. Reserves are high. The Board has to wait. They are in a position of having to be passive. They could go in the open market and purchase——

Mr. WILLIAMS. What effect would that have, in your opinion?

Professor SPAHR. I think it is a pure guess as to what the results would be. Of course, we know that it would add to the reserves of the banks, but what would the banks do with the reserves? Invest them in Government securities, perhaps, which I should think might not be desirable. I think that Government securities are too high now, and are piling up future trouble for their holders.

Mr. WILLIAMS. Do you think there was any mistake made by the Board when they raised the reserve requirements?

Professor SPAHR. I should say that at that time I would have been inclined to criticize the Board if they had not done it. We had a great many forces at that time moving toward expansion, the reserves were very high, and I personally applauded the Board for doing what I thought wise—raising the reserve requirements.

However, as we look back at it, we can see that it happened to come at a time when other forces joined in and combined to tip the scale toward a recession.

It may interest you——

Mr. WILLIAMS. Would it do any good to lower them now?

Professor SPAHR. I should think not. Our surplus reserves are about one billion and a half; and the thing that I would consider now, if I were a member of the Board, would be that if we should lower the reserve requirements, that would lose for us an instrument of control, because if business should start again, I should be afraid that the Board would not be able to raise requirements again for fear they would be called on the carpet by Congress, and for fear the country would set up a hullabaloo and say, "Well, you raised reserve requirements, and we had a recession; now are you going to precipitate another recession?"

I think that the Board would be almost unable to reverse themselves and, therefore, my notion is that it might be better for them not to lose that control which they have, because we have surplus reserves now practically twice as great as we have had normally. Take the period from 1923 to 1929; then we thought that if we had from 500 to 700 million dollars of surplus reserves, we had ample. Now we have practically twice that amount.

Mr. GOLDSBOROUGH. Mr. Luce has some questions to ask you, Professor Spahr.

Mr. LUCE. It has been my conception that a price level was a mathematical way of expressing the relationship between one article, gold, or two articles, gold and silver, and all other articles. We have abandoned one-half of this, gold and silver, and are living now with an irredeemable paper currency.

I do not think that the interrelationship of prices, like the relation of wheat to shoes, or other comparisons, has anything to do with the general price level, and that the interrelationship might be left out of the picture entirely in order to determine what is the proper way to handle the price level if it should be handled at all.

That has brought me to the point of thinking that the whole question that we have been discussing as a matter of price level is of importance only in the matter of debtor and creditor relations. If that is true, that it is the debtor-creditor relation that is the vital thing in the issue, is there not something to be gained from establishing a standard that shall somewhat mitigate the evils brought about by the present situation?

Professor SPAHR. I should answer that this way, that in debtor-creditor relationships, debtors pay creditors out of income. We must recognize that. A nicely stabilized price level probably would bring a high degree of prosperity in if this were a purely natural phenomenon, and I think we could assume that the income from which debtors pay their creditors and the money with which creditors are paid would be fairly stable and, therefore, that they would all benefit. I agree with that thoroughly.

But a stable price level in itself can rest upon all sorts of maladjustments, as I have said before. For example, you may have a tremendous amount of unemployment. We had a large amount of unemployment from 1928 on, in 1928 and 1929, through that very prosperous period, and we had a fairly stable price level. Our agricultural prices were very low; our agricultural situation was very bad, but we had a stable price level.

Mr. LUCE. You are getting away from my question.

Professor SPAHR. I am sorry. Maybe I did not understand your question.

Mr. LUCE. I am afraid that I have not made myself clear.

In my opinion, the interrelationship of prices is inconsequential.

Professor SPAHR. You mean the relationship between costs and selling prices?

Mr. LUCE. The relation between wages, rents, clothing, and all other things is not the issue before us here at the moment. We would, of course, like very much if that interrelationship could have less variation. I will illustrate by saying that rents have been found to rise more slowly than meats, and as the fluctuations proceed there are these countless interrelationships of which you speak. I have not those in mind now at all. I am referring to the relationship between all commodities and one, namely the standard, whatever it may be; namely, the relationship between the general price level and one, and when that changes from time to time, it does not in my judgment make a bit of difference to the interrelationships if they all rise and fall at the same time, which of course they do not do; but what I am driving at, what I am trying to bring home, is that the crux of this question seems to me to be whether it is incumbent upon us or whether it is practicable for us to prevent or to lessen or minimize these changes in the general relationship between all commodities and the standard commodity which works so much harm on debtors or on creditors.

Professor SPAHR. I think the weight of the evidence among the monetary authorities today is that we should do everything we can to get a stable price level, assuming things are nicely balanced, but if things are out of balance, it is far more important to see that the prices of the various things are in balance than it is to have a stable price level.

There has been a shift, in my opinion, in monetary thinking among economists who have studied the question very closely on that point, and I believe that shift has grown out of the experiences that we have seen since 1929, particularly.

There is one other point you made on which I should like to comment, and that is your relation of the gold unit to the price level. I assume that you include credit there, too, do you not?

Mr. LUCE. What?

Professor SPAHR. You include credit, of course?

Mr. LUCE. Oh, yes.

Professor SPAHR. Then I have no comment to make there.

Mr. Chairman, it seems to me that this is not a question that ought to be handled by the committee at this time. I think it would create further lack of confidence, and that is a thing that we do not want to do at this time.

Mr. GOLDSBOROUGH. What do you mean by "this question?"

Professor SPAHR. I am referring to the Patman bill which directs the Federal Reserve Board to try to maintain a stable price level. I think that that would be a very unwise thing to undertake at this time.

I should like to ask a question, to see if it might not strike a responsive chord. What would you think of the idea of this committee—instead of following through some of these bills, particularly since you have so many other things pressing upon you at this time that are tremendously important—resolving that you will appoint a national money and banking commission, made up of the best men that this country has, to study what might be done to make our currency as desirable as we know how to make it, to correct any defects that we may have in our Federal Reserve System—and they might prove to be rather minor—and to let that commission prepare a plan to give this country the best possible money and banking system?

That would free you gentlemen from having to spend your time on things that I believe you will find the weight of the evidence is against. You will have done, in my opinion, an admirable service to the country. You will say to the country, "We will get the best men we know of and put them to work." I should think that that would be rather easy. Of course, the House committee and the Senate committee jointly would be responsible.

Mr. GOLDSBOROUGH. Whom would you select?

Professor SPAHR. Oh, there would be simple standards. You know who the most mature men are, who have had the most experience——

Mr. GOLDSBOROUGH. We have had every one of those men before this committee, and we know their opinions. I personally may seem to be a little egotistical in saying this, but I think this board around this table here knows more about this subject than any board of similar size in the world.

Professor SPAHR. I would not want to raise that question.

Mr. GOLDSBOROUGH. We have heard the people that you say are the leaders in thought for 18 years, to my knowledge, and how many before that I do not know, and to create another commission, to be made up of people who have a self-interest, to tell us all over again to get back to the gold standard would not solve this problem.

Mr. SPENCE. I would like to know what your opinion is of managed currency. Are you in favor of the gold standard as it was?

Professor SPAHR. No. I personally would recommend a gold-bullion standard. That is a point that I think would have to come be fore the commission which would study this question; also whether or not this Nation would find it feasible to come back to a gold-bullion standard or any type of gold standard without first negotiating with England and France; and whether we cared to do it as a Nation independently of what they did. Timing may prove to be a very important factor.

The other point that I had in mind was this, that it would free you gentlemen from a lot of tedious work.

Mr. GOLDSBOROUGH. It is our business to do it.

Professor SPAHR. The idea was to bring the evidence to you and save that time. They would get their facts from the Federal Reserve and the Comptroller's office——

Mr. GOLDSBOROUGH. All of those things are available to us. We can get all of them, and we can get that more quickly and it is more available to us than to any other body in the world.

Professor SPAHR. But you have a million other things that you have to do.

Mr. GOLDSBOROUGH. Oh, no; we do not. This is our important problem.

Mr. LUCE. If I may press my question, and I will have to leave, I gather, Professor, that you do not place the debtor-creditor relationship as superior in importance to the interrelationship of which we have been speaking.

I want to tell you how I feel about that. When the war broke out, I had been accustomed to spending less than I earned for a good many years, and I had laid aside something against need, and sickness, and old age, and I saw the purchasing power that I had saved more than cut in two.

Now, after the war, I came here, and I asked to be put on this committee, and I will frankly admit that one of the reasons why I asked to be on this committee was that I might help toward getting back the purchasing power that I lost.

Mr. GOLDSBOROUGH. That is the most honest statement that I ever heard from a human being.

Mr. WILLIAMS. What success did you have?

Mr. PATMAN. I think that he should be well pleased with the present.

Mr. LUCE. As time went on, I saw gradually come back to me the purchasing power that had been gradually taken away, and along about 1929 or 1930 I was tolerably happy, and then we got into the depression, and then we empowered the President to take away from me two-fifths of all of my purchasing power, which was no great sum, but the President proceeded to take away from me two-fifths of my purchasing power, and now I am just as anxious to get that back.

So, speaking seriously, in my judgment the effect of the changes on the price level in the debtor-creditor relationship is of more importance than the changes within the price level of the relationships between different commodities.

Do I understand you think I am wrong in that?

Professor SPAHR. I should put it this way. In my own opinion, you are very correct as to the importance of debtor and creditor relationships, when you remember that probably 90 to 95 percent of our total transactions are on the basis of contracts involving credit extending over a period of time, but after it is all said and done, even those are transactions between individuals, and individual debtors must pay out of income.

Mr. LUCE. That does not bear on this question.

Professor SPAHR. I think it does.

Mr. LUCE. Of whether I get the money back?

Profesor SPAHR. Whether you get it back or not, whether you are a debtor or creditor, depends on interrelation as much perhaps as on the price level.

Mr. LUCE. I cannot follow you there.

Professor SPAHR. Let me take the next step. If we could concede that everything you say is true, I would say this next, that you could not possibly maintain a stable price level indefinitely if a large number of these factors that can overwhelm the price level should operate—for example, war, or some inflation, or some catastrophe that would precipitate a liquidation. There is no central authority on earth, in my opinion, that could then stabilize it.

So I must come back to the proposition that you could not do it anyway, that it just cannot be done. If you are going to stabilize, you will have to give your stabilization authority control over Government expenses, control over Government deficits, and over tariffs; and I might add that you would have to prevent your public officers from talking up prices and talking them down. You would have to prevent wars, and no central body controlling the money and the banking systems would ever be delegated any such authority.

Mr. LUCE. True, absolutely; but because you cannot accomplish perfection is no reason why you should not aim toward perfection.

Professor SPAHR. I agree that we should do everything we can, but the Board has all the power to do everything that can be done in that direction, and to make this mandatory on the Board would put it in a position where you soon would have no Board; you would remove those men rapidly because they could not control that price level. It is utterly impossible.

Mr. GOLDSBOROUGH. Professor Spahr, we have the reorganization bill on the floor, and all of us want to be there, and I expect that we will have to adjourn now. The committee can meet again tomorrow morning.

Professor SPAHR. I should like to offer the testimony of Professor Beckhart, of Columbia University.

Mr. GOLDSBOROUGH. That may be done, without objection.

(The statement submitted is as follows:)

CENTRAL BANKING AND CREDIT CONTROL—THE PATMAN BILL

By BENJAMIN HAGGOTT BECKHART, Columbia University

I

This measure provides for the Government ownership of the Federal Reserve banks; or perhaps, I had better say, it provided for the Government ownership of the Reserve banks. Changes have recently been made which shelve temporarily, at least, this provision. Though the provision calling for Government ownership has been shelved, it may again become part of the measure and may therefore, I think, be appropriately discussed. The bill continues to lay down certain mandates for Federal Reserve policy. The Federal Reserve banks are directed, first, to raise and then to stabilize prices. In event of inability or failure to comply with these provisions, the members of the Board of Governors may be removed.

The version of the bill introduced in the House of Representatives on the 25th of May 1937, according to the preamble, was endorsed by 152 Congressmen who constituted themselves an "Unofficial Steering Committee." Assuming that the endorsement on the part of these Congressmen, representing a substantial bloc in the House, is a bona fide one, the bill, on the basis of the political support accorded, if for no other reason, merits serious consideration.

A careful examination of the measure demands that we not only inquire into its probable practical consequences; but that we as well pass judgment on its underlying theoretical premises. Unless the theory is sound, the objectives of the bill cannot be realized. Nothing can be good in practice that is based on unsound theory. Failure in practical application is often indicative of erroneous theoretical premises.

II

As a necessary background for a consideration of the theoretical implications of the bill, we must review the present state of central banking theory and the changes that have occurred through the post-war period in the objectives of central bank policy.

Central banks are usually defined in terms of their functions. They are thought of as institutions which have a monopoly of bank note issue, which hold the reserve deposits of commercial banks, and which, in most countries, hold the entire gold stock. By virtue of the powers so delegated, central banks not only are institutions affected by a great public interest but are in a position to exercise what is termed "credit control." In the exercising of "credit control," it is universally agreed that profit considerations should be disregarded. The public welfare should be paramount.

At the present time the term credit control means all things to all people. According to the doctrines held, central banks are expected, in consequence of their operations, to raise price levels; to stabilize price levels; to bring about full employment (the three mandates of the Patman bill); to promote business recovery; to stimulate the capital markets and above all to maintain low rates of interest. The faith of many in the ability of central banks to achieve these different objectives is beyond all understanding. Many expect central banks by some financial hocus-pocus to usher in the Utopia. Confidence in the magic powers of central banks has not even been shaken by the events of the past few years, which certainly demonstrated that the full dinner pail cannot be achieved simply through monetary and credit manipulation.

Before the World War, the situation in this respect was quite different. Then the term "credit control" conventionally included simply those measures that were utilized by central banks to stabilize foreign exchange rates and to control gold movements. The objections of credit control were simple and definite. If gold exports were taking place or were about to take place, central banks raised discount rates. If gold flowed in, rates were lowered. Open-market operations, which have figured so prominently in the central-bank operations of the post-war period, were used sparingly. They were a mere "hand-maiden" to discount rate policy. Occasionally a few securities were sold to make an increase in bank rate effective, and a few purchased, in order to lower market rates as the bank rate was lowered. By and large open-market operations, however, played a role of secondary importance. Bank rate was all important.

Particularly in England did the bank rate possess great power in the control of gold movements. It did so largely by reason of Britain's international position. The dominant position of England in international trade; the monopoly of the London discount market in the financing of the commodity exports and imports of all countries; the far-flung ramifications of the British banking system, and England's place as a creditor power so controlled prewar financial relationships that the gold standard was virtually a sterling standard.

An additional factor in the successful use of the bank rate in pre-war England was the flexibility existing in internal prices and costs. A rise in bank rate not only raised the external value of pound sterling but, if long continued, would be reflected in a decline in domestic prices and costs. Wage costs adjusted themselves with reasonable speed to changed situations. Public and private debt were not so large that adjustments could not readily be made to increased interest rate costs. The portfolios of the British banks, consisting to a larger extent of self-liquidating paper and to a smaller extent of long-term investments, also possessed great flexibility. In the pre-war world, a balanced situation was maintained through small, frequent adjustments. Economic rigidities were less and the cost-price structure responded to bank rate changes.

The principles which governed pre-war British central bank policies were developed in the 60 years from 1797 to 1857. This 60-year period, including developments from the suspension of specie payment at the time of the Napoleonic wars to the crisis of 1857, was one of acute monetary controversy and of far-reaching monetary experiments. The monetary policies which were followed left much to be desired, but as so often occurs, the best monetary theory arises in periods of worst monetary practice.

III

Not only have the objectives of central bank policy undergone great change from the pre-war period, but the situation with respect to the external environment within which central banks operate, with respect to freedom enjoyed in the use of the bank rate, and with respect to general freedom of action is far different.

The external environment within which central banks must operate today, the first of the points mentioned, has greatly changed from the pre-war period. The international gold standard has been abandoned. International trade is no longer relatively free. It is hampered by high tariffs, quota restrictions, foreign exchange restrictions, and the like. Autarchy has been substituted for international liberalism. Funds are no longer permitted to flow freely across all frontiers. Capital markets do not function as freely as they did in the pre-war period. Even England's exports of capital are subject to rigorous, if extralegal controls.

In the second place, central banks are restricted in the use of the bank rate, which, in the pre-war period, was the chief weapon of credit control. The huge increase that has taken place in public and private debt makes the rate of interest so important as an item of cost that central banks cannot inaugurate policies that would raise rates in the money market. Particularly governments, in view of the growth in governmental debt and the need from time to time to float refunding issues, are very reluctant to witness any increase in money-market rates. The very large volume of long-term securities in the portfolios of commercial banks, purchased to a certain extent at low interest rate yields, constitutes another deterrent to the control of credit through the use of interest rates. Important capital losses would result from rising interest rates. Bank portfolios have lost their pre-war quality of resiliency. By virtue of these various factors, central banks must attempt to control credit in ways that do not influence rates of interest, this is a contradiction in terms, in as much as an effective policy of credit control means higher interest rates.

Nowhere do these observations apply with more force than to conditions in the United States. The fiscal needs of the Treasury and the large volume of bonds held in the portfolios of the commercial banks, are obstacles to the use of the bank rate. The situation requires that member bank recess reserve balances be kept sufficiently high that money market interest rates will remain low. Every means must be directed toward that goal. Obviously there are limits to the ability of monetary authorities over an indefinitely long period to control rates of interest—ultimately they must rise—but in the short run they can be controlled and doubtless will be even at the expense of a certain amount of commodity price inflation.

And finally the role of central banks in the matter of credit control has been challenged if not assumed, by treasury departments. In many countries the central banking functions of treasury departments have superseded those of central banks. By the central banking activities of the Treasury are meant those activities that affect member-bank reserve balances. Such activities thus include monetary devaluation, the operation of the exchange stabilization fund, silver purchases, etc. Of our two central banks, the Federal Reserve banks and the United States Treasury, the central banking activities of the Treasury, as so defined, have been, since 1934, the active force in our credit organization. The Federal Reserve banks have played a relatively passive role.

The Treasury, by reason of its monetary powers, is in a position to nullify any restrictive policies the Federal Reserve banks might follow, assuming that they were willing to follow a policy contrary to that of the Treasury Department. This could be accomplished through the use of the profits of gold devaluation, through use of the inactive gold fund and through silver purchases. In addition, the Thomas amendment is still on the statute books which gives the administration power to force the Federal Reserve banks to purchase up to a maximum of $3,000,000,000 of Government securities.

IV

The Patman bill represents an inevitable sequel to monetary and credit developments taking place in the United States in recent years. No longer are the Federal Reserve banks independent agents in the determination of credit policies. Treasury policies and powers are dominating. Of necessity, interest rates must be kept low. Bank rate must not be used as a weapon of credit control. If need for the control of credit should arise, other means must be substituted. These substitute measures, such as the raising of member bank reserve requirements, gold sterilization, or the lifting of margin requirements must themselves not proceed to the point where interest rates are affected.[1]

The destruction of the last vestige of independence of the Federal Reserve banks by the Patman bill is not, in my opinion, the road to a well-ordered economy or to a sound banking system. Economic and financial policies should not be predicated on Treasury needs. Central bank policies should be formulated independently of such needs and in consequence of judgments independently arrived at by competent authorities.

Rather than to proceed further along the present route, we should reverse our direction. We should restore independence of judgment and policy to the Federal Reserve banks. To do so, it is essential that the Federal budget be balanced; that excess reserves be eliminated; and that we get rid of the central banking functions of the Treasury. The mere statement of what is required makes clear the great difficulties in the way of achieving this goal.

The Patman bill works in the opposite direction. Although the Federal Reserve banks have little independence in the determination of credit policies at the present time, they are privately owned; and although the restraint which they exercise upon Treasury policy might be likened to a barrier of straw, even this barrier would be removed under the proposed legislation. The enactment of the Patman bill would make it impossible for the Reserve banks ever to regain their former position of independence.

V

To summarize the main provisions of various versions of the Patman bill:

1. The Government ownership of the 12 Federal Reserve banks is to be accomplished by establishing a credit for member banks on the books of the

[1] In this connection, it will be recalled that the doubling of member bank reserve requirements had only a negligible effect on short-term rates of interest and that when the gold sterilization policy began to be reflected in rising interest rates, it was reversed.

Federal Reserve banks qual to the paid-in portion of the stock subscriptions of the member banks, upon surrender by the member banks of such stock to the Secretary of the Treasury. In the most recent version of the bill, provision for Government ownership has been eliminated. Notwithstanding this omission, the nationalization of the Federal Reserve banks apparently is an obsession with certain of the proponents of the measure. It might be reinstituted in some future revision and, in consequence, deserves to be discussed.

2. The Federal Reserve banks are directed to raise prices until full employment shall have been achieved and until the index number of wholesale prices as computed by the Bureau of Labor statistics shall at least have reached the 1926 level. Incidentally, this provision is quite ambiguous. It is not clear whether the price raising activities of the Federal Reserve banks are to continue beyond the 1926 level, if full employment has not been attained.

3. The Federal Reserve banks are directed to formulate their policies so that injurious expansions and contractions of credit and of currency may be avoided, and that a dollar of uniform purchasing power may be maintained. A type of dollar is to be established which over a generation will have the same purchasing and debt-paying power.

4. All banks that are members of the Federal Deposit Insurance Corporation are to share in the rights and privileges of membership in the Federal Reserve System.

5. The sound local bank is to be encouraged. The implication is that the local bank has made the principal contribution to financial betterment in distinction to branch- or chain-banking system.

VI

To discuss in the first place the "political" provisions of the measure, the version of the bill introduced on May 25, 1937, provides that the Board of Governors of the Federal Reserve System is to consist of 15 members, including the Secretary of the Treasury, the Comptroller of the Currency, the Chairman of the Federal Deposit Insurance Corporation as ex officio members, and 12 others appointed by the President. The bill also provides that all directors of each Federal Reserve bank are to be appointed by the President. Member banks thus are no longer to elect the class A and B directors of the Federal Reserve banks or the Board of Governors of the Federal Reserve System to appoint the class C directors. It is also provided that the directors of each Federal Reserve bank so appointed by the President are not to be officers, directors, employees, or stockholders of any bank. The Federal Advisory Council and the Federal Open-Market Committee are to be abolished. The powers of the Federal Open-Market Committee are to be assumed by the Board of Governors of the Federal Reserve System.

The bill provides thus for a complete political control of the Federal Reserve System. The ex officio membership which was eliminated by the Banking Act of 1935 is reestablished. The Secretary of the Treasury, whose influence on Federal Reserve policies Carter Glass once said had always been a pernicious one, resumes his place as a member.

The fact that all of the directors of each Federal Reserve bank are to be selected by the President eliminates whatever voice member banks have had in the policies of the regional institutions. The elimination of the Federal Advisory Council assumes that not even the advice of the banking community is desired.

The provisions of the bill imply that banker representation is ex-parte and hence not to be desired, and that banker representation works against the public welfare. Past experience has shown, however, that the directors of the Federal Reserve banks, elected in part by member banks and consisting in part of persons active in banking, frequently have sponsored policies, which would have been more beneficial from a broad social point of view than the policies actually adopted by the Federal Reserve Board, which presumably was more representative of the public welfare.

The proposed bill destroys the independence of the Reserve banks through centralizing all control in Washington. It might well be inquired whether this change makes any real difference, whether the substance of independence has not already been surrendered. Even though this largely be true, that iota of independence, however, which the Reserve banks still possess is eliminated by the proposed bill. The Reserve banks become for all practical purposes a bureau of the Treasury Department. If the proposed measure is enacted, it will be impossible for the Federal Reserve Banks to regain their independence.

VII

Proceeding to a discussion of the economic premises and features of the bill—of great significance is the power delegated to the Board of Governors of the Federal Reserve System over member bank reserve requirements. It is provided that the Board of Governors may change requirements in reserves to be maintained against demand or time deposits or both by member or affiliated banks. The term "affiliated bank" refers to a bank which, as a member of the Federal Deposit Insurance Corporation, shares in the privileges of membership in the Federal Reserve System and which carries its reserves with a Federal Reserve bank. The power to change reserve requirements is complete.

Reserves may be raised or lowered against demand accounts without affecting reserves against time accounts. And, conversely, reserves may be changed against time accounts without affecting the reserves maintained against demand accounts. Reserves may be changed in one locality without being altered in another. Reserves could be so defined as to include assets other than realized deposits with the Federal Reserve banks. Government securities could be included. The powers are so extensive that the bill could permit the introduction of the so-called 100-percent-reserve plan.

According to the provisions of the measure, member-bank reserves are to be altered to prevent injurious credit expansions or contractions. As a practical matter I doubt whether the Reserve System, limited in its freedom of action and dominated by Treasury policy, would be permitted, under the provisions of the bill, to raise reserve requirements to prevent injurious expansions of credit. The fact that the present depression took place following upon a doubling of member-bank reserve requirements would make monetary authorities extremely hesitant to make a second use of this power. I do not mean to imply that there was any cause and effect relationship between the doubling of reserve requirements and the present depression. In my opinion there was none. But the fact that the depression occurred within a short time interval after the raising of reserve requirements has led many to assume a cause and effect relationship, though none existed.

It is only credit contractions which in the past have been regarded as particularly injurious by political authorities, who, of course, under the provisions of the bill, would direct and be responsible for Federal Reserve policy. With the Federal Budget unbalanced and with the Treasury confronted by huge refunding operations, it is doubtful whether, as a matter of practical credit policy, credit expansions would ever be held injurious.

It was not the credit expansion from 1914 to 1920 which was regarded at the time as particularly injurious but rather the credit contraction from 1920 to 1921. Nor were the credit excesses from 1923 to 1929 regarded as particularly injurious until the damage had largely been done. It was the credit contraction, from 1929 to 1933, which was regarded as the injurious aspect of the cycle. Political authorities never realize that credit contractions are an inevitable consequence of previous credit excesses.

At the present time, with the Treasury heavily involved in money-market fluctuations, our banking system more than ever has become a one-way system, permitting expansion but not contraction. It is almost certain, therefore, from a practical political point of view that this particular clause of the bill would be interpreted to mean that only credit contractions would be considered detrimental. That readjustments in economic life are necessary after periods of overexpansion would be disregarded.

Such would likely be the operation of the Patman bill in practice. It would create a one-way banking system. The Federal Reserve banks as well as member banks would be completely subordinated to the fiscal needs of the Treasury.

VIII

To attack a bill on its probably practical consequence is in itself not sufficient. Situations might change which would nullify our conclusions. Hence we must examine the theoretical premises to see if they are sound and if the objectives are theoretically attainable. The theoretical premises may be summarized as follows:

1. In its mandates relative to policy the Patman bill gives sole emphasis to the liability side of bank statements. The assumption is that there is a direct line of causation between the one liability, demand deposits, and business activity and prices. The bill directs the Federal Reserve banks to raise the volume of

demand deposits through the purchase of securities in the open market until a condition of full employment has been reached and until the 1926 price level has been attained. Time deposits are disregarded. The theoretical assumption of the measure is that demand deposits are all important. Other liabilities and other assets can be disregarded. Changes in the type and character of bank assets can be ignored. Bank credit is taken as synonomous with and identical to demand deposits. Apparently it is a matter of indifference as to whether assets consist of commercial loans, real-estate loans, or security loans, and whether the assets are good or poor in quality. A similar fallacy appears in the reasoning of those who have advocated plans for the guaranty of bank deposits. They, too, emphasized the liability side of the bank statement, bank deposits, to the exclusion of bank assets. They disregarded the fact that a guaranty of bank deposits is in effect a guaranty of bank assets.

The bill assumes that bank credit is represented by demand deposits alone and that any increase in demand deposits will react similarly upon the economic system. In their economic effects, demand deposits are assumed to be homogeneous. This assumption is contrary to past experience which has shown that increases in demand deposits accompanying increases in mortgage loans or bond investments react quite differently upon the economic system than do increases in demand deposits resulting from commercial loans. Experience of the past also indicates that the role of time deposits cannot be ignored.

2. The bill assumes that employment will be large when prices are rising or when prices are high and assumes a direct relationship between the volume of demand deposits on the one hand and employment and prices on the other. If unemployment is increasing, the remedy is to raise the volume of demand deposits. Or if prices are low or are falling, again the remedy to be applied is to raise the volume of demand deposits. The influence of technological changes on prices, the influence of deposit velocity, and countless other factors are disregarded.

It has been shown conclusively that deposit velocity or the use of demand deposits, which has an importance for prices equal to that of deposit of volume, cannot be controlled by the monetary authorities. The use of bank deposits is a function of the confidence of the community in political and economic developments. A decline in deposit velocity may easily offset an increase in deposit volume. England's prosperity since 1932 has been characterized by increased deposit velocity. Confidence ran high and deposits were used. In this country confidence has been at a relatively low ebb and demand deposits have not been used. Deposit volume increased in consequence of deficit financing but the use of bank deposits did not rise as it did in England.

3. The bill assumes that it is possible to raise prices to a certain level and then to stabilize them at that level. Once the 1926 price level has been attained, deviations either way are not to exceed 2 percent. The failure to raise and to stabilize prices on the part of the Governors of the Federal Reserve System constitute grounds for removal from office. In my opinion it is impossible to raise and then to stabilize prices. To the extent that the effort to raise prices to the 1926 level through sharp increases in demand deposits succeeds, various distortions and strains will be introduced in the price system. The situation will be such that prices cannot be maintained at this higher level. They must either continue to advance or they will decline. An attempt to stabilize prices will precipitate a decline. It is not possible to stabilize prices on a plateau reached through monetary and credit expansion.

4. In the emphasis it gives to general price changes, to a general price index, which is nothing more than an average of all prices, the bill is rooted in another fallacy. It is not fluctuations in the entire index which are important. Rather it is changes in relative prices. It is the fact that certain prices lag behind others that brings a period of active business to an end. A rapid relative rise in raw material prices or in wages will likely terminate a boom and induce a depression. These disparities become exaggerated when efforts are made to raise all prices. Certain prices lag behind, others advance rapidly. Certain industries become overexpanded. Others lag behind. The economic system gets out of step and the time is ripe for violent readjustments. These price disparities are not so likely to arise if the monetary authorities refrain from expanding credit in the effort to raise the general average of prices.

5. The injunction to raise prices to the 1926 level is based on a statistical fallacy. It assumes a statistical norm. It assumes that economic conditions have not changed since 1926. It assumes that technology is the same, that the position of various producing groups is the same, that world trade relations have not changed, that capital markets are functioning freely. It assumes

that we can turn back the hands of the clock and ignore all intervening developments.

6. The bill assumes that injurious credit expansion and contractions reflect themselves in changes in price-index numbers and that these changes injuriously alter the status of debtor and creditor. This assumption disregards the fact that injurious credit expansions are not necessarily reflected in general-price-level changes. Though price indices from 1924 to 1929 were fairly stable, injurious credit expansions in real-estate loans, security loans, and the capital markets were occurring, which proved to be among the principal causes of the great depression. Those who through this period gave exclusive emphasis in their analysis to the general price level missed completely the significance of these changes.

7. Even if injurious credit expansions invariably reflected themselves in price changes, it would not be possible to compute an index number of prices which would reflect the ability of all classes in a community to pay debts. The ability of a farmer or of a manufacturer or of a corporation to repay indebtedness is largely a function of the relationship of their respective costs of production to the prices of those goods, labor, and materials, which they must buy. Stability of purchasing power does not mean stability of debt-paying power. If a corporation is able to reduce production costs, its debt-paying power is increased, though price indices remain the same. A householder is able to repay his mortgage indebtedness the easier if the cost of living declines relative to his income. The ability to repay indebtedness and stability of purchasing power have little in common. These two objectives of the bill are mutually inconsistent, assuming that they could be attained.

IX

The theoretical assumptions and premises of the Patman bill are false. Fluctuations in prices and economic activity are not a function of changes in bank deposits. If they were, mathematicians should be placed in charge of our banks. Bank-credit department could be abolished and bank-credit analysis abandoned.

If prices and economic activity could be controlled by credit and monetary means, the price level at the present time would be far higher than the one existing, and business would be extremely active. Never in the history of this country have such far-reaching measures with respect to currency and credit been taken, as has been the case since 1933. Yet despite the announcement by President Roosevelt in the early part of his administration that the monetary objective was to raise the wholesale-price index to the 1926 level, and despite the far-reaching monetary and credit measures that were adopted, including security buying by the Federal Reserve banks, the devaluation of the dollar, and the purchase of silver, the goal has not yet been attained. Not only has the wholesale-price level failed to reach the 1926 level, but in recent months it has been declining coincident with the business depression. And despite the measures taken, business activity in this country has lagged far behind that of England where relatively modest stimulants were employed. The effect of governmental policy on business confidence, the effect of tax enactments, of increases in wages, etc., have been of far greater importance for business than has monetary manipulation.

Past experience points to the conclusion, contrary to the assumptions of the Patman bill, that business fluctuations cannot be controlled by monetary means. To a large extent the business cycle is evidence of economic growing pains. Technological changes, spurts in capital formation, account for periods of good and bad business. Only if we were able to stabilize the production of durable goods could the business cycle be eliminated. We cannot rid society of booms and depressions by trying to control credit in some mechanistic fashion.

At the time of the passage of the Peel Act in England in 1844, which constitutes the present charter of the Bank of England, the statement was made that the enactment of this measure would eliminate the trade cycle. Certain mechanistic controls were established which, it was said, would do away with monetary crisis. And yet within 3 years after the passage of the act, England experienced one of the most severe crises in her history. At the time of the enactment of the Federal Reserve Act a similarly optimistic picture was drawn. The statement was frequently made that unemployment, depressions, and panics would be banished forever.

Those who hold to the monetary thesis of the business cycle and to the monetary thesis of economic activity and prices mistake the shadow for the substance. They mistake the shadow of money and credit for the substance of real economic forces. The aim of all economic activity is to increase the production of goods and services. We must think of national income in terms of services and goods produced and not simply in terms of money income.

Monetary and credit policies cannot in themselves force a genuine recovery where the basis for it does not exist, nor can they convert a poor into a rich country. Monetary and credit policies are no substitute for that industry and thrift, which alone constitute the basis of the prosperity of a nation. Increases in real wealth can result only from an intelligent exploitation of natural resources, from a considered use of labor power, from a balance in the cost-price structure, from the establishment of free competitive markets and from the encouragement of international trade.

Though our knowledge of cyclical fluctuations is too limited to make many definite conclusions, one which I believe we can draw is that disturbances from the side of the credit system can be eliminated only by maintaining the quality of bank assets. Emphasis should be laid upon the quality of bank assets and not, as is the assumption of the Patman bill, on the quantity of bank deposits. Bank loans should be made only after careful appraisal of the credit of the borrower and governments should not have recourse to the banking system in the financing of fiscal deficits. Any attempt to carry out the provisions of the Patman bill would at the most give our economic system a temporary spurt, followed inevitably by a later serious readjustment.

Not only are the theoretical premises underlying the bil lfause but, as indicated before, the practical results would be most undesirable. The Federal Reserve banks would be placed under the complete control of the Treasury Department. Member banks would have no voice in the policies or activities of the Federal Reserve System. All barriers would be removed to a quick access on the part of the Government to Federal Reserve and member bank credit. More than ever the banking system would become a one-way system.

In this one-way banking system the commercial banks would be subject to the ever-present possibility of changes in reserve requirements and this in itself would introduce great uncertainty in bank operations.

X

A sound credit system cannot evolve when a central bank is given a subservient status. We should take measures which will restore the Federal Reserve banks to their proper role in the credit system. We must restore their independence. The measures that are necessary in order to accomplish this include:

1. Provision for banker representation on the Board of Governors of the Federal Reserve System. The method of selecting the directors of the several Reserve banks should be continued unchanged.

2. The elimination of the excess reserves of member banks in order that small open-market operations on the part of the Federal Reserve banks will produce important effects in the money market. An effective policy of credit control on the part of central banks is based on small and delicate adjustments in the reserves of the money market. And such delicate adjustments can only take place if the reserves of commercial banks are close to the legal minimum. This action would have the important byproduct of causing interest rates to rise to their normal levels. Until excess reserves are eliminated bank credit will not be granted on an economic basis.

3. The balancing of the Federal Budget in order to eliminate the Treasury as an interested party in the money market.

4. The repeal of all silver legislation.

5. The utilization of the profits of gold devaluation to retire that part of the Government debt held by Federal Reserve banks. This would be a non-inflationary use of the gold profits and would put the Reserve banks in a more liquid position.

A catalog of the measures necessary to restore the Federal Reserve banks to their proper role in our credit structure provides one with a vivid realization of the magnitude of the task. Such measures are diametrically opposed to the thesis of the Patman bill and will be invoked, I fear, only in consequence of a public opinion aroused to the necessity of maintaining a banking system free of political influence. However, they are essential if the money market is to function in a normal fashion. Until such time as bank credit is granted once again on an economic basis the danger of inflationary price distortions will remain. Credit as a factor of disturbance in economic fluctuations will not be removed until emphasis is placed on the quality of bank assets. The quality of bank assets must be given primary emphasis. The quantity will then take care of itself. Quantitative manipulation has always led to qualitative deterioration.

Professor SPAHR. There is just one more sentence. I heard Dean Phillips and some of the others mention the Swedish price level in connection with price-level stability. I should like to refer you gentlemen to the fact that the Swedish price level has fluctuated 33 points, and ours has fluctuated only 35. Opinion as to stability of prices in Sweden has been much overemphasized here.

Those are the only comments that I should care to make, and I should like to say that we appreciate your courtesy in hearing us.

Mr. WILLIAMS. Just one question.

Did I understand you to say that there is no fixed relationship between price level and unemployment?

Professor SPAHR. No; I did not say that.

Mr. WILLIAMS. I understood you to say that we had a very stable price level in 1928, and a large amount of unemployment.

Professor SPAHR. Yes.

Mr. WILLIAMS. You would not say that the rise in the cost of living is followed by an increase of employment in a fixed ratio?

Professor SPAHR. No; I should not think so.

Mr. WILLIAMS. Is there any fixed relationship between prices and employment?

Professor SPAHR. No fixed relationship that I know of.

Mr. WILLIAMS. We have been told with considerable finality that there is an absolute relationship between them, that as the prices rise, employment rises with them.

Professor SPAHR. I should think that that is true, but not in any fixed ratio. It would depend to a large extent on what caused your price level to rise.

Mr. GOLDSBOROUGH. The committee appreciates very much this statement that you made to the committee, and does not want to cut off anyone within reasonable limits whom you would like to have heard. In fact, the committee would like to hear you. We are very sorry that we had to break our schedule yesterday.

Professor SPAHR. We understand that thoroughly.

Professor Bradford, of Lehigh University; Professor Agger, of Rutgers University; and Professor Patterson, of the University of Pennsylvania, were here and could not be heard. Professors Sprague and Kemmerer thought that they might be able to come, but found that they could not, so we have done the best we could, and you have permitted us to introduce the testimony of these 36 men. That is an economical way to do it. You have also permitted us to introduce the statements of the 72 men, and we have done that, in the hope that they would be of service to you. If you should like to call on any of our other members to come, we shall do our best, and if you should like to ask for evidence of any sort, we should be glad to accommodate you, because that is the one function we have—to be of service in any way that we possibly can.

Mr. PATMAN. As far as I am concerned, I am finished. I am ready to take the bill up under the 5-minute rule.

Mr. GOLDSBOROUGH. You take that up with the chairman.

(Thereupon at 12:10 p. m., the committee adjourned, subject to the further call of the chairman.)

GOVERNMENT OWNERSHIP OF THE 12 FEDERAL RESERVE BANKS

TUESDAY, APRIL 5, 1938

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

Hearings on H. R. 7230 were resumed at 10:45 a. m. Hon. T. Alan Goldsborough presiding.

Other members of the committee present: Mr. Reilly, Mr. Williams, Mr. Spence, Mr. Meeks, Mr. Ford, Mr. Patman, Mr. Evans, Mr. Transue, Mr. Gifford, and Mr. Luce.

Mr. Goldsborough. The committee will come to order, please.

Gentleman, Mr. Williams, of the Federal Reserve, was down to see me Saturday, I think, and he stated that Mr. Eccles was still away and would not be back until, I think, Saturday of this week, and also another member. They would like to appear next Tuesday, so I told them that as far as I knew that would be satisfactory to the committee. So the members of the Federal Reserve will meet with us in executive session next Tuesday at half past 10.

Mr. Patman. Before you call the witness, let me ask Mr. Wilcox the name of the man who addressed the Iowa Bankers Association last year. Was his name Goodrow?

Mr. Wilcox. Goodbar.

Mr. Patman. He is a well-informed man, and has traveled all over the world. I think he is a man that the committee would like to hear, and he wants to be heard by the committee.

Mr. Goldsborough. When?

Mr. Patman. Any time. Suppose that we make it about Thursday, since the Federal Reserve Board will not be here.

Mr. Goldsborough. Is he here?

Mr. Patman. He will be here. He lives in New York.

Mr. Goldsborough. Will you take care of that, Mr. Weed?

Now, there is one other thing. Congressman Gray has been asking for a very short hearing for some time, and I told him that we would hear him this morning. He only wants 5 minutes, but I do not think that that is exactly right. We will ask Mr. Gray to conclude in 10 minutes, if possible.

We will hear you now, Mr. Gray.

STATEMENT OF HON. FINLY H. GRAY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Mr. Gray. I just want to disabuse your minds or lift any fear or apprehension that you have that I want to impose myself upon the committee, or to make any demands upon you whatever. I only wanted to make a statement, more for the purpose of calling your attention to my series of radio addresses on the causes and the remedy for the 1937 depression. I have already delivered two of these addresses over WOL, and the next address will be next Saturday evening at 9 o'clock, at which time I am going to try to give you the important cause of the 1937 depression. I am going to try to go into detail. I am going to try to name persons, places, and dates.

While Congressmen are interested generally in causes of panics, I know that you are more interested specifically and particularly in the cause of this panic, and I have come to realize that we are facing an emergency that we ought to meet before the adjournment of this Congress. I think it is a dangerous proposition for this Congress to adjourn without passing some measure, providing some measures, to remedy this depression, and I have filed a brief bill for that purpose—9602 happens to be the number.

Next I want to further disabuse the minds of the members here who have filed other bills that this bill that I have will interfere in any manner with the consideration of the other bills or the passing of these other bills. After this bill that I am proposing is passed, if it is passed, there will be just as much necessity for the Patman bill or for the Goldsborough bill or the Binderup bill or other bills as there was before.

Now, I endorse many of the features of these bills. In the Patman bill the interesting feature is Government ownership. But there are some things that I do not like about it, for I feel that we should renovate and disinfect the banking system before we should take it over.

Then, I approve some things about the Binderup bill. I know more about Mr. Goldsborough than I do about his bill. I know about the former bill of Mr. Goldsborough, and there have been some witnesses here, one in particular, who greatly impressed me.

Now, I will hand a copy of my bill to each of the members present. I will give a copy to Mr. Patman and another copy to Mr. Williams——

Mr. Williams. Thank you.

Mr. Gray. And to my good neighbor, Mr. Reilly, who is skeptical about my proposition, and I know that he will want to see a copy of the bill; and here, of course, is a copy for our gracious chairman.

Mr. Goldsborough. Thank you.

Mr. Gray. Mr. Chairman and gentlemen of the committee, I am not providing for the enactment of a single new currency law. I am not asking for the creation of a single new board or bureau—not one. I am not asking for the creation of a single new office or official of the Government, and I am not calling for any new or novel kind of money. I am taking the money just as we have it today. I am not asking for any token money, or any scrip money, or any new or novel money whatever, or any interbank money. I do not say that with any disrespect to Mr. Goldsborough, because I want him to demand that.

I am only asking you to use the money that we are using today, money that is redeemable and convertible, either 40 percent gold behind it or 100 percent gold behind it, or whatever it is, but I am asking for this money that we have over $346,000,000 of in use today, which goes everywhere and is accepted everywhere.

Now, in this bill I am not calling for any witnesses, for the reason that I have nothing to prove that others have not accepted. I am not calling in any experts at all, because I have nothing new or novel or untried that requires experts to theorize upon; and I am not bringing in any maps or plans or charts or anything of that kind, with all due respect to those who have, because I have nothing that requires illustration by maps or plans.

All that I have here in this bill is provided for in a mandate to be issued by Congress, directing the existing public officials to exercise existing powers and authority of the Government to carry out a certain policy of currency operation, and that is to restore and stabilize and maintain the general commodity price level.

Now, I have been working on a bill myself, and I realize the futility of ever trying to put a bill in at this time and to get consideration of it and to get it in operation before we adjourn Congress. I am very much opposed to this Congress adjourning until we have taken some action and until a measure is placed upon the statute books providing for this mandate, and until that law is in force and operation we should not leave Washington. That is my position, gentlemen.

Now, as I have said, these other bills are not in any way supplanted or affected by my bill. This is more of a temporary expedient. I realize now that you members have been here a good while, and that you may look upon my proposition here with some apprehension, and believe that it is one of those visionary schemes. I am taking the world as it is, and not as it ought to be. So far as currency legislation is concerned, I am satisfied with the existing order of things—I am assuming to be satisfied. This is not all that I want, but it is what I think we can get. This bill could be passed. It involves no controversial issues whatever. It is nothing new. This bill can be considered in 1 day, and it can be passed, and it can be put in force and operation before the Members of this Congress leave Washington; and I do not know whether I have any power or influence or what my principles would amount to, but I am taking the position that this Congress has no moral or legal right to leave Washington until something is done.

Mr. GOLDSBOROUGH. Mr. Gray, are you watching the time a little bit—that 5 minutes that you were talking about?

Mr. GRAY. I will close now. I know that your time is very precious.

Mr. GOLDSBOROUGH. We have a gentleman here from out of town.

Mr. GRAY. I know, and I won't impose upon you.

Mr. GOLDSBOROUGH. It is not an imposition.

Mr. GRAY. I will just ask his pardon, and say that this is all that I have, and I believe that if this bill could be passed and put in force and operation, the Members of this Congress could meet prosperity at the train when they went home, instead of the frown of another depression.

Just one more thing. I want you to realize that I know how I am surrounded, and I know what is in your mind. An illustration is when Stephenson invented the steam engine, or the locomotive. He went before a committee like this in England, to get a little appropriation to start a railroad. They heard Stephenson, and in order to discredit him, they thought that they would draw him out so that he would make a statement that would discredit his proposition.

They said to him: "Do you think you could run these trains at 15 miles an hour safely?"

Stephenson said, "I think you could." They then asked him: "Do you think that you could run these trains on these tracks at 20 miles an hour safely?" Stephenson said, "I believe that we could, with proper precautions."

They led him on, until they got up to 30 miles an hour, and he replied that he believed that it could be done. Then the committee broke up in great uproar, and he was discredited in their view.

Now, when I tell you that I believe that if this bill were passed today, and the news went out to the country that this money was going to go out in order to restore, stabilize, and maintain the 1926 price level—I say, if that were done, I think that this panic would halt tomorrow, and I think that in 30 days you could detect a change in the condition.

As I said, I realize what is in your minds, and realize that perhaps I am discredited, but I have faith in myself.

Now, I will speak next Saturday night over WOL, at 9 o'clock, and will try to give you the important causes of the 1937 panic, which I predicted a year ago last March on the 16th day; and I think that I will be able to name time, places, and men, and I will show how this Congress was deluded and deceived; and I think I can show how the President of the United States was misled, deluded, and deceived through a certain official to make his statement that prices were too high.

Now, I thank you for your consideration. I am not going to make any demands of you. If you want to give me a hearing on this bill, you can ask me to come in, and if you do not ask me, I will not impose upon you at all.

I thank you. I would be glad to have you all hear me next Saturday at 9 o'clock; and, Mr. Luce, I thank you for coming in at the eleventh hour.

Mr. Goldsborough. Congressman Gray, on behalf of the committee, I want to assure you that this committee has the greatest respect for your opinions, and for your service in this monetary situation, and for any views that you may have. That you are imposing on the committee, or that the committee is not interested in your views, is a mistaken notion. We are very happy to have had you and to have heard you.

Mr. Gray. Just this suggestion. I would be willing and glad to have a hearing for just 1 day. I would not want any more. I do not want a great deal of time, and I would not ask the committee for it, because I know that I then would not get any consideration at all, but I would like to give you my views on this bill.

I thank you, and I want to apologize to these eminent gentlemen who have come from a distance for keeping you, and I invite you to hear me on next Saturday night on the causes of the 1937 depression, and I think there is one existing.

STATEMENT OF PROF. RAY B. LEFLER, DARTMOUTH COLLEGE

Mr. Goldsborough. We have with us this morning Prof. Ray B. Leffler, of Dartmouth College, who will discuss H. R. 7230.

Professor, would you care to finish your statement before you are questioned, or otherwise?

Professor LEFFLER. I do not have any fully prepared statement. I have a good many notes here, and I might perhaps give my impressions from those, and then afterward, if you wish to ask questions, I would be glad to try to answer them.

Mr. GOLDSBOROUGH. When you have finished, the committee will doubtless want to ask you questions.

Professor LEFFLER. In looking over this bill as other bills that I have seen from time to time, my first reaction is whether or not this bill is something that would perhaps improve the particular field that it is intended to affect, and I think perhaps that is the usual approach of a research man, or of a scholar, to inquire whether or not the conditions as they have existed under the present law are quite undesirable and for that reason we would want to consider some change perhaps in the law; and secondly, to analyze the bill itself and to see whether or not the provisions are likely to improve the situation.

In academic circles, very often we find people who are a little bit disappointed with conditions as they are regarding the curriculum or regarding administration, say, and they suggest something else. Very often that change, if analyzed carefully, might give us poorer results, worse results, than we have from the existing organization, the existing system.

So I feel when I look at a new bill or a new suggestion that, probably, there are certain things in our present set-up that do not work perfectly, but does it seem reasonable to think that the suggestion as presented in the bill would be an improvement? It is possible that changes might even make the conditions worse rather than improve them.

So I would like to raise that question in connection with this bill, whether or not we would realize the improvements that we hope for, and just what are the devices or methods for realizing those improvements?

Secondly, I always like to look to past history to see whether or not these things have been tried in this country before, or in other countries, and as I note this particular bill, it seems to me that the main point is stated, although I am told that perhaps the emphasis is shifting somewhat, to be the Government ownership of the 12 Federal Reserve banks, the central banking system of the country; and looking back to our own experience in banking, I find that such Government ownership would be quite inconsistent with our experience.

It is true that the Government did have a minority ownership in the first and second banks of the United States, but a relatively small minority ownership.

In looking to the foreign countries and to the ownership of their central banks, I find again that they have been privately owned for the most part, although, of course, admitting that there has been a considerable amount of Government control and Government pressure on the banks, particularly during the World War and since.

With those ideas in the background, the question is raised whether or not these particular changes would tend toward progress and improvement, and it also raises the question whether or not they are consistent with our traditions and our experiences.

Perhaps the next point is a brief review of just what you would expect of the central banking set-up and its position in the banking mechanism. I think most of us have agreed that the banking system of a country is supposed primarily to provide desirable elasticity for economic activity, to increase the media of exchange, particularly deposit currency, when business improves. When business contracts we would expect that the total media required would be less, and so the ideal banking system would absorb it, would change the supply of media in accordance with the demands for such media, in accordance with economic activity, production, trade, and so on.

That, of course, includes more than the central banks, the Federal Reserve System. After all, the businessman deals with the local bank. Whether he is a manufacturer, or a storekeeper, or a farmer, he makes an increased demand or a decreased demand at his local bank, and that, in turn, may be tied or related to the Federal Reserve—the central banking mechanism. But regardless of what the central-banking policies may be, we are not sure that they are going to affect business finance unless the local banks reflect these Federal Reserve policies—changes in the rates, or the open-market policies, whatever they happen to be. So we could make a good many changes affecting the Federal Reserve banks and not be sure that they would have any effect on the credit which the people of the country use, because the public deals not with the Federal Reserve but with the member banks. These member banks sometimes are closely tied up, and sometimes rather loosely tied up, with the Federal Reserve.

Then there are, of course, thousands of State banks that are not tied up at all with the Federal Reserve System as members. Thus, it seems to me, that the Federal Reserve, or the Bank of England, or the Bank of France may not be as directly tied up with the public as some of us might like.

Whatever is done by the central banks may be a little disappointing so far as it affects the amount of credit in use in some Indiana town or in New York City or in some southwestern ranch or plantation; and we have, I think, adequate statistics to note that member banks, particularly the smaller banks, are almost insensitive to Federal Reserve policy. Their rates change very little.

I know that in the case of New England, for example, in the small towns, the rate charged on commercial loans and the rates charged on short-time agricultural loans do not vary much from one year to another. I check up on a few banks, and some of them had not changed in 10 years.

That means that the central banks and what they do have very little effect on these small banks in Vermont or in New Hampshire or in other parts of the country.

I suspect that some of us have been just a little disappointed in the way the Federal Reserve has operated. We expected greater things of it than we have actually obtained. But I think that after we have studied the situation we can see just why that has been true. I remember when I was an undergraduate we had not established the Federal Reserve System. As a matter of fact we were just studying the National Monetary Commission's reports, and we were drawing some very colorful pictures of how well central banks had worked in Europe and how nice it would be if we had them in this country. Then our banking difficulties would be solved.

But now, as we look back, we find that we expected too much, that we forgot certain things. We forgot that the central bank is only a superstructure on top of the existing mechanism and that the connections are rather inarticulate; that banking is a matter of management and the Federal Reserve policies cannot directly affect what the cashier and the president and the loan committees of these local banks that deal with business intend to do. They may act just the same as before.

I have also noted that most of the clamor against the banking system, whether it is the Federal Reserve now or the old national banking system prior to the Federal Reserve, usually comes in a depression. It is perfectly correct to consider our defects, whether banking defects or trade defects or labor defects in this worst phase. Yet I think it is the most dangerous time to consider them, because we are in a mood to do almost anything.

Business conditions are not satisfactory. People are out of work. Prices have declined, and we want to do something to improve the situation. But very often many of the defects of the depression are simply the outgrowth of prosperity. I think all of you who have studied the business cycle will accept the idea that the cycle itself is self-generating, and that the most of our depressions, if not all, have been the result of certain excesses, certain things that have been carried too far in prosperity.

Therefore, it seems to me that if we are going to deal with the business cycle, whether we are trying to stabilize prices, or trying to stabilize production or to increase employment, that we have to do most of our thinking and apply most of our policies in times of prosperity, to keep prosperity from developing into an unsound boom.

That is not so very appealing. People are very optimistic in times of prosperity. Business is making large profits; workmen are employed in larger numbers. That does not seem to be a very good time to dampen business activity. Yet if we follow any of the authorities regarding the business cycle, that is probably the time to do it. Let us check our excesses before we are too far gone. Then it takes too much time to sober up.

Probably in this depression, and I think that we might call this a depression now rather than a recession, some of the reasons for it go back to certain factors that appeared some months ago. Perhaps some of them came from the prosperity of several years ago, defects that were not properly taken care of then.

Here is where the Federal Reserve Banking System fits into the picture. I think that statistics, questionnaires, and perhaps hearings that you have had before this committee would indicate that you cannot do much by trying to expand bank credit to pull us out of a depression. You can increase the potential supply. You can build up idle balances for member banks in the Federal Reserve which will increase the member banks' reserve accounts. We hope that the member banks will be encouraged to make more loans, to make more investments—in general expand their credit. The banks hope so, too; but we must consider the demand side. The banks in many cases are willing—not always, of course; some of them are scared; they are afraid to go ahead and even expand on their unused reserves. But most of them are perfectly willing to make additional sound loans. But that does not mean making loans to anyone that might like to borrow. Many people find their credit positions impaired in times of depression. Most bankers would be glad to make more loans, make more investments, if they were sure they could get their money back. But there is not much of a demand for that kind of a loan. A business concern may have some idle working capital available, or it cannot see any reason for borrowing. It cannot see any profit. The officers of that concern are afraid that they might borrow and lose on the loan.

How, then, will you stimulate demand for these funds which during the last depression were piling up in the Federal Reserve banks, and are now again? Even though we have raised the minimum reserve requirements, we are building up idle balances in the Federal Reserve banks—the reserves of member banks. How will we put those to work; that is, from the demand side? Of course, we will admit that when private demand slumps, there is always the question of public demand.

What can we do with the Federal Reserve in times of depression? It seems to me that we cannot do much more than has been done; namely, to make credit easy. I think we will agree that the Federal Reserve System has been willing to do this for some time—build up idle balances, put the Federal Reserve bank in a permissive position, permit commercial banks to increase deposits, and to increase business finance if and when a demand appears.

If we do this when business is more optimistic, later, when there is a demand for more credit, then we will expand the total supply of, first, the actual supply rather than the potential supply. Beyond that I do not believe there is much to be done with the supply of bank credit. Make it ready and available if and when there is a sound demand for it.

On the other hand, I do think that quite a little might be done in connection with Federal Reserve policy in times of prosperity, in order to check unsound prosperity and keep it from becoming a speculative boom. That is a problem first of research, getting the facts, and then timeliness of action. If we let the thing run too far, then it is too late. We cannot correct the runaway team.

Then there is the problem of adequacy of policy. We cannot go about this in a half-hearted manner. We cannot get very far with scolding or issuing warnings. We may have to raise the discount rate, not only earlier, but to a larger degree. We may have to enter into the open market on a larger scale.

But it seems to me that even then the Federal Reserve policy is not going to help us as much as we would like, unless we have a more unified and better articulated kind of banking system. What I should like to see in this connection would be to have all of our commercial banks operating under a single law, and the regulations regarding loans, investments, and so on uniform. Of course, we would have them flexible enough so that agricultural conditions could be handled properly as compared with industrial and commercial loans

I should also like to have branch banking developed so that we would have a relatively small number of larger banks operating under one law, which I believe could be tied up more definitely with the central bank.

Some of those ideas, perhaps, are not politically feasible or expedient——

Mr. Goldsborough. Thank God. But go ahead, sir.

Professor LEFFLER. But I believe, because of these facts, we are not going to have Federal Reserve policies operate very effectively. They will operate in a rather disjointed confusion. I think one of our great difficulties is the lack of an articulated banking system. If we ignore those defects, I am afraid that we cannot get very far with Federal Reserve policies.

But how does all this tie in with this particular bill? If the Federal Reserve banks have not succeeded in stabilizing business and prices in the past because of the rather ramshackle or inarticulate banking system, then I feel quite sure that changing the ownership of the Federal Reserve banks won't get us very far. The defects are not essentially in ownership, but in the poor tie-up, the poor relationship between the central banking mechanism—the Federal Reserve—and the banks that we deal with, our local banks—commercial banks, State and National banks.

It seems to me, from the point of view of history and the operation of publicly owned local industries, it is doubtful if public-ownership of the Federal Reserve banks will make any great change in Federal Reserve credit policy. On the other hand, there is danger we might forget that the Federal Reserve System was set up essentially to finance commerce, industry, and agriculture, and instead use it to finance the Government. That might happen, of course, when we find it is difficult to sell Government obligations. That does not seem to be a difficult problem now, but in a few years it might become more acute. It might arise in times of war, of course. It might arise when certain people who are very influential believe that we ought to substitute it for other methods of Government finance.

It seems to me that these things we ought to have very definitely in mind. Some people may prefer to have the Federal Reserve become an instrument of Government finance. Obviously, if we have the Federal Reserve banks owned by the Government, it will be a simple proposition. The Federal Reserve would be just another office or another division of the Treasury Department. But if we want to keep it a central institution to finance industry, agriculture, and commerce, then we ought not to run the risk or danger of having it owned by the Government and subject to political pressure which might be quite undesirable.

I also think that it won't be very long after the Government owns the Federal Reserve banks and we would try to apply certain policies to stabilize the price level, to stabilize business, and to stabilize employment until we find that those policies won't operate. If the banking weaknesses have been in the mechanism and not in ownership, I suspect that the Federal Reserve banks owned by the Government will not be any more effective in applying policies which must operate through local banks than the Federal Reserve has been in the past.

Then the next step, as I visualize it, would be for Congress, or, perhaps, for other groups, to insist that we have Government-owned local banks, perhaps branches of the 12 Federal Reserve banks owned by the Government. Then our whole commercial banking system will become a Government organization.

Maybe some people prefer that, but I think that we ought to see that we are going farther and farther into the financial mechanism and putting it under the control of the Government. But inasmuch as prices are not determined by banks or by bank credit but by demand and supply of goods—including costs of production and changes of population—we will find that anything the banks try to do will likely fail to bring the stability that we would like.

I think that most of us economists, as well as businessmen and statesmen, would like to have greater stability in the price level. Most of us oppose inflation and deflation. We believe that we would have a sounder economic structure if we could have greater stability, but some of us think that it is almost impracticable to get it from the banking system point of view.

Mr. PATMAN. I have to leave. I hope that you will excuse me. I have an engagement that I must keep.

Professor LEFFLER. Surely.

Mr. PATMAN. I enjoyed your testimony very much, and I will read it with pleasure.

Professor LEFFLER. Thank you.

So it seems to me that the final step in this tendency to stabilize prices and production, after we find that control by the Federal Reserve System does not work, and after we find that owning and controlling the commercial banks won't help much, is to have the Government own and control industry. Well, that means socialism.

Now, to academic people, socialism is not such a harmful thing as some business people might believe. But I think that we should have our eyes open, and note the trend, the direction, and the logical end of this whole thing. Even then I would not guarantee that we could obtain stability. It seems to me that is a risk, and that we ought to embark upon that risk only with a full understanding of the possibilities.

Looking at the bill a little more definitely, it seems to me that in general its hopes and its aspirations are probably good. We would like to have greater stability. We would like to prevent certain expansion and contraction of credit——

Mr. GOLDSBOROUGH. You are speaking now of the suggested amendment?

Professor LEFFLER. No. As a matter of fact, I do not happen to have a copy of that amendment, so I should, perhaps, change my remarks slightly if I had it. I just heard of that this morning.

Mr. GIFFORD. I shall have to leave, but before I go I want to ask the gentleman one question.

I read this morning the statement of your president—the president of your college—about the decrease in dividends on your endowment.

Professor LEFFLER. Yes.

Mr. GIFFORD. It amounts to something over 5 percent?

Professor LEFFLER. 3.8.

Mr. GIFFORD. Is there a possibility that your mind may be prejudiced against the present trend for lower rates of interest and easy money, because your college is run largely by endowments? Is your mind open and free?

Professor LEFFLER. I think it is. As a matter of fact, I have never talked to the president, either about the investment policy of the college or about this particular problem, but I may say, without exposing the college administration too much, that one reason why the average rate of return has been reduced from 5 percent to 3.8 is because of certain developments in their investment policy which I disagree with. So, if there is any disagreement, I should say that it is as much between the president of the college and me on investment policy, rather than disagreement between the endowed college point of view and the point of view of this particular bill.

Mr. GIFFORD. I asked that question because it has been stated here that you college men are permeated and affected by the endowment institutions that you represent, and that you are rather unwilling to have a change which would bring about a lessening of the endowment, that you are not entirely free to express your views; and that is the point that I want to bring out. I want to make it clear that you are absolutely presenting your own opinion.

Professor LEFFLER. Yes.

Mr. GIFFORD. Without any pressure on the part of your own university.

Professor LEFFLER. Yes; and I may also say for our economics department in Dartmouth that we are considered to be quite liberal; and, of course, Mr. Hopkins, in spite of his conservatism, is very willing that we should be liberal.

I may also say, in connection with Government policies, that I have favored many of the New Deal policies, and some I have not favored, so that I have tried to be an open-minded economist.

Mr. GIFFORD. I am sorry that I have to leave, but I wanted to be sure that that was brought up.

Mr. FORD. May I ask a question?

Mr. GOLDSBOROUGH. Surely.

Mr. FORD. I also read the statement of the president of your college this morning, to the effect that the return on the endowment decreased by reason of the lower rate of interest. There was a very plain intimation in that statement that the New Deal was the cause of that. What would have happened if laissez faire had been allowed to operate to the fullest extent in 1932 and no action taken to bring the country back?

Professor LEFFLER. I may say that I disagree with Mr. Hopkins rather definitely. I would say that the New Deal is certainly not essentially responsible for the decline in the average interest rate on our endowment from 5 to 3.8 percent, and I rather suspect that if we had not used certain measures to relieve the depression, some of Dartmouth's investments might have yielded still less.

Mr. FORD. The investments would have gone sour entirely?

Professor LEFFLER. Yes. I might say that I did not hear the President last night. All I know is what I read in the paper this morning.

Mr. FORD. That is all I know.

Professor LEFFLER. I think the chief reason why the average rate of return on our endowment has been reduced is because we put too much money in rail stocks, in stocks which have nothing to do, so far as I can see, with the New Deal.

Mr. FORD. You made a statement a moment ago that if the system were taken over political control might enter in. Would you mind saying just what kind of political control you have in mind?

Professor LEFFLER. Well, my greatest fear is that it would be more or less of a tool for Government finance. In other words, whatever the reason might be, that there might be some grandiose plan that would require a lot of Government money, and that it would be politically inexpedient, or impossible in some cases to increase taxes or to sell securities. Then we would turn to this compartment of the

Treasury, and make the Federal Reserve a tool of Government finance.

Mr. FORD. Manufacture the money?

Professor LEFFLER. Yes.

Mr. FORD. I see.

Professor LEFFLER. Of course, I can imagine that we might have a President, or we might have a majority in Congress who would decide that the Federal Reserve policies were not working in accordance with their aims, and instead of looking at it from the point of view of commerce, industry, and agriculture, it might be looked at them from a narrower point of view.

Mr. FORD. I think that there is a feeling in Congress that that is true now, and there are a great many people who believe that the banks ought to be owned by the Government, and we practically made the R. F. C. a Government bank. It has every function now of a bank except that of receiving deposits, and while there is a great deal of complaint about inability to get money from the R. F. C., I am wondering what the situation would be if the banks were governmentally owned, whether or not there would be any relaxation in the requirements to get money now, that is, the necessary credit that a bank requires.

Professor LEFFLER. Of course, that is a question that no one can answer very definitely but, as I remember, Mr. Jesse Jones, of the R. F. C., some few years ago, at the American Bankers' Association meeting, said he thought that the banks were not lending as liberally as they should to business, and that if they did not, then the R. F. C. would.

When the R. F. C. stepped into the picture, apparently it was also rather conservative, too. It seems to me that we must not forget the fact that money normally has to be returned. Of course, if you have Government institutions, maybe we do not feel that we have to return the money to the Government as much as we feel that we must return it when we borrow from a bank, or on an insurance policy, or even from the R. F. C. But it seems to me that unless we abandon sound banking practices and sound credit standards, even Government-owned banks would have to turn down a lot of people who would like to borrow, and I am wondering if that would not cause a great deal of disappointment.

People complain that they have not been able to borrow from the local banks, certainly in the depression. But those banks, after all, have their communities at heart, and some of the very people running those banks perhaps are close friends of these people who cannot borrow. They do not get money because they are not worthy of it under the circumstances. If the Government does the same sort of thing, wouldn't there be a great deal of disappointment?

Mr. FORD. I am just wondering about this phase of it, that the banks are criticized for not lending money—and I hold no brief for them, but some of the banks are frightened to death and won't loan money. Then, when the Comptroller of the Currency sends an examiner to the bank, and he looks over its portfolio, do you not think that the attitude of the examiner on the soundness of the loan has a great deal to do with the banker's timidity in making the loan?

Professor LEFFLER. Yes; and if I am correctly informed, the reaction now is that the F. D. I. C. is even more important, so far as the national banks are concerned. I was talking to a cashier of a bank only Saturday, and he said that he was more influenced by the F. D. I. C. statements and their requirements for banks that are supposed to be in sound condition, than in the attitude of the national bank examiners; and apparently his opinion is that the F. D. I. C. standards are even more conservative than those of our national bank examiners, to say nothing about the State examiners.

Mr. FORD. Stating it another way, the bank examiner is a good deal more hardboiled when he looks at a loan than the local banker.

Professor LEFFLER. I should say yes.

Mr. GOLDSBOROUGH. This situation seems to exist at the present time, that the F. D. I. C. is naturally and properly concerned with the solvency of its organization, and the Comptroller's office is interested in the sufficiency of collateral. In addition to that, there is a complete collapse of the so-called reserves behind the reserves that banks invested, and which collapsed in 1931 and 1932. Those three factors have, it seems to me, made the bank examiners jittery, exceedingly meticulous, so that we have a condition where it is almost impossible for banks to use their own judgment at all when they lend money.

Has that ever occurred to you?

Professor LEFFLER. Yes; I think that is true; and I had a statement from a man last week who happened to be calling in Hanover who told me that in spite of all of these conservative standards regarding particular bond investments, that many banks, particularly small-town banks, even today, find their investments have decreased so much in value that on the other hand the capital stock and surplus would be wiped out. So, in spite of all of this conservatism of the banks, in many cases they are once more loaded down with assets that have shrunken considerably.

Mr. GOLDSBOROUGH. Conservatism, if carried to a certain point, defeats itself.

Professor LEFFLER. Yes.

Mr. GOLDSBOROUGH. As these loans are contracted, and the prices fall, the value of bank securities falls.

Professor LEFFLER. That is right.

Mr. GOLDSBOROUGH. So that conservatism in itself can tend to defeat its own purposes.

Professor LEFFLER. The business cycle, of course, is always a cumulative and interdependent thing, and when one thing starts going down, all the related parts go down, and when one thing goes up, the various parts go up. There are various possible ways of stabilizing business more than it has been stabilized. I do not think that we can ever eliminate the cycle, but if we can minimize the violence of it, we would be ahead.

Mr. GOLDSBOROUGH. You made a statement a while ago which may not have been complete in itself and which I may have misinterpreted. You stated that when business demanded credit, and production was active, the currency should expand, and it should contract when business was not active and production was lower.

Did I correctly understand you?

Professor LEFFLER. Yes.

Mr. GOLDSBOROUGH. Now, I am wondering if that is in accordance with the present condition. Of course, I understand perfectly well that in an economy where we are consuming all that we can produce,

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where production falls off because of the fact that nature is not kind, where there is an actual scarcity of goods, the amount of currency should decrease so that the prices won't rise. I can understand that very clearly, and that, as I conceive it, would be a sound view. But in an economy where it is admitted we can produce more than we can consume, I do not really see why we should undertake to restrict the supply of money during the periods when business is not active. It seems to me that what we should do is to try to adopt policies to make business active.

Professor LEFFLER. How are you going to do that?

Mr. GOLDSBOROUGH. What is that?

Professor LEFFLER. How are you going to do that?

Mr. GOLDSBOROUGH. Well, a great many plans have been advanced. One of the conservative plans is for the Federal Reserve Board to put actual Federal Reserve notes into circulation, to encourage business to believe that a liberal policy would be adopted. Professor Spahr the other day said he did not think he would approve it, because he was afraid it would cause a very active business and then pressure would be brought upon the Federal Reserve Board which it could not resist to prevent it from any restrictive policy and thus result in a run-away inflation; but certainly it seems to me that to adopt any policy of restricted money, when we have a tremendous purchasing power which we are not getting to our people, is always wrong.

Professor LEFFLER. May I ask a question? We did, of course, some years ago, even under the Hoover administration, have the banks buy a considerable amount of obligations in the open market.

Mr. GOLDSBOROUGH. Are you familiar with the history of why they did it?

Professor LEFFLER. Partly, yes.

Mr. GOLDSBOROUGH. We know exactly how and why they did it.

Professor LEFFLER. I know that they did not issue currency, and on the other hand the credits that were established merely built up the reserves of the member banks. These idle balances, of course, kept piling up. It is true that when people got scared and they began to take out deposits from local banks, some of these balances had to be used in order to take care of the hoarding requirements, but even then there was a considerable amount of idle reserves which member banks could not use, either to make loans or to provide cash.

Would the situation be very much different than if we paid for these bonds with Federal Reserve notes?

Mr. GOLDSBOROUGH. First let me tell you what happened in 1932, because this committee knows what happened.

In 1932 there was a bill before this committee, and afterward it passed the House, providing that the powers of the Federal Reserve System should be used to raise the price level to the 1926 level.

Professor LEFFLER. Yes.

Mr. GOLDSBOROUGH. When the Federal Reserve System saw that that legislation was imminent, it proceeded to buy bonds at a rate of $50,000,000 a week, indicating that it was perfectly able to carry out the policy without legislative assistance. Now, that feeble effort was made from the time the bill began to be considered in this committee until it was killed in the Senate, and then the policy of buying bonds immediately stopped.

We never considered it anything except just in order to defeat the legislation, and that is the history of that particular movement of buying bonds.

But I related to you what Professor Spahr said as indicating that there are those who are high in your organization, evidently, who feel that the policy of buying bonds to cause a resumption of business might result in such an inflationary condition that the Federal Reserve Board would not have nerve enough to restrain it.

Professor LEFFLER. Well, it is possible. I do not think that any of us could say absolutely.

Mr. GOLDSBOROUGH. You are not in accord with that view? You think that the mere fact that we have idle reserves is all that is necessary?

Professor LEFFLER. I would say that even if you put out Federal Reserve notes, a large part of them would come back and they would be redeposited in the Federal Reserve banks, and build up idle reserves just the same as if you had purchased them with bank credit originally. Once you pull out of the depression, and some time after we approach normal business, you might have too much inflation.

Frankly, I do not get very scared about having too much inflation when we are at the bottom of a depression. That is a long way from inflation, I think. But you have to watch out; you cannot let the thing go on indefinitely.

Mr. GOLDSBOROUGH. You can always stop inflation.

Professor LEFFLER. I am not sure of that.

Mr. GOLDSBOROUGH. You can put the brakes on. But the great difficulty, as I see it, is that if you discourage business, it is very hard to do anything about it until you absolutely have a bankruptcy condition.

Professor LEFFLER. That is the danger. I think that there is not any great danger of inflation in times like these. On the other hand, I think that if and when and for whatever reason business improves—and I am still old-fashioned enough to think that most of it will come automatically, but it may be with a lot of pain—then it is possible that we may roll a little too fast. Then the danger is that once we return to normal business, inflation may go too fast. I would like a little inflation right now, but I would not have it go too far, just as I like a little deflation in times of prosperity, but not too much.

Mr. WILLIAMS. Have you finished your prepared statement?

Professor LEFFLER. On the other points, I have not quite finished it, but they are more or less definitely related to certain features of the bill, and I do not know whether it has been amended sufficiently to warrant my going into those other points.

Mr. SPENCE. You said that academic men did not have much fear of socialism. Do you mean that they do not have much fear that socialism would be adopted, or of the result of socialism if it were adopted?

Professor LEFFLER. I think that the truly academic man will study all kinds of economic systems or parts of systems in an unbiased fashion. If I were teaching a seminar in economic theory, I could state some arguments in favor of socialism, and some against it; I could tell some good arguments in favor of private initiative, and some good ones against it. Then I would have to reach the conclusion that, finally, it is pretty largely a matter of opinion. But so far as socialism as a theory is concerned, we admit that it has certain advantages as compared to our present system. On the other hand, it has certain disadvantages. It is nothing in itself to be alarmed about.

Mr. SPENCE. Do you think that is the general opinion of academic people?

Professor LEFFLER. I should say yes. On the other hand, I would say that most economists are not socialists. I favor conservative capitalism, but still I am willing to look at socialism or communism or whatever it is as an unbiased proposition and admit that there are certain advantageous points in all of these things, and certain defects.

Mr. SPENCE. I know that there is a statement generally being made that a good many of the colleges are teaching the advantages of a change in our form of government. Do you think that that is true?

Professor LEFFLER. I think that now and then that is true; yes. I know that in our own faculty there is not a man in economics who is doing it, but we have two or three men in sociology who are leaning in that direction. We have one man in philosophy. Usually men who know nothing about the defects of our present system somehow imagine that any change would be better. The thing that they think of is either communism or socialism.

Mr. SPENCE. What influence do you think they have on the youth of America?

Professor LEFFLER. Not very much.

Mr. SPENCE. I hope not.

Professor LEFFLER. Not very much.

Mr. GOLDSBOROUGH. It seems to me that the thing that would have influence on the youth of America is that after they try to get an education any way they can get it, they come out of school and they cannot get a job.

That is the thing that has a great influence upon them.

Professor LEFFLER. After all, these students have had their family background, and they go back to their family environment, and I am sorry to note that very little education, whether on socialism or on biology or chemistry, seems to have any influence. I have been disillustioned on that.

Mr. WILLIAMS. Let me ask you this: Do you think that the powers of the Federal Reserve Board as now constituted are sufficient or should Congress give them additional powers?

Professor LEFFLER. I should say that the present powers are sufficient; yes.

Mr. WILLIAMS. You do not see any necessity for Congress passing any new legislation or giving them more authority or power in any way?

Professor LEFFLER. No; not so far as the Federal Reserve Board is concerned or the Federal Reserve banks. I should like to have the policies of the Federal Reserve Board and of the banks made more effective in our banking structure.

Mr. WILLIAMS. You recognize, do you not, the difference between the power to establish the monetary and credit policy of the Nation and the banking function?

Professor LEFFLER. Yes.

Mr. WILLIAMS. Under the terms of this bill we put them all directly under the Government.

Professor LEFFLER. Yes.

Mr. WILLIAMS. Do you not think that it is very desirable to keep the purely credit and monetary function as a national function separate from a purely local banking function?

Professor LEFFLER. Very definitely.

Mr. WILLIAMS. As we have it now, rather than to concentrate the whole thing in the Government?

Professor LEFFLER. Absolutely.

Mr. WILLIAMS. To my mind that is the most essential thing in this bill.

Professor LEFFLER. Yes.

Mr. WILLIAMS. And that is the reason that I, for one, am very much opposed to it.

Professor LEFFLER. Yes; I think that is true, and then I think that some of these statements in the original bill regarding purposes are rather indefinite as well as impossible of realization.

Mr. GOLDSBOROUGH. They do not have any legislative function, those in the preamble.

Mr. WILLIAMS. As I understand you, your statement is that you do not believe that the monetary policy of the country or the activities of the Federal Reserve Board can stabilize prices, raise prices to the level, say, of 1926 and maintain them there by any monetary policy?

Professor LEFFLER. I do not believe it desirable, and I do not believe that is possible.

Mr. WILLIAMS. It is neither desirable nor possible?

Professor LEFFLER. No.

Mr. WILLIAMS. Why would it not be desirable, if it could be done?

Professor LEFFLER. Well, it seems to me that there is nothing sacred about any particular price level. I think that what we want is to keep prices from fluctuating too much one way or the other from any level—1926 or the level of any year. It seems to me most desirable if we can start with almost any level and keep things from vacillating too much from that level.

It is also desirable in times of deepest depression, from a social point of view, to increase the price level somewhat. I think that it was certainly desirable to have prices increased from the level of 1932. There was not any question about that.

But, assuming that we do have a particular price level in mind, I do not see, certainly from the banking point of view, how you are going to realize it. That assumes that there is something in the supply of credit control that will enable us, when we want to raise prices, to increase the amount of credit say 10 or 15 percent. We must also remember that there is a money-velocity factor, and that we have no control over the velocity.

Mr. WILLIAMS. What are the main factors, outside of the monetary policy, entering into price levels?

Professor LEFFLER. The price level is simply the summation of individual prices, and individual prices are affected by the demand and supply of each of those particular articles. Of course, that includes costs of production. In some cases nature cuts supply, and in others gives us a bountiful supply.

Mr. WILLIAMS. Do the Federal Reserve policy of the country and the tariff walls have anything to do with that?

Professor LEFFLER. Yes; I think they do.

Mr. WILLIAMS. And trade barriers?

Professor LEFFLER. All of those things.

Mr. WILLIAMS. And the agricultural situation?

Professor LEFFLER. Yes; and wage-and-hour legislation.

Mr. WILLIAMS. And labor troubles?

Professor LEFFLER. Labor troubles.

Mr. WILLIAMS. In other words, there are a great many factors that enter into the price level outside of the monetary situation?

Professor LEFFLER. Yes.

Mr. WILLIAMS. Over which the Federal Reserve System has no jurisdiction?

Professor LEFFLER. I would say that very often those things have more to do with it than the monetary factors.

Mr. WILLIAMS. In case of social and economic workins such as exist at the present time, is the price the cause of that, or the result of it?

Professor LEFFLER. That is a very debatable question. It is hard to say. I should say both cause and effect.

Mr. WILLIAMS. In other words, in this depression or recession, where are we going to start? Are we going to start by raising the price or by giving employment first, or by increasing production, or where will we start first?

Professor LEFFLER. That is always one of the very difficult things to determine. It seems to me that it is almost impossible to start with prices, and certainly so far as any banking influence on prices is concerned.

Mr. WILLIAMS. It has occurred to me that prices are rather a reflection of conditions, rather than the result.

Professor LEFFLER. Of course, the thing is cumulative. There is no doubt that when prices start to fall, that makes people more pessimistic and they do not buy so much raw materials and do not hire so much labor, and so forth.

Mr. WILLIAMS. Why do they start to fall in the first place?

Professor LEFFLER. Well, there are about as many explanations of that as you have of the business cycle.

Mr. WILLIAMS. Do you think the Federal Reserve Board made any mistake, in your judgment, when it raised the reserve requirements last year or the year before?

Professor LEFFLER. Well, for a while I would have said no; but since I have gotten reports from certain banks, maybe yes. Taking the amount of bank credit as a whole, looking at the surplus reserves of member banks as they appeared in the aggregate, it looked like there was a dangerous possibility of inflation. Conditions in business were improving. Here were large amounts of idle bank reserves. Business was feeling more optimistic. There was some tendency toward speculation. So, in order to keep those idle reserves from being used to expand credit unsoundly, it looked like something ought to be done about it. One thing was to raise the reserve requirements.

But apparently it did not affect all banks alike, so that many banks were compelled to liquidate. How many banks has that been, perhaps you have more evidence than I have. But from what I can learn from small bankers and people who have been traveling in the agricultural sections, it was not a good idea.

Mr. WILLIAMS. Would it help any to lower those reserves now?

Professor LEFFLER. I think it would be a good idea; yes.

Mr. WILLIAMS. I understood you to say a while ago that they all had excess reserves aplenty.

Professor LEFFLER. I think they do, as a whole. On the other hand, there are some banks that do not have them. But, we must admit the psychological factor too. Perhaps psychology is a part of the picture, and we cannot measure that by statistics.

Mr. WILLIAMS. In your opinion, does it help to put into operation their open-market policy, to go out in the market and buy extensively?

Professor LEFFLER. I cannot see that it is absolutely necessary from the point of view of credit supply. From the point of view of psychology, however, I suppose that it is always helpful to do anything that might appeal to many people as being favorable to improvement. The same point applies in connection with tax reductions suggested. I rather suspect that many tax laws are not directly the cause of the depression, but maybe if we modify some of them it will make people feel better. If that will make them buy more raw materials and hire more workers, I would say go ahead. It is not altogether economics, but good psychology and good statesmanship.

Mr. WILLIAMS. But so far as real activity on the part of the Federal Reserve Board is concerned, you do not seem to know of anything that they should do?

Professor LEFFLER. I do not think so. It seems to me that they have done all that they could reasonably have been expected to do.

Mr. WILLIAMS. And they do not need any additional powers?

Professor LEFFLER. No.

Mr. WILLIAMS. You do not believe that we need any monetary legislation at this time?

Professor LEFFLER. No.

Mr. FORD. Would you say that the ownership of the Federal Reserve banks by the Government would make any difference as far as their monetary action is concerned?

Professor LEFFLER. If the Government owned the banks?

Mr. FORD. The System. If it took over the Federal Reserve, and bought the stock, and had Treasury ownership instead of private-bank ownership.

Professor LEFFLER. I should say no, for two reasons. One is that it seems to me that the Board of Governors, along with the Federal Reserve banks, have done all that could be reasonably expected of them, so that I should not expect that the policies would be very much different if the banks were owned by the Government.

Mr. WILLIAMS. What additional powers would they have, if that were done?

Professor LEFFLER. None at all.

Mr. WILLIAMS. It would not change it a particle?

Professor LEFFLER. It would not change it a bit. They have adequate power. There might be a little more pressure to use the present powers more liberally. It seems to me that you still have that old problem, of tying up whatever policies the Board might have with the banks all over the country. That is, after all, where they must take hold.

Mr. WILLIAMS. Do you think it is desirable to have the member banks come in today and go out tomorrow?

Professor LEFFLER. No.

Mr. WILLIAMS. That is one of the provisions in this bill.

Professor LEFFLER. Yes.

Mr. WILLIAMS. They can just come in overnight, and if they don't like it go out.

Professor LEFFLER. No; I should not like that.

Mr. FORD. Do you think it would be a good thing for every bank in the country to be in the Federal Reserve System?

Professor LEFFLER. Yes; I should prefer that. Of course that will be true of a rather large number of State banks under the F. D. I. C. after 1942, but I should like to have even the smaller State banks brought in. I should like even better to have all of the commercial banks under one national law, but I do not believe that is politically expedient, and perhaps constitutionally impossible. I do not know.

Mr. FORD. Whether they were State or national, all commercial banks?

Professor LEFFLER. Yes.

Mr. FORD. What would you say in connection with this: If all of the banks were in the Federal Reserve System, from the smallest to the biggest, then they would be operating under a uniform set of rules.

Professor LEFFLER. Yes.

Mr. FORD. And then we would have what would be known as a unified banking system. Under that condition, would you say that the extension of branch banking would be desirable or not?

Professor LEFFLER. I would say it would be perhaps less necessary than where you have——

Mr. FORD. Less necessary?

Professor LEFFLER. Yes. On the other hand, it seems to me that you could argue for both. You would get more efficient banking, betted trained bankers. You might compare the Canadian system or even some of the European systems with our present system of banking. Banks should incorporate under a national law, and then national banks should be permitted to have branches. Whether they should be State-wide or Nation-wide is a problem.

Mr. GOLDSBOROUGH. Do you prefer the Canadian system?

Professor LEFFLER. Yes.

Mr. LUCE. Some of your earlier answers have left me in doubt as to just what is your view and that of the committee for which you are speaking as to the nature of the monetary policy. I had supposed that the monetary policy had for its purpose the control of money, and if not control, the power to regulate the supply of money. Of course, that involves the matter of prices.

Professor LEFFLER. I do not speak for the committee.

Mr. LUCE. The committee has been quoted in some of these documents as being opposed to any attempt to regulate prices. If it is not to regulate prices, what are the aims of monetary policy?

Professor LEFFLER. I think most economists, in the light of their observations, and so forth, do not believe that you can use monetary policy to establish or to control the price level. You simply adjust your money to prices.

Mr. LUCE. The price level is merely a simile, from my point of view, incident to the question of controlling money. Now, tell me what remains, if you take that out—what remains of monetary policy?

Professor LEFFLER. I think that the economists would probably look on the price level as a reflection, as a picture of our monetary and credit policies, and then look to a lot of nonmonetary influences and factors. It seems to me that sound monetary policy puts the supply of money in a passive position. Any scheme that would try to stabilize the price level would put money in an active or initiative position.

Mr. LUCE. After the passive system is secured, what remains of monetary policy?

Professor LEFFLER. Nothing.

Mr. LUCE. Then we had better cut out the monetary policy from our discussion, and assume that the Federal Reserve and all of the banks are not affected or concerned.

Professor LEFFLER. I do not think we ought not to discuss it, but there is danger in certain schemes. They would try to control the amount of money that it would be in excess of the demands of trade, or would not be enough. Monetary policy means a nice adjustment of the amount of money to these various factors.

Mr. LUCE. There is no monetary policy, according to that.

Professor LEFFLER. I would say there is still a monetary policy. It means a passive policy, rather than an active one.

Mr. LUCE. Will you specify some of the details that any institution concerned with the monetary policy would consider?

Professor LEFFLER. What we are interested in considering are production, trade, population growth, supply of goods, and other factors which tend to affect prices. Then a broad policy would be to provide enough money—not too much and not too little—to facilitate those properly established prices.

Mr. LUCE. You brought up a point that I want to refer to——

Professor LEFFLER (continuing). But to facilitate it, not to cause it.

Mr. LUCE. You still leave me uncertain as to whether or not there is any such thing as monetary policy.

Professor LEFFLER. I think there is, but I do not think it can be considered as an initiating policy, as an active or causal thing to make prices higher or lower. I do not believe that is proper monetary policy, and I do not believe that we can succeed very far even if we try.

Mr. LUCE. You still leave me with the impression that monetary policy is represented by zero.

Professor LEFFLER. As an initiating policy.

Mr. LUCE. What other policy is there?

Professor LEFFLER. A monetary policy means simply creating rules affecting the amount of money, and if money is to be in a passive position, your policy simply permits prices to be expressed or realized.

Mr. LUCE. And it is still zero, where it started.

Professor LEFFLER. So far as initiating any price level is concerned; yes.

The difference that I am trying to make is between what we call the quantity theory as the basis of money policy—and a good many people in the United States have accepted that——

Mr. GOLDSBOROUGH. Do you believe in the quantitative theory?

Professor LEFFLER. I do not believe in it in its rigid form, and I think it is only one explanation in a more liberal interpretation. The quantity theory as distinct from the other theories is really the basis for the difference between your idea of a monetary policy and mine. Your idea would be to increase or decrease the quantity of money, with the idea of causing higher or lower price level, thus tending to stabilize it. I believe that is almost impossible as a practical proposition, looking at statistics and the way men act; that proper money policy considers the factors of production, trade, costs, and the factors affecting the demand for goods. These factors and hundreds of others cause the price level. Then, if you adjust the quantity of money to that, your money policy is a passive policy.

Mr. LUCE. I started out on the assumption that the Government, in the matter of trade, commerce, industry, and agriculture, has either to do nothing or to do something. If it is to do nothing, then it is zero. If it is to do something, then I am anxious to know what it ought to do.

Professor LEFFLER. Of course, my idea of something is to adjust itself to the factors that are significant in determining prices. If the demand for goods in general should increase—of course that is hypothetical—everything else remaining the same, that would tend to increase prices in general. Then our correct money policy would be to increase the quantity of money so as to realize and express this higher price level.

Mr. LUCE. I presume that that must be your view, but I understood you to say earlier in your remarks something that gave me a contrary impression.

Mr. FORD. Do you consider money a lubricant, or a motivating fuel?

Professor LEFFLER. A lubricant.

Mr. FORD. Then, as a matter of fact, we might have 50 gallons of gasoline in that automobile that was going to Alexandria, and if we had no oil in the engine, it would not turn over?

Professor LEFFLER. That is right.

Mr. FORD. Or shortly freeze up?

Professor LEFFLER. Yes.

Mr. FORD. And we can put too much oil in the engine?

Professor LEFFLER. Oh, yes.

Mr. FORD. And she will stop up just the same way. So if we try to keep the volume of money on something like a normal dead level of necessity for the lubrication of the machinery, any plan that could be devised to do that would be a satisfactory monetary policy?

Professor LEFFLER. Yes.

Mr. FORD. How can we do that?

Professor LEFFLER. That is a hard question to answer.

Mr. TRANSUE. I would like to ask a question.

In regard to the supply and demand that you spoke of, do you take in just the natural demand or effective demand?

Professor LEFFLER. It ought to be effective demand.

Mr. TRANSUE. And that involves the man who has the purchasing power in order to put that into effect?

Professor LEFFLER. Yes.

Mr. TRANSUE. It also takes into consideration the 12 million or more unemployed that have not that effective demand?

Professor LEFFLER. Yes.

Mr. TRANSUE. What will you do about that?

Professor LEFFLER. That is a job, all right. There is still the problem of unemployment to be taken care of. It is just a question whether you can do that through your banking mechanism.

Mr. TRANSUE. Do not those 12 million or more unemployed constitute a breaking down of the whole economic structure?

Professor LEFFLER. Yes; but I do not believe that is anything that you can take care of through the banking system.

Mr. TRANSUE. We have to have an effective demand in order to cure our economic problem?

Professor LEFFLER. That is right, but how will your banking system do that?

Mr. TRANSUE. I wanted you to give me an idea.

Professor LEFFLER. I do not believe it can come that way.

Mr. GOLDSBOROUGH. You do not believe the monetary system can be used to do it?

Professor LEFFLER. No.

Mr. WILLIAMS. In your view, is there any definite ratio between price level and the employment of people?

Professor LEFFLER. Do you mean a statistical, mathematical ratio?

Mr. WILLIAMS. Yes.

Professor LEFFLER. I do not know. I have never seen any definite ratio. There is some relation, all right, but whether it is very close, or what the relationships are, I just do not know.

Mr. WILLIAMS. We have been told, as I have understood some of the testimony, that there was a very definite relationship, that as prices rose, employment increased, and, of course, along with that industrial production, that those three things went hand in hand.

Professor LEFFLER. We can compare them, but I doubt very much that we could show a very close or sensitive relationship.

Mr. WILLIAMS. There would be very material variations?

Professor LEFFLER. I would think so; yes; but I have never made any particular study to see what the actual statistics show and how close the correlation may be.

Mr. GOLDSBOROUGH. Professor, do you have any further statement that you would like to make?

Professor LEFFLER. I think that we have raised most of the points that I had in mind.

There was one point that was not quite clear, and I was wondering what you had in mind. It is on page 3—

> and to encourage the sound local bank, recognizing the contribution that the local bank makes to the social and financial betterment of the local community.

Mr. GOLDSBOROUGH. That is merely a stump speech at the beginning of the bill. That is not a part of the legislation.

Professor LEFFLER. That I would say was quite ambiguous as part of the whole bill.

Mr. SPENCE. You do not consider that as a mandate to the Federal Reserve, the preamble to that bill? I noticed in one of the statements of the economists that they said that there was a mandate there.

Professor LEFFLER. Not a mandate, but don't you think it would be a very influential factor? Ought they not to have that in mind?

Mr. SPENCE. I think that they intended to put a mandate there, but I do not think that there is a mandate in the bill. There seems to be no specific direction in the bill to the Federal Reserve.

Professor LEFFLER. Most of us who are not lawyers would think that anything that is in the bill was really a thing to be enforced, if the bill should be passed. It looks just as much a part of the bill as some of the other sections.

Mr. GOLDSBOROUGH. Professor, the committee is very much indebted to you for coming here. You have been a lot of help to us.

The committee will now adjourn until half past 10 tomorrow morning.

(Thereupon, at 12:15 p. m., an adjournment was taken until Wednesday morning, April 6, 1938, at 10:30 o'clock.)

GOVERNMENT OWNERSHIP OF THE 12 FEDERAL RESERVE BANKS

WEDNESDAY, APRIL 6, 1938

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

Hearings on H. R. 7230 were resumed at 10:45 a. m., Hon. T. Alan Goldsborough presiding.

Other members of the committee present: Mr. Reilly, Mr. Williams, Mr. Spence, Mr. Ford, Mr. Brown, Mr. Patman, Mr. Transue, Mr. McGranery, and Mr. Crawford.

Mr. Goldsborough. The committee will come to order.

Gentlemen, we have with us this morning Prof. Clyde Olin Fisher, of Wesleyan University, who will be heard on H. R. 7230; and, if you prefer, Professor, to proceed in your own way and then be questioned later, that may be done.

Professor Fisher. If I may, Mr. Chairman, I should like to read just about a page memorandum, after which I should be very glad to answer any question that I can.

Mr. Goldsborough. That will be perfectly satisfactory, sir.

STATEMENT OF PROF. CLYDE OLIN FISHER, OF WESLEYAN UNIVERSITY, MIDDLETOWN, CONN.

Professor Fisher. Mr. Chairman and members of the committee, I should like to make it perfectly clear first that the views that I may express are solely my own, and, as a matter of fact, I have not had this memorandum checked by anybody. How many of my colleagues among the monetary economists of the country would concur in all of the statements that I shall make, I do not know. All that I know is that these statements express my own present convictions; and as a preface to my remarks, may I suggest that I do not share the alarm that has been expressed by many people at the expansion of governmental activities. In fact, under present conditions, such an enlargement of governmental responsibilities appears to be necessary. Furthermore, by and large, the efficiency of governmental projects will compare favorably with that of private business which is motivated by the spur of gain. My apprehension at the enactment of the Patman bill, therefore, is not a reflection of economic predilections adverse to collective action under governmental sanction.

First, as a means of determining banking policy in the United States at the present time I see no reason to have the Government acquire ownership of the Federal Reserve banks. Already, since the enactment of the Banking Act of 1935, the Government has adequate powers to determine policies. Ownership would not add to those already had.

From a psychological point of view there is a strong case to be made against such a move at the present time. Government ownership would make the system more vulnerable to political attack and to the adoption of policies dictated by other than sound economic considerations. Even though the Government does now have the powers to shape banking policy, the present plan of ownership constitutes a barrier, psychological if not economic, to the influence of pressure groups.

For effective cooperation within the banking system—and cooperation is needed for the fullest success—the present ownership is superior to that by the Government. Now the stockholding member banks have an incentive to assist in the success of the system, an incentive that might well be sacrificed if they no longer had an ownership stake. If we are to continue the type of economic system now prevailing in the country, it is desirable to do all that can be done to get this cooperation.

Ownership by member banks establishes a contact with the market and enables the Reserve System to apply the sort of discipline that may be needed to insure sound banking practice on the part of the member banks. A change in ownership might serve to weaken this disciplinary control.

An incidental reason for opposing the acquisition of stock by the Government at the present time lies in the fact that this would involve by the member banks the loss of an earning asset on which they now receive a 6-percent cumulative dividend. Bank earnings in recent years have not been such that one can look with equanimity upon any move that would further jeopardize the solvency and the earning capacity of the banks.

Second, I see no good reason for an increase to 15 members from the present membership in the Board of Governors. The Board is already large enough for effective action. It now has available expert assistance to whatever extent it may be needed. Too large a Board would interfere with action until too late, frequently, for the most effective results. Also, the inclusion of three ex officio officials in the membership of the Board would be to reverse the progress made by the removal of political appointees in the act of 1935.

Third, the Federal Advisory Council, while perhaps not so effective as was anticipated by the framers of the act, does perform a useful function in that it brings to the Board the counsel and advice of men in the field.

Fourth, the mandate to stabilize prices, while springing from laudable motives, cannot, in my judgment, be fulfilled by the Board. We do not yet know enough about banking and monetary theory to justify any confidence in the ability to guarantee such stability. More important than complete stability is the maintenance of equilibrium in our economy. Furthermore, internal prices must be integrated with international prices unless we are to abandon the advantages that come from membership in a world economy.

The most important reason for not giving this mandate arises from the fact that should the Board be unwilling or else unable to comply with the goal set, the effect would be to undermine confidence in the integrity and the competency of the members. Certainly in our present state of uncertainty and sensitivity to shock, we should not invite such a loss of confidence.

That, Mr. Chairman, expresses in my fallible judgment my present conviction, subject to change, as to desirable policy with reference to this bill.

I might say also that I am far more skeptical now than I was 12 years ago as to the possibility of absolute stability in prices, and I am furthermore skeptical as to whether that is a superior goal to these others that I have indicated, namely, the maintenance of equilibrium in our economy and the functioning of our economy to its full capacity.

Mr. FORD. Will you give us the distinction between stability, as you mean it, and equilibrium?

Professor FISHER. I am using the term equilibrium to indicate the relationships within the economy. For example, one thing might be happening in the field of agriculture, and another thing might be happening in the field of industry. There might very well be complete stability so far as the average price level is concerned, and at the same time agriculture might be suffering the pangs of depression.

Mr. FORD. We had that in 1927, 1928, and 1929, did we not?

Professor FISHER. Yes. That is the sort of thing I meant by equilibrium; that is, the system properly integrated with reference to its various points.

Mr. FORD. Then you do not think the price level would be in any degree a contributing factor tending to bring the country back to a better condition? For instance, if we did reach the price level of 1926, or any other desirable price level that we talk about, do you think that that would have a tendency to put the country in good shape?

Professor FISHER. If I understand your question correctly, Mr. Congressman, I do think that any great instability of prices is a thing to be deprecated; that is, other things being equal, our economy can function more adequately if there is not too sudden a change in prices, but more important than a gradual change in prices, which conceivably might be desirable over a long period of time, is the maintenance of this equilibrium that I talked about.

By and large, if I might make this other statement, the prevention of serious disturbance, sudden ups and downs, is in my opinion more important than is the maintenance of absolute stability over what might be called a secular period.

Now, I know that that is a matter on which there is a legitimate difference of opinion.

Mr. GOLDSBOROUGH. Professor Fisher, I guess that, roughly, the period from 1879 to about 1898 was a period of falling prices. My recollection of that situation begins about 1885, and I remember that in that period farmers and laborers were in a very wretched condition, and the producing class as a whole was suffering. Those were the days when Wall Street had Hetty Green and Russell Sage——

Mr. FORD. And Jay Gould.

Mr. GOLDSBOROUGH. Those people constituted the money cult. Then gold was discovered in the Klondike, South Africa, and Australia, and in about 1896 that began, as I recall it. I went into business in

1901, when conditions were greatly improved, and continued to improve until the war.

Now, in the first period that I have indicated, a period of more than 15 years, that was a period which was pretty hard on the debtor and producing class. The latter period was a period which was very satisfactory to the debtor and producing class, but rather hard on the creditor class.

It would seem to me that these long swings of prices up and down are the things which, insofar as prices are concerned, hurt one class or another, as the case may be.

I understand that you do not agree with that.

Professor FISHER. I do not think that I would put it exactly that way, Congressman Goldsborough. My conviction is that it was unfortunate that we had the long downward swing of prices that we did have in the period that you mentioned. My conviction also is that it is unfortunate that in the decade of the twenties, we did not have prices fall in this country more than they did; that is, I think that we would have had a better chance to maintain this equilibrium in our economy had prices fallen in such manner as to reflect the technological changes and the increased productivity.

What I am trying to suggest is that I think the price is, after all, the result of a good many other factors, very complicated in their nature, but to grapple with the whole problem solely through the price level, I believe, is tackling the symptoms rather than the fundamental cause.

Mr. GOLDSBOROUGH. Of course, now that we have the Federal Reserve System, and have this immense quantity of gold, the amount of gold is not reflected in the price level particularly or necessarily, but in the periods about which I have been talking, there is not any question in the world, in my opinion, that the long trend of falling price level, from 1879 to 1898, and the period of rising price level from 1898 to 1914, were due exclusively to monetary causes. The period of downward trend was due to the demonetization of silver, and the rising price level from 1898 to 1914 was due to new discoveries of gold.

Professor FISHER. That is my thought. I should agree with that.

Mr. CRAWFORD. Mr. Chairman, may I ask a question?

Mr. GOLDSBOROUGH. Proceed, sir.

Mr. CRAWFORD. Dr. Fisher, in the year just closed, if I remember my figures correctly, the Federal Reserve Board paid to member banks in dividends approximately $7,900,000. That is roughly 6 percent on $132,700,000, the capital outstanding, which was about the figure at the end of 1937, and it increased a little during last year.

Also, as I remember it, and I have not these figures with me, the capital stock, preferred and common, outstanding of National banks, is roughly $1,580,000,000; 6 percent on that would be approximately $94,800,000.

Your statement with reference to the importance of these dividends thrown into the member banks caused me to make this quick calculation to arrive at the ratio of dividends received by member banks on their investments in the stock of the Federal Reserve banks, compared to dividends that might be received if earnings were permitted on their own preferred and common stock. I am now referring strictly to the national bank.

So that figures out roughly $7,900,000 in dividends from Federal Reserve banks, as compared with $94,800,000 dividends on their own capital, or, let us say, roughly 8 percent.

As you recall, is that within the range?

Professor FISHER. I have not those figures in mind, but in general that is in line with my impression; and the point that I was trying to make there was not that these dividends were quantitatively so important, but their subtraction from the earnings of the banks at the present time, assuming that we want to maintain our banking structure, is a serious matter.

I might enlarge upon that just a moment, if I may, by saying that in 1936, the last year for which the figures are now available, all member banks of the Federal Reserve banking system, if I recall correctly, earned about 8.9 percent on their capital funds. I was interested in making a computation of those earnings, and I discovered that something more than 52 percent of those earnings were under the heading of so-called recoveries. That is nonrecurring income, presumably, meaning thereby that the earnings on capital funds of all member banks, exclusive of recoveries, are approximately 4½ percent; and the 4½ percent, in my judgment, is not such a generous return as to induce the investment of necessary funds in the banking structure.

Therefore, any further undermining of the present modest earnings will move in the direction of, no matter what the ultimate effect may be, weakening our present banking structure.

Mr. CRAWFORD. I think that your statement is very constructive, and I have followed the same line of thought and tried to project those figures down through the first 9 months of 1937, and the information I have been able to compile leads me to believe that those nonrecurring earnings which you have just referred to, that played such an important part in 1936, are greatly absent during the first 9 months of 1937.

So I think that when you secure your 1937 figures and extend your study, that you will find the banks rapidly moving back toward, say, 4½ or 5 percent.

Professor FISHER. I think that is true.

Mr. CRAWFORD. One other thought along that same line.

Two or three days ago we passed an R. F. C. bill here, to extend loans through R. F. C. agencies. Would you mind permitting yourself at this time to say whether or not you feel that, if that new law functions as the intent indicates it should, and those industrial and commercial loans are gradually shifted away from the banks which now hold them, that in turn will adversely affect the operating revenues of the banks, as compared to your 1936 study, or do you think it will amount to anything at all?

Professor FISHER. May I put that question in my own words, to make sure that I got it?

Mr. CRAWFORD. Yes.

Professor FISHER. That is, if the Government extends even further the loans through the R. F. C., the tendency will be to deprive the banks of some of the loans which otherwise they might get, and, therefore will reduce bank earnings?

Mr. CRAWFORD. Yes; that is the question.

Professor FISHER. I think that that is undoubtedly true.

Mr. FORD. But the R. F. C. cannot loan it, if they can get the money from the local bank.

Mr. GOLDSBOROUGH. That is the law.

Mr. CRAWFORD. In other words, if the bank makes the loan, the R. F. C. will not function in this respect, so I think that that washes out and takes care of itself, as a matter of fact. Of course, the intent was good, but I look beyond the intent and try to find what it is going to do to a particular establishment.

Professor FISHER. My remarks are not designed to pass judgment upon the merits of an R. F. C. loan but simply to call attention to the mathematical or arithmetical effect of an extension of Government through R. F. C. loans to people who otherwise would borrow from banks. Then and to that extent, it seems to me, as a matter of arithmetic that the banks will get fewer loans than they otherwise could.

Mr. GOLDSBOROUGH. The law specifically says that the R. F. C. cannot make a loan unless the applicant demonstrates to the satisfaction of the R. F. C. that they cannot secure that loan from a bank.

Mr. CRAWFORD. Let me throw in this question. Assume that you are bank X out in city Y, and you hold an industrial or commercial loan against corporation B at this time, and you feel that corporation B will move into the red-ink area during the next 6, 12, or 18 months.

Will that not in many cases put you in a frame of mind to decline further extensions of credit to a corporation borrower and also cause you to encourage the corporation borrower to go to the R. F. C., and therefre to shift the loan to the R. F. C. and let you out of the picture?

Professor FISHER. That question, Congressman, is more than academic to me. As a matter of fact, I am a director and a vice president of a national bank, and that sort of problem has confronted the directorate of that bank in a number of cases recently, and we have been having some very real struggles to determine what we should do and what we can do.

Mr. CRAWFORD. We are right up against the stubbing post now?

Professor FISHER. Yes. This particular bank with which I am connected—and I think the same thing is true of other banks in that community—is not particularly happy at the outlook for earnings.

Mr. CRAWFORD. Now, then, if we could eliminate these precipitous ups and downs that you have referred to and get rid of those before worrying so much about this finesse of stability, wouldn't that prevent you and your directors from having to face such a problem as you have just outlined to a great extent?

Professor FISHER. If we could get—and I am trying to put it in terms to make sure that I understand it—if we could get our economy to function fully, then our problems would be solved, in my judgment, without the necessity of attaching major importance to the price element.

That is, I am trying to say that I do not believe that the problem of the correct functioning of an economy, full utilization of our plant capacity and human energies, the proper balance between agriculture, industry, and what not—I do not think those objectives can be attained by the price avenue exclusively.

But that is just controversial.

Mr. GOLDSBOROUGH. Would this be a fair statement of what is in your mind, that if we could have a condition in this country where consumption meets production, the price level would take care of itself?

Professor FISHER. In general, I am inclined to think that that is true.

Mr. CRAWFORD. Professor, you made another observation there that ties in, I believe, directly with what we are momentarily discussing, and that is with reference to the potential harm that might flow to the confidence which the public now has in the Federal Reserve Board as a Federal agency.

Suppose that the R. F. C. through its functioning under the law that is about to be passed, does not meet the issue. Will that not in turn somewhat destroy at least the expectation in the public mind with reference to the efficacy of the R. F. C. operations?

Professor FISHER. I should say so.

Mr. CRAWFORD. Now, do you not believe that the conditions which we face this very moment are greatly contributing to the destruction of the confidence of our people in the efficacy of the Federal Reserve Board, and that if these conditions continue, that may perhaps have a greater destruction of confidence or result in a greater destruction of confidence than this H. R. 7230 would lead to if it went into operation and the Government took over the ownership of the stock of the Federal Reserve banks and bad conditions continued?

Do I make myself clear?

Professor FISHER. I think so. It is a rather involved question to answer briefly and dogmatically.

I think that there is a hazard at the present time psychologically in the fact that the business community may react to these various devices, as people do when "wolf, wolf" is called too often, but any further loading of responsibility on the Board of Governors, in addition to the responsibility it now has, particularly if it has a responsibility to do something concerning which there is very grave doubt as to its capacity, will contribute another item of lack of confidence in the integrity and the competency of the members of the System.

Now, I do not want to be put in the position of being dogmatic on that——

Mr. CRAWFORD. I see.

Professor FISHER. I preface the remark by the suggestion that in the field of social science we are not dealing with exact phenomena, as a physicist does, or a chemist. After all, we cannot get mathematically exact knowledge. All that we can do is to examine the evidence which is available and then express an opinion which is more or less informed.

Now, my guess, and my present opinion, is that it would be unfortunate to place upon our present organization a responsibility for doing something which I doubt its capacity to do, and which if it did not accomplish it would be a factor to undermine confidence in the entire system.

That is only my personal judgment.

Mr. CRAWFORD. When you speak of these drastic ups and downs that occur from time to time, do you have in mind something like this? You take the last annual report of the Federal Reserve Board published prior to the one which is to come out this week, if it is not already out, and go through it and notice the figures that show the debit balances and depositors' accounts—in other words, bank clearings, and you will find figures roughly like these:

In 1919 we had $500,000,000,000 of that type of transaction. Between 1919 and 1929 we moved up past the trillion dollar mark. Between 1929 and 1933, including 1933, we dropped down to around $375,000,000,000. Going to 1937, we moved up to around $500,000,000,000; 1938 indicates that we are going to drop back to about $380,000,000,000.

Now, taking into consideration the psychological attitude of the people between 1919 and 1929, where it runs way up, and they incurred every conceivable cost of living in the way of fixed charges that they could bring on themselves, and then they face a situation where that drop will be straight down to 50 percent of what it was in 1929—having all this in mind, I want to ask you if drastic ups and downs of that kind were what you were thinking of when you referred to that phase and the importance of eliminating those things instead of bothering about the niceties of this problem?

Professor FISHER. I think it is very important to eliminate those drastic shifts if there is any possibility of doing it.

Mr. CRAWFORD. If those drastic shifts are to be, do you believe there is any way on earth that the Federal Reserve Board as now constituted or as it might be constituted can do much about this thing that we call the price level?

Professor FISHER. That goes a little bit beyond the comments I had intended to make.

My general views are that the banking machinery at the present time and the banking authorities at the present time have better braking powers than they have ignition powers, if one could call it that. I think that we have in this country at the present time, assuming that we have the intestinal fortitude to act—we have powers to prevent any runaway inflation. I am not so sure that we have powers through banking machinery or anything else to prevent serious deflation should the psychological situation of the community be such that they simply refuse to borrow and refuse to spend.

Mr. CRAWFORD. I have just two more short questions, and then I will quit.

Mr. GOLDSBOROUGH. Proceed, sir.

Mr. CRAWFORD. You referred, if I caught your statements correctly, to the necessity of Government action and to the efficiency of Government operation.

Professor FISHER. Yes.

Mr. CRAWFORD. Now, as we recede from private enterprise as measured by this absence of bank clearings, does that not in fact create the necessity for governmental action? Is that what you meant by the necessity of governmental action?

Professor FISHER. What I meant, Mr. Congressman, is something a little bit broader than that. I might state my own political philosophy as one that does not regard governmental action per se as a bad thing. If we only know or have reason to believe we know where the Government can step in and do something that private business has been unable to do, then I should say, "God bless the Government; let it step in." I have no horror at the accomplishment of a thing simply by virtue of the fact that the Government rather than private individuals are back of it.

That is my own political philosophy. It may be wrong——

Mr. CRAWFORD. That answers my other question, too.

Professor FISHER. But I should have no objection to the Government stepping in to ease a downward situation, if it seems that the Government has the capacity for doing it.

Mr. GOLDSBOROUGH. You stated a few minutes ago that you did not know of any Government machinery which would stop a deflation.

The orthodox view is, as I understand it, among those who believe inflation can be stopped, that open-market operations on the part of the Federal Reserve System will, if they are carried on vigorously, never stop a deflation.

Now, Professor Spahr, for instance, expressed that point in this way. He said that his fear was that if you create an inflationary condition which public sentiment would prevent the Federal Reserve System from stopping, it would have so much acceleration that the public would not permit its being stopped by the Federal Reserve System.

Now, there has been a bill considered by this committee which would undertake to stop a deflationary condition by means of a retail price discount to the ultimate consumer. Now, assuming that that can be done, that there are practical ways and means to do that, in your opinion wouldn't that be effective in stopping a deflationary condition?

Professor FISHER. Do you mean the open-market operations, or the fixing of retail prices?

Mr. GOLDSBOROUGH. I mean discounting the retail prices to the ultimate consumer.

Professor FISHER. I am not sure, Mr. Goldsborough, that I have thought that through sufficiently to have any wisdom on it.

Mr. GOLDSBOROUGH. I see. Then I won't question you about it.

Professor FISHER. But I would like to answer the question about the open-market operations, if I may.

Mr. GOLDSBOROUGH. Proceed.

Professor FISHER. I doubt very much if open-market operations, no matter how heavily indulged in, will stop a deflationary orgy once it has started, unless you can correct the psychology of the people and give people reason to believe that it will be profitable to borrow for the purpose of investing and spending or for the purpose of engaging in their business. That is, I am skeptical as to whether we yet have sufficient knowledge to stop deflation once it begins.

Now, of course, the proper procedure, I take it, would be to prevent the inflation which ordinarily is followed by deflation, but once deflation begins I think it is open to a serious question whether open-market operations will of themselves be sufficient to stop the deflationary prices.

Mr. WILLIAMS. What would be the result of open-market operations on an extensive scale at the present time—say, to the extent of a billion dollars?

Professor FISHER. If I had the responsibility for determining open-market operations at the present time, and if I should determine those open-market operations in the light of my present knowledge or lack of knowledge, I should be inclined to engage in them on an extensive scale, but I would have no assurance that the effect would be what I hoped it would be. I should attempt it in the hope that it would ease the jam, but with no firm conviction that it would necessarily be adequate.

Mr. WILLIAMS. What do you really think would be the result of that move? What is your judgment?

Professor FISHER. The result should be to ease credit, and the result should be to prevent some of the deflationary forces that have recently been at work, but I think it is a gamble as to whether or not that action would produce the results that we hoped for.

Mr. WILLIAMS. Unless we created a desire on the part of those who needed to borrow, you would simply pile up reserves in the banks.

Professor FISHER. Yes, sir.

Mr. WILLIAMS. That would be the result of it.

Professor FISHER. Yes, sir.

Mr. WILLIAMS. Unless you in connection with that operation created a condition where the people of the country would want to make fine improvements, or install machinery and employ additional people, make further investments—unless they wanted to use the money for those purposes, it would simply pile up in the banks.

Professor FISHER. That is true.

Mr. WILLIAMS. That would be the result of it.

Do you think the Federal Reserve Board acted wisely in raising reserve requirements?

Professor FISHER. I do personally, yes; because I think that we had gone in the wrong direction over a period of years in the reduction of reserve requirements, and the raising of the reserve requirements the last time still permits a superstructure of credit which is bigger relative to your volume of reserves than we had under our national-banking system.

Mr. WILLIAMS. Do you think that it would be a wise policy to reduce those reserves now, under the present circumstances?

Professor FISHER. I do not think so; that is, it seems to me, and I express only a personal conviction here—I know that there are economists who differ in that respect, but it seems to me that the reserve requirements of 14, 20, and 26 are not excessive reserve requirements.

I should prefer to leave with the banking system the possibility of some flexibility should there be an occasion to use it and to give the Board as it now is the possibility of a reduction, but I see no good reason for reduction at the present time.

Now, against that, of course, there is the argument that it might have a psychological effect upon the community and indicate that things were going to be eased up a little bit. I am not sure whether that would be the effect or not.

Mr. WILLIAMS. I want to ask you this, whether or not, in your opinion, the Federal Reserve Board, under the present law, has all of the authority and power that is necessary to accomplish the desired ends so far as the monetary policy is concerned.

Professor FISHER. I cannot answer that question yes or no. I should say that in my judgment the Board of Governors at the present time has all the authority that it needs legally to do those things which can be done probably by such a board. It does not have power to prevent deflation.

Mr. WILLIAMS. What we are inquiring about here, and what I and the rest of the committee are especially interested in, is this, that if they do not have sufficient authority and power, I for one want to give them whatever power is necessary, and that is the reason I make that inquiry, and you have given this matter very great study.

Professor FISHER. Might I answer the question this way? I think that the Board at the present time has all of the powers that are necessary to do those things which there is any reason to believe the Board could do. I am not trying to beg the question. That is a further angle of what I meant a moment ago when I suggested that the Board can prevent inflation if it has the courage to do so. The Board cannot in my judgment be absolutely sure in the matter of preventing deflation. I know of no way in which the Board could be given any additional power which would enable it to prevent deflation, short of a complete modification of our whole system—I mean, our economic system.

Mr. WILLIAMS. Then, so far as the question of monetary influence is concerned, in your judgment we do not need any additional legislation?

Professor FISHER. That is my present judgment; yes.

Mr. WILLIAMS. Have you any suggestion of anything that the Board should do under their present powers that they have not done?

Professor FISHER. I am afraid that I have not. That suggests going into an excursion of another sort, and the whole problem is to clean up and lift the depression, and to restore economic equilibrium, and I do not think you mean to have me go into that. I think that that is a large problem. I do not think it can be solved through exclusive reliance on the monetary and banking mechanism.

Mr. WILLIAMS. Can they help?

Professor FISHER. I know of no additional power not now had by the Board which would enable it to be more useful.

Mr. WILLIAMS. You made some remarks in connection with the banking income of the country. Have you carried that study to the income of industry in general for the last year, 1937?

Professor FISHER. I have examined some of the factors in the income of industry. The income of industry for the first half of 1937 was pretty good. For the second half of 1937 there was a definite recession. As a matter of fact, I think in the fourth quarter of 1937 the business profits of a highly select group of 200 big corporations, giving reports on a quarterly basis, showed a decrease of 34 percent from what they showed in the final quarter of 1936.

Mr. WILLIAMS. But for the year as a whole——

Professor FISHER. For the final quarter.

Mr. WILLIAMS. Yes; but their income for the entire year, as I remember the statement which I saw, and that covered about 1,200 of the big corporation of the country, was over 7 percent, and that was the net income.

Professor FISHER. That was true, I think, of a highly selected group studied by the National City Bank.

Mr. WILLIAMS. Yes; that is where I saw that.

I was just wondering how that would compare, the income of industry in general, with the income of the banks of the country.

Professor FISHER. That income for industry in general, that is, putting it on a selective basis, would probably be double the net income of banks during that period. I mean the member banks. I have not seen the final figures for the member banks for 1937, but for 1936 the member banks, exclusive of recoveries, got around about 4½ percent.

Mr. WILLIAMS. Has it been your observation as a practical banker that the standardization requirements of the Departments here in Washington have interfered with local management and lending of banks?

Professor FISHER. I do not want to speak as a practical banker in that respect, because my board of directors might not concur in my judgment. My answer is no, but I frequently have arguments with my colleagues on the directorate of this particular bank. My argument to them is that the Government has a responsibility which it cannot shirk in that respect, and if it becomes inconvenient for us to comply with some of those regulations, it is just too bad, but we cannot be trusted to go our own way.

I do not believe, in general, that the Government is open to criticism for too stringent regulation of banks. My board of directors might not agree with me on that; but they are not here. [Laughter.]

Mr. WILLIAMS. There are a great many that do not agree with that thought. There are a great many that have the idea that by reason of the strict regulations and the requirements of examiners, the requiring of banks to charge off loans, requiring them to readjust them, and all that kind of thing, it is very seriously interfering with the local making of loans by the banks, and resulting in their not accommodating those that they otherwise would accommodate if they were left to their own discretion and judgment.

Professor FISHER. I think there is some ground for that feeling, and I have run into a number of instances in which the bank examiner required my bank to write down the price at which it carried some real-estate loans that it had acquired involuntarily. We felt that our judgment locally was superior to the judgment of the bank examiner, and I am inclined to think in this specific instance, where there was a conflict in judgment, that our judgment was superior in those cases; and yet if the Government regulatory bodies had been a little more strict in an earlier period, probably we would have saved ourselves some of the distress through which we have gone by virtue of the absence of that restriction.

Mr. WILLIAMS. Hasn't there been a very decided tendency in the last few years to stress liquidity, rather than soundness of loans?

Professor FISHER. I think there has been.

Mr. WILLIAMS. What is your judgment as to whether that has gone to the other extreme now?

Professor FISHER. I think it has.

Mr. WILLIAMS. Whether or not they have not stressed liquidity to an extent that it has materially interfered with the local function of a bank?

Professor FISHER. I think probably it has.

Mr. WILLIAMS. That is due, of course, to the strict regulations of the examining authorities of the banks.

Professor FISHER. My contention is that in our whole economic structure, we have made a fetish of liquidity, not only in the banking situation but everything—in stock market securities. That is, we have assumed that it is necessary to liquidate everything simultaneously, and it simply cannot be done.

Mr. WILLIAMS. Do you think the stock market marginal requirements are too high?

Professor FISHER. No; I do not. At the present time a man can borrow, if I recall correctly, 40 percent of the market value of the collateral. I am inclined to think that is a perfectly reasonable requirement.

Mr. WILLIAMS. You spoke a while ago about the equilibrium in our economy. I am not sure that I just understand what you mean by that. Will you elaborate on that somewhat?

Professor FISHER. What I meant was that no economy can function properly unless the prosperity permeates the whole economy. For example, you have a prosperous industrial segment of the economy, and unless agriculture is also prosperous, you cannot have this half depressed and the other half prosperous without ultimately having the properous segment feel the repercussions from the impoverished segment.

I refer particularly to the failure of our system to mesh in its different sections over a period of years. I think that there are many reasons for it, international trade and what not.

Mr. WILLIAMS. There are many reasons that determine the general price level, are there not?

Professor FISHER. Yes.

Mr. WILLIAMS. What are the main elements that enter into the determination of the general price level?

Professor FISHER. That is a pretty large order. I am afraid you do not——

Mr. WILLIAMS. I only want the main ones. What are the main contributing factors to it?

Professor FISHER. Somebody has said that if you teach a parrot to say supply and demand, he knows all of the economics that there is. I think that that is a slander on economics, because when you say demand, you have not said anything until you get back of demand and analyze it, and likewise when you say supply, you have to go back of supply and analyze it.

In general, I should say that, accepting the situation from which we begin at any one point, anything that increases the desire of people to get a particular thing will lead to an increase in the price of that particular thing, and anything which increases the disposition of people to produce a particular thing for the market will, other things being equal, which they never are, lead to a decrease in the price of that thing.

Mr. WILLIAMS. What effect, in your opinion, have the public spending policies of the Government had on the price level?

Professor FISHER. I have not formulated my opinion on that. Generally, I should say, and this is probably not relevant to the Patman bill—I should say in general that my judgment is that the spending policy of the Government did account for or cause some of the little boom that we had, and then following that the social-security policy of the Government, causing an abrupt change and giving a physically balanced Budget, not a legally balanced Budget, did have something to do with the recession that has come.

Mr. WILLIAMS. Do you think that the policy of the Government and the policy of Congress to try to regulate the production of agricultural products in accordance with consumption has anything to do with agricultural prices?

Professor FISHER. I think it might.

Mr. WILLIAMS. Has it? We have been engaged in that policy here for the last 3 or 4 years. What effect, in your opinion, has that had on the prices of agricultural products?

Professor FISHER. I am not sure that I have studied that enough to give any scientific opinion. My answer is an answer from the particular rather than the general.

In the summer of 1932 I took a very extensive motor trip through my native State of North Carolina, and I think I never saw people more depressed and dejected than they were in the Agricultural Belt and the cotton belt of eastern North Carolina and eastern South Carolina.

Three or four years later I went back, and they were sitting on top of the world. So I think that from the point of view of that particular section there is absolutely no question but that that section did prosper from the governmental policy of boosting the price of cotton.

Now, whether, from the point of view of the large economy, that was a good thing I am not yet prepared to say.

Mr. WILLIAMS. Do the tariff policies of the Government have anything to do with the general price level?

Professor FISHER. I think that it did. I think that the restoration of prosperity in that agricultural belt gave purchasing power which by a process of repercussions transmitted itself ultimately, in part, at any rate, to the other segments of the economy.

Mr. WILLIAMS. And it is your opinion, as I understand you, that the price level rather reflects conditions and is the result of economic conditions rather than the cause of the disequilibrium that may exist?

Professor FISHER. I did not mean to put it in exactly that way. There is undoubtedly action, interaction, and reaction, but in general I do not believe that you can solve problems of economic maladjustment solely through the price mechanism, and certainly not through the general price level.

Mr. WILLIAMS. Well, where would you begin?

Professor FISHER. Do you want me to go into that?

Mr. WILLIAMS. I would like to know where you would begin to start the wheels rolling.

Professor FISHER. I would begin personally, if I had the mendate of a Fuehrer, or an Ill Duce, or something else, by attempting to restore international equilibrium, and I would restore international equilibrium. Now, this may be highly controversial, but you have asked for my opinion, which may or may not be sound and which may or may not coincide with the opinion of anybody else.

I should attempt to restore international equilibrium by such an intenational program as would enable us to market our goods in their traditional channels, which in turn would involve on our part a responsibility and a willingness to purchase some of the goods that we have purchased traditionally from other sections of the world.

Mr. WILLIAMS. We are doing that, are we not, or trying to?

Professor FISHER. We are trying to.

Mr. WILLIAMS. In our trade agreements.

Professor FISHER. I think that we are moving in the right direction.

Mr. WILLIAMS. We are doing that in the reciprocal trade agreements that have been entered into. You approve of that policy?

Professor FISHER. I do.

Mr. WILLIAMS. I have more in mind our domestic situation. It seems to me that we are in a recession now, and we got into a terrible depression back in 1932. Now, there is something happening, and the question in my mind is, what should be done? What should be done to start us on the up-grade again?

Professor FISHER. I think the general policy should be to see that anything that will restore the confidence of the American people in the soundness of their economic system is done, but it is much easier to state what the general thing is than it is to give a bill of particulars.

Mr. WILLIAMS. What happened last September, we will say, about the time that this recession started? What was the matter?

Professor FISHER. I think there were a number of things the matter. I think that we were reflecting uncertainty which came by virtue of our expectation of an outbreak of war in other sections of the world, in part. I think the sudden change from a policy of blowing hot to a policy of blowing cold in the balancing of the Budget—physically, I mean, through the social-security taxes, and then the mere fact that emotionally we had been getting along perhaps too easily, had something to do with it. Perhaps we were in a mood to magnify any ghost that might be seen or thought to be seen, and probably there were a lot of things in the situation that reinforced that thought.

In general, I am convinced that there was no reason so far as our internal economy was concerned, that is, from an economic point of view, not necessarily from a psychological point of view, why we should have gone to pot to the extent to which we did begin to go to pot in the second half of 1937.

Mr. WILLIAMS. There was really no foundation or real reason for it, in your judgment?

Professor FISHER. No real economic reason for it that I know of.

Mr. WILLIAMS. It was largely psychological?

Professor FISHER. I think so, excepting that coming events do cast their shadow before, and the uncertainties in relief policies, and the labor uncertainties, I think, undoubtedly did magnify themselves in our business calculations, and had an effect.

Mr. WILLIAMS. Do you think that the stock market in the summer of 1937 showed evidences of inflation, that it was about to get back to the position where it was in 1929, to such an extent that it would cause a real stock boom and then collapse? Do you think stock prices had reached that point where they indicated we were in another stock boom, like in 1929?

Professor FISHER. I am inclined to think that by the middle of 1937 we had moved sufficiently far to justify being careful, but of course we had not got to the position in which we were in the latter part of 1928 and 1929. That is, I am inclined to think that in the first half of 1937, stock prices were a little bit higher than was justified by the then earnings of the corporations, but not out of line as they were in 1929.

Mr. GOLDSBOROUGH. Do you think we ought to regulate our economy by the stock market—our industrial economy?

Professor FISHER. Personally, I am thoroughly convinced as to the soundness of the underlying philosophy of the Securities Exchange Act, and the Securities Acts.

Mr. GOLDSBOROUGH. The truth of the matter is that we had millions of unemployed in the fall of 1937. I do not understand how anybody can talk about inflation when you have got a considerable portion of your population unemployed, unless the definition of inflation is something that I do not understand. It seems to me that inflation occurs when you have full employment and still continue to put money in the market. Until you do have full employment, I do not understand how you can have inflation. It is just simply beyond my comprehension. If you have full employment, if you are consuming all that you can produce, and still continue to put money in the market, of course you have inflation, because it is not necessary to do it.

Mr. WILLIAMS. Have we ever had a time when we did not have unemployment?

Mr. GOLDSBOROUGH. When I say full employment, I mean full employment of those who want to work and are able to take employment physically.

Mr. FORD. May I ask a question?

Mr. GOLDSBOROUGH. Certainly.

Mr. FORD. Doctor, are there not rather distinctive peculiarities about this present recession that we have not observed in others of like character? For instance, usually when there is a recession or a depression or panic or whatever you want to call it, it is accompanied by a great number of bank failures, a great number of business failures, and considerable confusion all over. Now, we have not had any bank failures to amount to anything—only 59 in the year. We have not had any great commercial houses to any extent that have gone down. About the only stock-market failure that we had was the result of peculations on the part of the head of that house. So, to that extent, isn't this present recession rather in a class by itself, and isn't there ground for this suspicion—I use the word suspicion, because in the House for the past week we have been discussing our legislative measures from a suspicious standpoint—isn't there grounds for suspicion, and a great many people have said it and believe it, that we might have had a sort of a sit-down strike on the part of industry and finance?

I will tell you why I ask that question.

Last October, just before I came back to Washington, a couple of friends of mine came to me and said that they were planning to buy some property, and that they went to the bank in order to ask the bank about it, and they were told, "If you have any money, put it in the bank and keep it, because we are in for trouble."

At least a dozen other people came to me and gave me that same story later, and I am wondering if there was any general widespread word sent out about that time that it was time to draw in. Does your study reveal anything of that kind?

Professor FISHER. My opinion on that would reflect a sort of a triple experience: First, as an academic economist; secondly, as a banker on a small scale; and, thirdly, as chairman of the State board of mediation and arbitration in the State of Connecticut, where last year I believe we intervened in something like 90 strikes, if I recall the situation properly, and in no one of these three channels have I seen anything which leads me to believe that industry has consciously sat down at a time when industry believed that it can make a profit by standing up. But, of course, we have not had very much of a sit-down strike even on the part of labor in the State of Connecticut. We did have one or two abortions at it, I believe, but they did not get very far.

I do not say that that does not exist, but nothing has come to my knowledge which leads me to believe that there has been any deliberate, conscious, purposeful conspiracy on the part of those who hoped to bring about a situation which would discredit any measures that have been taken.

I make no assertion that it has not been done. I simply say I have no evidence that it has been done.

Mr. Ford. It seems to me, in the first place, that to have done so would have been a suicidal policy.

Professor Fisher. Oh, absolutely.

Mr. Ford. I am just commenting on it because these things came to my attention.

Professor Fisher. My contact with industrial leaders causes me to believe that they are too intelligent to put forth any such boomerangs. I may be wrong.

Mr. Ford. It may have come from other sources. They may not have done it.

Mr. Transue. Professor, I have listened with interest to what you have had to say about getting out of the depression. Can you tell me whether or not, in your study of economics, there has ever been a coming out of any depression where we did not come out with a giving of credit or of monetary measures to relieve the situation at the time?

Professor Fisher. Well, my feeling is that when you come out of a depression, when people believe that the conditions are such that they are going to get out of a depression, they will proceed then to get credit, and there is plenty of credit available for one who is a good risk. My bank is overanxious at the present time to lend to people to whom it can afford to lend. It is not a matter of not having the money. The small bank with which I am connected has a lot of cash, for the size of the bank, which it has put into very low-interest-bearing paper, commercial paper, and tax warrants, not because it wants to but because there is nothing else to do about it.

Mr. Transue. About the social-security taxes and the other taxes, you say that the Budget is actually balanced, but not legally balanced?

Professor Fisher. My understanding is, and I have not made any special study of that, that physically there has been a balancing, but in making that balance the Government has assumed a liability to pay later on.

Mr. Transue. The taxes collected have equaled the outgo?

Professor Fisher. That is my information, yes.

Mr. Ford. On the basis of the Government's social-security policy.

Professor Fisher. Yes, sir; to the extent that they followed that policy. There was a very wide disparity in the other direction, but there has been a reversal of policy.

Mr. TRANSUE. You have spoken about confidence. Did business and people in general have confidence in the early spring and summer of 1937? Business was pretty good, was it not?

Professor FISHER. Yes; I should say that they did.

Mr. TRANSUE. From that test, you should say that there was confidence?

Professor FISHER. I should say so, yes.

Mr. FORD. Do you think the newspapers had anything to do with it?

Professor FISHER. Yes.

Mr. TRANSUE. Now, take the automobile industry, with which I am best acquainted. They made, I think, 5,000,000 cars last year.

Professor FISHER. Yes.

Mr. TRANSUE. One of the best years they ever had so far as the number of cars is concerned.

Is it not a fact that they just ran out of customers, and that is what stopped them?

Professor FISHER. Obviously, yes.

Mr. TRANSUE. Then this matter of confidence gets down to the proposition that the people who have been their customers and to whom they have been selling do not have the money to buy?

Professor FISHER. I think so; that is, the people who would buy do not have the money, and the people who have the money are afraid to spend it.

Mr. GOLDSBOROUGH. Gentlemen of the committee, we will have a roll call in a minute or two.

Mr. TRANSUE. I have finished.

Mr. GOLDSBOROUGH. On behalf of the committee, I want to thank you very earnestly for your coming here and giving us the benefit of your views. I am sure we have all been helped very materially; I certainly have, and I want again to express our thanks to you for coming down.

We will adjourn until tomorrow morning at half past 10.

(Thereupon at 12:05 p. m., an adjournment was taken until Thursday morning, April 7, 1938, at 10:30 o'clock.)

GOVERNMENT OWNERSHIP OF THE 12 FEDERAL RESERVE BANKS

THURSDAY, APRIL 7, 1938

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

Hearings on H. R. 7230 were resumed at 10:45 a. m., Hon. T. Alan Goldsborough presiding.

Other members of the committee present: Mr. Reilly, Mr. Williams, Mr. Spence, Mr. Farley, Mr. Ford, Mr. Brown, Mr. Patman, Mr. Evans, Mr. Luce, and Mr. Crawford.

Mr. Goldsborough. The committee will come to order, please.

Doctor, will you give your name and connections to the reporter, please?

STATEMENT OF DR. JOSEPH E. GOODBAR, NEW YORK CITY; PRESIDENT, SOCIETY FOR STABILITY IN MONEY AND BANKING, INC.

Dr. Goodbar. The name is Dr. Joseph E. Goodbar, 36 West Forty-fourth Street, New York. My occupation is lawyer and economist. I have given the reporter a little sheet showing some of my academic background and connections. If you would like to have me go into that——

Mr. Goldsborough. If you will, please, sir.

Dr. Goodbar. On my academic training I received the bachelor of arts degree at the University of Arkansas; bachelor of laws, magna cum laude, Boston University Law School; master of laws, Harvard Law School; and doctor of juridical science, Harvard Law School. The thesis for the degree of doctor of juridical science was on the subject of Conflict Between Banking Law and Economic Law.

I have specialized in corporation and financial law, and have been a special lecturer of the law of corporation finance, Boston University Law School.

I am the author of Managing the People's Money, published by the Yale University Press in 1935, and which is now being given a second printing. Am also the author of many articles published in legal and banking journals and in Current History Magazine.

I have just returned from giving lectures at foreign universities and holding conferences with leading financial people, both private and public, in most of the countries of western Europe.

With regard to the bills that are up for hearing, I have not had much opportunity to become familiar with the present form as I would like, because I have just returned from abroad.

Mr. GOLDSBOROUGH. Dr. Goodbar, the bill which you are to discuss is H. R. 7230, and Mr. Patman, I am sure, will also desire you to discuss certain amendments which he says he will endeavor to have incorporated in the bill later.

Dr. GOODBAR. The one that I am familiar with is the original bill.

Mr. GOLDSBOROUGH. Mr. Patman this morning is attending the funeral of the wife of a colleague of his from Texas, otherwise he would be here. He is very sorry that he could not be here.

Dr. GOODBAR. He sent me a copy of an address or remarks in which he mentioned the intention of putting in a mandate for the stabilization of the price level. Is that the amendment that you had reference to?

Mr. GOLDSBOROUGH. I think so; yes, sir.

Dr. GOODBAR. I feel that it would be helpful, before actually touching on the bill, if the gentlemen assembled here will bear with me while——

Mr. GOLDSBOROUGH. Proceed in your own way, please.

Dr. GOODBAR. Thank you. I would like to give something of a sketch of the three different types of economic systems which banking must fit into, because that will throw light on our own problem.

There are today three major types of economic systems, and I will take up first the—

ENGLISH

For more than 75 years the English have had a strikingly stable economic organization. Steady and constant rise in the Nation's wealth, hand in hand with rising standards of living, has taken place without much shock from business depressions, and none from financial panic within the past 75 years.

In the English system, the rate of progress is regulated by a financial stop-and-go system. It prevents economic speeding—but at the same time protects Englishmen against serious economic wreckage.

Keyed to the gold standard while that standard preserved prosperity, England cut loose from gold, when about to be dragged under by its weight, and formally espoused the principle of internal price stability. Since that principle was adopted, England has staged a marvelous recovery.

Under British financial methods, the investor and the entrepreneur type of businessman can proceed with wealth-producing activities in comparative safety against loss of principal—and they have gone ahead with such activities. Prosperity is the result.

For one thing, the stable internal price level means that monetary contracts for performance in the future will be carried out by the payment of monetary units that will then have substantially the same purchasing power as of the date of the contract. They have no reason to expect their pockets to be picked by any important shrinkage in the purchasing power of the pound sterling.

At least equally important, however, is the further fact that the value of the tangible capital goods, in which their money is invested, will not be undermined and destroyed through competition financed by bank-credit expansion.

The stop-and-go signals of English finance are just this. You can go ahead with new investment so long as actual savings are available for investment. But when available savings are used up, for the time being you must stop—and wait until a new supply is available.

This process slows down the exploitation of business—but permits its constant development. It protects investments when made—and prevents the periodic break-downs that are caused when banks stand ready to finance capital goods as long as the sucker list of investors will buy new securities on the partial-payment plan.

Because English commercial banks do not finance investment bankers to any important extent, and do not lend funds for speculative uses, the owner of true money savings can invest them with a high degree of safety. With safety comes justifiable confidence—and with confidence we find a continuous movement of money, and a high degree of economic activity.

As another element of the protective measures thrown about investment by British Government policies, I would mention the tax laws relative to real estate. When houses are occupied by the owner, or are rented, the owner pays a tax based on the estimated or actual rental value of the property. If, however, the houses are vacant, and thus produce no income, then they likewise pay no taxes. England does not turn property ownership into a liability by taking taxes where there is no income. That, without doubt, has something to do with the fact that English capital, even in these difficult times, flows readily ino house construction.

English banking, then, permits progress to proceed as rapidly as savings are accumulated and invested. The green light is controlled by the volume of savings available for investment. The moment, however, that optimism tries to push the speed beyond this limit, it comes up against a red light—and must wait for new savings to be made before it can go ahead.

One other aspect of English banking is the unwritten bank tradition in that country that the total of bank deposits must be related to the total amount of currency. Since the total of currency is itself maintained at a level of fluctuating stability, the result of banking tradition is, that the aggregate volume of both currency and deposits continues at a much more constant amount than in America. This aggregate stability in deposits and currency is another important part of the stop-and-go system by which British financial methods encourage economic speed, while at the same time they check, and largely prevent, dangerous economic speeding.

GERMANY

The second type is, perhaps, best exemplified by Germany. The futility and weakness of the German Republic, and the lack of any kind of stop-and-go system to regulate the speed of economic change, permitted the inflation, and thereafter the complete disintegration of German economics. In 1932 there were 5½ millions of unemployed, and production was down to 57.

Hitler came into power and somehow gathered about him a most able group of economic innovators. First they built a financial wall around Germany, so that capital could not leave the country save only for the purchase of things that Germany needed to import. Then, using again the simile of traffic control for economic progress, the Nazi Government put a Government officer in the driving seat of every important business and industrial enterprise.

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Instead of leaving the speed and movement of business and industry to the determination of owners and management, orders from Berlin were issued direct to industrial and commercial enterprises, telling them when to march, when to mark time, when to advance at the double-quick—and instructing them, too, in many cases, to occupy fields of enterprise that looked sterile indeed from the viewpoint of profitable activity.

On the monetary side, affairs were in the hands of one of the world's most able banking technicians, Dr. Schact. He had carried out, successfully, the task of restoring a stable currency and banking system in a land where inflation had wiped out money, bank credit, business credit, foreign credit, and every form of intangible wealth. Whatever else the new regime might do in the way of economic innovation, he was resolved that it would not bring his country again into the disastrous grip of monetary or banking inflation.

The picture of this economic machine, and its financial lubrication, is too detailed to be painted within a time appropriate to my subject here. But, as the mechanism began to move forward, under exceptionally intelligent direction from above, the principle was adopted that the need to restore 5½ million men to constructive employment was the primary and paramount economic task. As activity increased, therefore, costs of production were held steady—wages were stabilized at the prevailing rates—cost of living was held constant. At the same time the productive activities of men previously idle did raise the standards of living of all the people, and did expand the aggregate flow of wage earnings to a most extraordinary extent.

By 1937 unemployment had come to an end—and 200,000 workmen from neighboring countries were brought in to prevent the industrial program from falling behind the schedule set for its development. Production rose from 57 to 119. Thanks to skillful financial management, the most careful investigation does not disclose any tendency toward, nor danger of, either currency or bank credit inflation. Monetary savings of a fully employed people are found adequate to finance all this tremendous surge of economic activity. And, so far as I could see, during a recent visit to that country, there is no shortage in foods nor any other necessaries of life. In fact, there is indication of a use of luxuries which was conspicuously rare only 4 years ago in Germany.

Impressive as this record is, it simply exemplifies what can be done when the economic traffic is regulated intelligently and with absolute disregard for individual taste, for individual preference, or for individual profit. So long as the quality of control remains what it is, so long as the zeal of the men who occupy seats of authority is white hot, and so long as the public sees its present prosperity against the nightmare of disorganization in the recent past, this record can be continued—unless war should come to break down the intricate machinery.

No such system can be imposed except at the cost of individual initiative. There is order and diffused prosperity. But there is no liberty, as we understand that term. A manufacturer is not free to adjust his activities to conditions as he sees them. He must accept directions from a Government official—and if that official is hidebound or enamoured of red tape, or incompetent—then he is powerless either to help himself or to withdraw his money effectively from his business, or to carry his accumulation of capital into some other country. As a simple cog in a unified economic mechanism, he is not permitted to jeopardize the machine just to satisfy his own tastes, preferences, or self-interest.

In the modern German system, then, we find economic controls that differ from those in England. Instead of financial stop-and-go signals, that regulate and coordinate the spread of independent and individualistic drivers, we find each high-powered machine under the control—not of its owner—but of a chauffeur representing the Government. It is interesting to note that, in Germany, in 1937, production had reached a level of 119. In England, in the same year, under an effective stop-and-go financial system, production had reached the level of 122. There were unemployed in England—but quite possibly there would be none, if compulsory labor service and military service were imposed on the youth of the country, as in Germany.

From these two examples it seems plain that prosperity can be attained through a highly efficient bureaucracy, which effectively exercises traffic control over the industrial and economic activities of the country. It can also be attained, to an equally impressive degree, through the exercise of individual initiative, as in England, provided there is a stop-and-go financial system that permits economic speed, but prevents speeding.

AMERICA

In our own United States, however, we have attempted to carry on an increasingly intricate economic activity without traffic regulation of any kind, other than, perhaps, some effort to prevent the development of monopolies. The present situation, and the recent round trip from depression to depression within the brief space of 5 years, seem clearly to indicate that our path of progress is too frequently to be traced by the heaps of business wreckage, and the white skeletons of the human crews that fell victims to their own mania for speed and progress.

That effective traffic control is essential to prevent human wastage and misery, I most certainly believe. That our people will permit present disordered conditions to continue, without lending eager ears to advocates of some kind of totalitarian control, seems to me entirely improbable. If I am correct in these views, then those who wish to preserve individual liberty must give heed to the lessons taught by the British financial system.

As things are developing now, we must either choose and initiate a succsssful stop-and-go system of economic control, or undergo a heavy risk that one or the other totalitarian control systems will be imposed on us against our wills.

If we prefer the way of individual initiative under a stop-and-go financial system, then we must formulate and adopt a program of bank practice and bank control that will bring to this country the orderly economic progress that English banking has produced in Great Britain.

On reading the banking bill, H. R. 7230, now under consideration by this committee the most important and promising provisions are those which establish a congressional policy to stabilize the volume of credit and currency and to maintain a uniform purchasing power for the dollar.

Having subjected the American banking system to a thoroughgoing examination and analysis, with regard to its capacity to preserve the stability which this bill declares a policy of Congress henceforth, I am convinced that there are serious mechanical and structural defects in our banking mechanism which must be corrected before the declared policy can be made practically effective.

Instead, therefore, of discussing the comparatively unimportant questions of ownership of the Reserve banks, and of the number of Governors that shall compose the Federal Reserve Board, I am giving herewith the details of a plan which, I believe, will produce the results desired by the authors of this bill. Not only does this plan indicate the specific machinery necessary to stability, but it also provides directions for the effective use of that machinery in attaining a stable price level. In working out this plan we have avoided the adoption of purely English mechanisms, as few of these would be effective in the control of American credit policy. Instead, this plan is based on an analysis of the fundamental principles that underlie the British system, and on a detailed application of those principles to our own economic and banking institutions.

Now, for the

PROGRAM FOR MITIGATING DEPRESSIONS THROUGH STABLE MONEY AND BANKING

Primarily, this plan is intended largely to stabilize banking in relation to production and distribution, cause the movements of prices and of profits to reflect truly the changes that occur in supply and demand, and thus to make the earning of business profits depend chiefly on the value of services actually rendered.

To the extent that it is successful, it will have the effect of directing the powerful "profit motive" into useful service, and away from the kinds of financial exploitation which our present unstable banking system invitingly, and often unwittingly, affords.

We all know that business and industry determine their policies with reference to prices and profits. When these reflect the true facts of supply and demand, they automatically produce and preserve a balanced prosperity. On the other hand, when prices and profits falsify the facts, their guidance leads to booms and depressions. This plan is intended to correct our monetary and banking system so that supply and demand will no longer be prevented from controlling prices and profits.

Supply and demand are the only dependable guides for business and industry, but in our complex economic organism they can make themselves felt only through their influence on prices and profits. If the unwitting interference of our money and banking system were prevented, profits would be the prompt reward for those who maintain equilibrium with demand, while losses would be the penalty for those who do not. The profit motive woud protect us from ever getting seriously out of balance.

Profits, however, are frequently being distorted by the vagaries of finance and of borrowing. You do not need to be told that expansion and contraction in money and bank credit, and the use of bank credit for financing long-term investments, exert a powerful influence on prices and profits. Over limited periods of time this influence is often dominant. And the result is that business and industry are led into unwise and unsound policies by profits which no longer reflect the true facts of trade.

It is therefore proposed that our money and banking system be divested of its direct influence on prices, which so frequently creates the illusion of a permanently expanded demand. When this is done we will have provided conditions under which individual initiative can operate successfully. Supply and demand will be in control of prices and profits, and these in turn will automatically induce a fuller and more constant utilization of production facilities because they reflect the facts of trade, rather than the vagaries of finance.

A stable monetary and banking system, therefore, will be one which accommodates itself to change and growth in population and in real income, but does not create the illusion of change through the influence of money and bank credit. Our own banking system can, we believe, be readjusted to comply with these requirements. That the making of these imperative adjustments need be neither complicated nor painful will become apparent as you follow details of the plan.

STATEMENT OF THE PLAN

To prevent our money and banking system from exerting a direct influence on prices and profits, some control over the volume of currency, and of the bank deposits which are equivalent to money, will be required. With respect to volume, then, two major conditions must be satisfied.

In the first place, there must be stability in the volume, as otherwise it would expand whenever the cumulative optimism of businessmen asked for additional credit. Experience and economic analysis alike agree that such expansion is the first stage of a boom-depression cycle.

In the second place, there must be sufficient long-range flexibility to the volume to permit an easy adjustment in harmony with changes in population and with a rising level in the real standards of living.

The following statement is therefore proposed as the—

BASIC OBJECTIVE OF VOLUME-CONTROL POLICY

With respect to currency and to those bank deposits which perform the economic function of money, the aggregate volume shall be maintained as nearly stable, from year to year, as is consistent with (*a*) changes in population, (*b*) changes in production methods, (*c*) an increase in real income and consequent rise in the standards of living.

DETAILED GUIDANCE FOR VOLUME-CONTROL POLICY

To maintain this aggregate volume of currency, and of bank deposits of the monetary type, at a nearly stable level, while allowing for population and production changes, as well as for a rising standard of living, would not be possible without the aid of sensitive indices. As nearly as possible, these indices should provide definite guidance, so that the governors of the Federal Reserve Board and the public at large may know when and in what direction the power of volume control should be exercised.

It is therefore proposed, first, to enable the Board to combine flexibility with safety in its monetary policies; it shall supply itself with the best attainable knowledge of developing conditions by preparing and establishing, subject to constant revision and improvement, a set of basic indices. These will include the following:

(*a*) *Demand deposits.*—Complete reports showing (1) demand deposits, and (2) vault cash shall be compiled and made public every week.

Mr. FORD. What kind of cash was that?

Doctor GOODBAR. Vault cash. Vault cash is now considered as part of the circulating currency, but it is not circulating when it is in the bank's vaults and disturbs and distorts the total amount of money in actual circulation.

(*b*) *Prices.*—(1) For consumer goods; (2) for capital goods and fixed property, including the prices of material and labor entering construction and of securities representing value after completion.

(*c*) Production activity, as shown by (1) quantity of employment, (2) amount of wages paid out in industry—and I will interpolate here by saying that there is nothing so sensitive to changing conditions in economic activity as the volume of employment and the amount of wages paid out to wage earners—(3) stocks of goods on hand, (4) unfilled orders for future delivery.

(*d*) Agricultural conditions, as shown by (1) prices of farm property, (2) prices of farm products, (3) volume of farm production, (4) total farm income. The above basic indices shall be supplemented by (*a*) accurate knowledge of debt conditions, showing separately for each of the following groups the aggregate debt and the amount due within 12 months. The subdivisions of each group shall likewise be shown separately.

(1) Private corporations: (*a*) Bank debt, (*b*) bond obligations; (2) States and political entities: (*a*) Bank debt, (*b*) bond obligations; (3) Private individuals: (*a*) Installment debt, (*b*) debt for purchases, (*c*) mortgages.

(*b*) Accurate knowledge of foreign trade, covering (1) imports and exports, (2) movements of money and credit among nations—I might say that while we seem to have accurate knowledge on these matters, at the present time our statistical basis should be reexamined as to the amounts of money and credit—(3) tariff laws and changes, and their effects on trade and credit; (4) currency policies and changes, and their effects on trade and credit.

In making use of these indexes the principle that mainly applies is the following:

When money and bank credit are not disturbing prices and profits, the above basic indexes will remain substantially stable with respect to each other, in the absence of powerful outside influences, such as war. The development of disharmony will normally indicate an excess or a deficiency of monetary flow in the places where such disharmony develops.

It is therefore further proposed that the specific objective of the Governors of the Federal Reserve Board will be to maintain substantial stability and harmony among the above basic indexes, or indicators of economic and industrial balance.

SEPARATION AND SEGREGATION OF DEMAND DEPOSITS

To maintain harmony among the above indicators of economic and industrial balance, the Reserve Board must be able to permit an expansion, or cause a contraction, in the volume of money without interfering with investments.

Included within the total of money, which must be controlled without necessarily affecting the amount or the value of investments, are the demand deposits held by our banks. These demand deposits perform the liquid functions of money.

Time and savings deposits, on the other hand, are not money. Instead, they represent money savings which depositors have turned over to the banks for investment. There should be no disturbance of these when demand deposits are contracted or permitted to expand. To prevent such disturbance, they must be separated and segregated from demand deposits.

Under existing law there is only a limited power of separate control over demand deposits, and this power has never been exercised. As a result, whenever the volume of demand deposits has been checked or contracted, to stop incipient inflation, a heavy and needless pressure has been put on the investments represented by time and savings deposits.

To prevent this source of disturbance, we must first make reasonably sure that demand deposits really are current funds, rather than hoarded and idle savings; and that time and savings deposits really represent money savings, rather than interest-bearing cash. The two kinds of deposits must be so distinguished from each other that each depositor will be logically impelled to choose the kind of deposit which corresponds to the use he really intends to make of his money.

After this distinction has been made, it then becomes necessary to segregate the demand deposits from all other types of deposit, so that control policies directed at the one will not disturb the investments in which the others have been placed.

The following proposals are therefore advanced:

Distinguishing between kinds of deposits.—To induce depositors to put their current funds in demand deposits, and their savings in time or savings deposits, without temptation to intermingle them, the following distinctions between the two types of deposits are believed to be necessary: (a) For demand deposits: Immediate liquidity, without any payment of interest, should be continued as at present. (b) For time and savings deposits: Limitations on withdrawals should be made more definite and inflexible, while at the same time a good rate of interest should be paid on them, corresponding to long-term interest rates prevailing in the several parts of the country.

Segregation of demand deposits.—To permit separate control of demand deposits by the Reserve Board, and to prevent the mingling of the several types of deposits within the banks, each bank should segregate its demand-deposit department from other departments as completely as if it were operated by a distinct and independent corporation. This would require: (a) Segregation of assets: There should be no mingling of demand deposit assets with other assets, and no shifting back and forth between different departments of cash, other assets or reserves. (b) Separation of reserves: The reserves held against demand deposits at the Reserve banks should likewise be kept entirely separate from the reserves held against time and savings deposits.

DEMAND DEPOSITS NOT TO BE LOANED AS THOUGH THEY WERE SAVINGS

To prevent banking and financial influences from unwittingly affecting prices and profits, and thus falsifying the voice of supply and demand, a further important measure is necessary. The frequent lending of demand deposits for investment purposes, just as though the demand deposits were in fact money savings intended for investment, is a practice common to banking, but very disturbing to prices and profits.

For example, when the market for loans is active, the aggregate amount of demand deposits is often increased through the making of loans that finance new security issues.

When demand deposits are loaned and used in the financing of securities, they are made to serve the purpose of investable money savings. They are used to supply funds for the construction of office buildings, hotels, factories, power plants, houses, and other fixed property. The result is nearly always the same. There is overstimulation for business activity and in new buildings, with subsequent collapse.

The lending of demand deposits as though they were money savings is an abuse of the banking process which many conservative bankers view with profound distrust. It turns fixed property into money, without necessitating a sale—it monetizes fixed property, both before and after construction. It permits profits to be made from expansion which has no relationship to real demand, and which expansion could not have been financed and completed except for this misuse of demand deposits. The resulting collapse produces utter stagnation over long periods of time.

The following proposals are therefore advanced:

1. Lending and investing of bank deposits to purchase or construct fixed property, whether done directly or through the financing of security issues or purchase, is a process of investment that should be permitted only with respect to time and savings deposits and subject to such safety regulations as may be adopted from time to time.

2. Lending and investing of demand deposits shall be permitted for the following purposes, but no others:

(*a*) *Short-term loans.*—(1) To merchants and middlemen, for carrying ordinary quantities of consumer goods on their way to market. (2) To producers, on the production of ordinary quantities of (*a*) consumer goods on the way to market; (*b*) other goods and materials in the manufacturing and processing stage.

(*b*) *Personal loans.*—To be eligible, the loans must provide for amortization through regular payments within a period of not more than a year. The borrower must agree not to use the proceeds of the loan for speculative purposes. The total of such loans must not exceed, in relation to total demand deposits, their average ratio to demand deposits during the 5 years before this plan becomes effective.

The purpose of that is to prevent such things as installment loans from becoming excessive. Installment loans are not dangerous if they are kept stationary, but they are just as dangerous as any other kind of credit where they are fluctuating back and forth from small to large and back again.

(*c*) *Investment in obligations of the Federal Government.*—

The sum total of these three classes of loans and investments will make up aggregate of demand deposits, and the aggregate itself will be the object of control policies intended to maintain the supply of money at a level that will neither inflate nor depress the level either of prices or of business activities.

ABLE AND IMPARTIAL GOVERNORS FOR THE FEDERAL RESERVE SYSTEM

To assure an intelligent and impartial exercise of the powers of control herein proposed, it is imperative that the Governors themselves be selected with the utmost care and that they be protected from the possibility of being influenced by personal interests. These Governors should always possess the financial ability and integrity which lawyers attribute to the Justices of the United States Supreme Court.

The following proposals are therefore advanced:

1. *Investigation before appointment.*—As a matter of tradition and custom, a searching inquiry into the fitness of nominees should be made by the Executive before they are proposed to the Senate; likewise a similar independent and searching inquiry should invariably be made by the Senate before a nomination is confirmed.

2. *Pensions to retired Governors.*—National questions of finance can be considered more impartially, by Governors who have no financial necessity for providing funds against their own declining years. An ample pension should therefore be provided to continue during the lives of both the Governors and their widows, and also through the minority of any surviving children. Provided, of course, that no pensions shall be paid those Governors who resign voluntarily for the purpose of engaging in private business or of entering the employment of private business.

ADEQUATE POWERS OF CONTROL TO BE VESTED IN THE BOARD OF GOVERNORS

To maintain the flexible money and banking stability which we are proposing, the Governors of the Reserve Board must have power to control the volume of demand deposits without disturbing either the amount of time and savings deposits, or the value of the properties in which they may have been invested.

Because the exchange value of our dollar in foreign countries is a powerful influence on price levels within our country, the powers of control over such exchange, now vested in the Treasury, should be lodged in the hands of the Reserve Board.

The following proposals are therefore advanced:

1. *Separate control over demand deposits.*—To permit separate control over the volume of demand deposits, independently of the volume of time and savings deposits, the Federal Reserve Board should have the following powers:

(*a*) *Ratio of reserve to deposits.*—(1) Determine the reserve ratio for demand deposits without regard to the reserves required on other deposits.

I might say that it has that power, but the exercise of it under our set-up is entirely futile.

(2) Impose a special reserve ratio on deposits of foreign funds, if needed.

That would make it possible to deal with "hot" money, if we need to, as we did need to last year.

(b) *Aggregate total of reserves.*—To increase or decrease the total of reserves held by the banks against their demand deposits, without disturbing the existing volume of reserves held by the banks against their time and savings accounts. This means that the increase or decrease in total bank reserves, produced through the buying or selling by Reserve banks of Government securities in the open market, may be applied to the existing total of demand deposit reserves, while leaving the time and savings account reserves as they were.

Mr. FORD. Demand deposits only?

Dr. GOODBAR. Yes. They do not have to, but they should have that so that they can exercise that privilege. They cannot do that at all at the present time.

Mr. GOLDSBOROUGH. I thought you said you could not do it.

Dr. GOODBAR. At present. When they expand and contract the volume of reserves through open-market operations, it applies to the total amounts of reserves, and there is no way of applying it to demand reserves or to the other reserves, if they wish. They affect the total, and the banks themselves make the application of it.

2. *Limitations on powers of control:*

(a) *Public hearing required.*—No change of 50 percent or more in either direction, in Reserve totals or Reserve requirements, within any period of 12 months, shall be inaugurated until after a public hearing thereon by the Governors of the Reserve Board.

Mr. FORD. What do you mean by a public hearing?

Dr. GOODYEAR. I mean that they should have to call in and listen to all of the business, economic, and financial persons who would be affected by it. They themselves would, of course, necessarily have the final say, but it would prevent hasty action and it would prevent uninformed action.

(b) *Fluctuations based on experience.*—The actual amount of change in the volume of currency and of demand deposits caused or permitted to be issued within any period of 12 months shall be restricted within such limits as experience during the first few years shall show to be both adequate and safe.

That statement is not quite amplified enough, but it is all that I put down here, because of the limitations of time and space.

If you would like to have me amplify it, I would be glad to do it. If not, I will pass on.

Mr. GOLDSBOROUGH. Your entire statement can be inserted in the record without objection on the part of the committee. Your time is somewhat limited.

Dr. GOODBAR. Yes, sir; and I have only a little bit more, on the technical part.

Mr. GOLDSBOROUGH. We will have to adjourn about 5 minutes after 12.

Dr. GOODBAR. I will be finished before that, and then I will let this go into the record.

Mr. FORD. Do you have another copy?

Dr. GOODBAR. I do not have it right now.

Mr. FORD. I would like to get a copy.

Dr. GOODBAR. I thought a copy of it was sent to each member of the committee about a month ago, just before I left for Europe.

Mr. CRAWFORD. It did not come in.

Dr. GOODBAR. If anyone would like to have a copy, I will send a copy from my office in New York.

May I have the name, please?

Mr. FORD. Congressman Ford, of California.

Mr. CRAWFORD. I should like to have a copy.

Dr. GOODBAR. I will send one to each of you.

Mr. GOLDSBOROUGH. Suppose that you do that, but it will all be in the printed record.

Mr. FORD. That will be some time, of course.

Dr. GOODBAR. Yes; that will be some time, I assume, but you can have it now if you like. I can mail it tomorrow from New York.

Mr. LUCE. Will you send one to me, please?

Mr. GOLDSBOROUGH. They are mimeographed copies?

Dr. GOODBAR. Yes.

Mr. GOLDSBOROUGH. If it is perfectly convenient, I think I would send one to each member of the committee.

Dr. GOODBAR. I do not have mimeographed copies of the part about the three different divisions of the economic system, because that is something which I prepared after returning home from Europe, but the other was prepared earlier, and I could send you copies of that portion of it, which contains all of the technical details.

Mr. GOLDSBOROUGH. That would be very interesting, I am sure.

Mr. FORD. The other is the best statement that I have heard on that subject, and I have heard a lot of stuff in the last 6 months.

Dr. GOODBAR. Thank you. It represents the result of many conferences that I have just been holding on the other side, and I believe I can vouch for its general accuracy, both in spirit as well as in fact.

3. *Foreign exchange control.*—Certain discretionary powers over the exchange equalization fund, and over the foreign value of the dollar, are now vested in the Treasury. These powers should be transferred to the Federal Reserve Board; subject, of course, to the same criteria of policy set up for the guidance of monetary and bank credit control policy.

DEMAND DEPOSITS INTERCHANGEABLE WITH CURRENCY

To make it possible for a solvent bank to pay off every dollar of its demand deposits, without loss to depositors, or injury to the banks, or change in the total volume of circulating currency and demand deposits, and without inflationary or other dangers, it is suggested that demand deposits be made interchangeable with currency.

Assuming that the foregoing mechanisms and policies of stability and control are made effective, the interchangeability of currency and of demand deposits is both possible and safe. In providing interchangeability, however, there must be a provision to prevent the currency withdrawn in liquidating one bank from becoming reserves in another bank, and thus the basis for a large expansion in demand deposits.

The following proposals are therefore advanced—these are a little bit technical, and they can be read more easily than listened to, but I will give them:

1. *Currency for lawful demand deposit assets.*—To make demand deposits virtually interchangeable with currency, the Reserve banks should be required, at the request of any member bank, to exchange currency for lawful demand deposit assets under the following conditions——

Mr. FORD. Do you mean by that that if a bank lends a man $10,000 on his personal note, or any other kind of a note, they can take that to the Federal Reserve bank and get the currency for it?

Dr. GOODBAR. That is right. I will give the details next.

(*a*) *Government obligations.*—Such Government obligations as are being held against demand deposits by the member banks shall be bought outright, for cash, by the Reserve banks.

(*b*) *Private obligations.*—When these represent assets lawfully held behind demand deposits, and when they are endorsed and tendered by a solvent member bank, which thereby becomes secondarily liable, they shall be purchased by the Reserve banks for cash. The amount to be paid shall be the face value of the obligation, or the original price paid for it by the member bank, whichever is lower.

2. *Currency to be ineligible for use as legal reserves.*—To prevent an unintended expansion in reserves, when demand deposits are being drawn down in favor of currency, a special "redemption currency" may be authorized, as follows:

(*a*) *Nature of "redemption currency."*—In every respect this "redemption currency" shall have complete equality with Federal Reserve notes, except only that it may not be used by member banks as legal reserves.

(*b*) *Amount and time of issuance.*—When the amount of demand deposits is being depleted by cash withdrawals, with consequent reduction in the aggregate total of circulating currency and demand deposits, the Governors of the Reserve Board shall have the duty to instruct the Reserve banks to protect member bank reserves by purchasing demand deposit assets with "redemption currency," instead of depleting those reserves by paying over Reserve notes. The amount to be issued will be limited, of course, by the lawful assets tendered from the demand deposit departments of member banks, and also by the need for protecting the size of bank reserves.

Mr. FORD. Right there, let me ask a single question.

Let us assume that there is a run on a bank, and it had occasion to take from its portfolio $100,000 in notes to the Reserve bank, and in turn get the money to put in its vault and to pay out over the counter. That would not affect its standing reserves against bank deposits in any way?

Dr. GOODBAR. No. This is a device which is to protect against that very contingency.

Mr. GOLDSBOROUGH. It is interbank currency.

Mr. FORD. That is what it is. I think that he has cleared my mind up on something that you have been trying to clear up for 6 months.

Dr. GOODBAR. (*c*) *Maintenance of legal reserves.*—The Reserve Board should have full power to pay out additional Federal Reserve notes, in place of "redemption currency," if the volume of demand deposits is being forced down by a depletion of bank reserves. In such case, the Reserve Board should have authority to issue to the banks whatever amount of Reserve notes may be needful to maintain stability in the total volume of currency and demand deposits, without regard to the then condition of the gold reserve.

Mr. SPENCE. Are those powers or mandates?

Dr. GOODBAR. Some would be powers and some would be mandates. The mandates have to be implemented, as the saying now is, with powers to carry them out.

Now, a

SUMMARY OF PROPOSALS

Summarizing what has been said, it appears that the stimulus of free enterprise cannot hope to continue in this country, unless in some way it can be made consistent also with a reasonable steadiness in business and in employment. The desirable combination of both these important elements is the problem which we are here attempting to solve.

Prices and profits are the only effective regulators of individual enterprise. If these truly reflected the realities of trade, the facts of supply and demand, then business would be rewarded with profits for success in maintaining a balance with demand, and promptly penalized with losses when it failed., The regulation would be automatic and constant.

Unfortunately, under our present mechanism of banking and of bank-credit control, the course of prices and profits is often diverted over rather long periods of time by the unwitting influence of financial practice. The effect is to falsify the only guidance that industry and commerce can feel and understand.

To prevent this false guidance, and thus to provide our system of individual enterprise with an automatic control able to keep it in close touch with the realities of trade, we must deprive money and bank credit of its artificial power to influence prices and profits. This means that the amount of currency and of demand deposits must be kept substantially stable, but with allowance for growth and for progress.

If this be true, then the maintenance of this flexible stability in money and bank credit should be made the major objective of monetary and banking control by the Federal Reserve Board.

To exercise such control effectively and wisely, the Reserve Board must provide itself with sensitive indexes, which constantly indicate the conditions and the changes occurring within commerce and industry. Under our heading, "Detailed guidance for volume control policy," we have suggested indexes which would seem to disclose not only the location of developing economic disorders, but indicate also the monetary treatment needed to restore balance, if monetary factors are involved.

Within our banking and bank credit control mechanism, however, we find serious defects which make it difficult, if not impossible, to maintain control over money and bank credit without disturbing the value of investments made through the banks. In fact, the control policies of the Reserve Board can often be largely defeated by the banks. This is done very easily. To illustrate, you know that New York City banks are required to maintain 26 percent reserves on demand deposits, but only 5 percent reserves on time and savings deposits. This being true, a shifting of deposits from one classification to the other can offset a very considerable change in reserve totals, or in reserve ratios.

Underlying these defects, is failure of banking law and practice to recognize that demand deposits are equivalent to money, and should therefore be regulated in volume according to the needs of industry and trade for money. On the other hand, time and savings deposits are not equivalent to money. Instead, they represent money savings left with the banks for investment. They are invested savings, rather than money.

There is, therefore, no valid reason why the amount of money savings held and invested by the banks should be squeezed or inflated merely because some change in financial methods or in industry makes it desirable to increase or diminish the supply of circulating money. If the public wished the banks to do most of its investing, the total of time and savings deposits might expand almost indefinitely—and without disturbing our economic structure. But a similar growth in circulating money would be disturbing to an almost incredible degree.

Under present practice, however, there is no differentiation in the regulatory treatment imposed on these wholly dissimilar types of deposit. When demand deposits are permitted to expand, or forced to contract, then the investments represented by time and savings deposits are subjected to the same treatment. And as if this were not disturbing enough, we find the banks are frequently using their demand deposits for loans and investments that are appropriate only for funds that represent real money savings left with the banks for investment.

This lending of demand deposits for investment-type lending is a process of monetizing fixed property. It occurs whenever demand deposits are loaned to finance the construction or purchase of factories, houses, office buildings, or similar fixed property, or to finance the purchase or issuance of securities representing such property.

Such loans are suitable only for deposits which represent money savings left with the banks for investment. The use of demand deposits for investment purposes means that over-expansion can always be financed in good times, and that good times are therefore permitted to develop rapidly into inflation, with paper profits which vanish overnight.

To correct these defects, therefore, is an essential step in bringing about stability in combination with individual enterprise. Under the heading, "Separation and segregation of demand deposits," it was proposed to differentiate time and savings accounts more effectively from demand deposits, so that depositors will use the latter for current funds and the former for money savings. It was also proposed that demand deposits, and the reserves and assets behind them, be completely segregated so that they may be subjected to control without in any way necessarily affecting the volume or use of time and savings accounts.

Under the further heading, "Demand deposits not to be loaned as though they were savings," it was proposed that loans of investment type be restricted to funds in the time and savings departments, and that funds in the demand deposit department be made lendable and investable only for such purposes as will maintain them in steady volume, while preventing the dangers constantly inherent in their use for the monetizing of fixed property.

While these changes will provide a banking system that can be conducted profitably, yet without danger to the economic security of our people, it is necessary to provide Governors of the highest ability and impartiality, and to supply them with powers adequate to keep the monetary and banking system from dominating or disturbing the movements of prices and profits.

It has therefore been proposed that rigid and exacting investigation should precede every appointment to the Board of Governors, and that after appointment they be freed from financial temptation by the assurance of a pension of generous size after they have retired.

It has also been proposed that the powers of the Board should include control over the reserve ratios required for demand deposits, and over the amount of reserves held against demand deposits, without disturbing the reserve ratio or reserve total required or held by the time and savings departments. They should have power to impose a separate reserve ratio, if needed, on foreign-owned demand deposits—and they should also be given the discretionary powers over the exchange equalization fund, and over foreign exchange, now vested in the Treasury.

Assuming these changes to have been made effective, it will then be possible safely to make demand deposits interchangeable with currency. Certain safeguards, to preserve the monetary and banking system from distortion, were set forth in discussing that subject. With interchangeability between currency and demand deposits, solvent banks will be freed forever from the specter of runs on their demand deposits.

No members of this society either believe or claim that money and bank credit are responsible for all the economic disturbances that trouble us. It would be foolish indeed to disregard the effects of wars, trade barriers, floods, droughts, and other like forces. Besides these, there is the innate perversity of human mass psychology.

We might even go further and say that money and bank credit are usually not responsible for actually initiating the disturbances in which they themselves afterwards play a very potent part. At the same time our present banking system could hardly have been better devised to encourage and finance an economic disturbance, once it has gotten itself under way.

Business and industry reach out with expanding bank credit and dig a hole in the future. That is a boom. When time brings them to that hole, they fall in. That is a depression.

They are lured into digging this hole because the course of prices and profits contains a false promise that these holes will be filled up, and the surface paved, before time brings industry and commerce to the place where they were dug. To business and industry, this promise seems to speak in the tones of supply and demand. Too often they learn, too late, that it was, instead, the voice of expanding bank credit or an inflated currency.

During the 20 years that have followed the World War, the ebb and flow of money and bank credit has swept the entire economic organization of this country from its proper and orderly course. Anchors have failed to hold. Charts have been found misleading. The compass of prices and profits has proved itself deceptive.

Into these chaotic conditions we seek to bring order and progress. More abundant and more constant employment. More stability to the conduct of business and industry. Greater safety for the savings and investments of the thrifty and industrious.

We do not insist that this plan is perfect in every detail. Criticisms are invited and suggestions for improvement will be warmly welcomed. Despite the years of disinterested and patient analysis and thought, from many sources, which lie behind it, we expect it to benefit from discussion. Subject, however, to the changes and improvements which discussion and criticism may develop, we believe this to be a workable and logical plan for mitigating future depressions; a positive program around which, it is hoped, the abler and more constructive minds in business, banking, labor, and economics can conscientiously concentrate their support.

Mr. GOLDSBOROUGH. In the limited time that we have left, first I think I should say that I am sure every member of the committee has been tremendously interested and informed by what you said; and I would like to ask you a series of questions, but we have not time.

Now, what is there in your plan, if anything, which provides for what is commonly spoken of as technological unemployment?

Dr. GOODBAR. The technological unemployment——

Mr. GOLDSBOROUGH. The reason for that question is because in the forepart of this session we considered for about 5 weeks a bill which undertook to do that very thing, and I want to ask you what is in your bill, if anything, which would take care of that specific situation.

Dr. GOODBAR. The part that will take care of the technological unemployment is this incorporation of what I call the stop-and-go system of the English banks, which is included by me because the stop-and-go system of the English banks is the fact that you cannot finance improvements faster than the volume of available accumulated savings.

Mr. GOLDSBOROUGH. I know, and that is the very thing that I have discussed here time and time again. I have said, and I do not mean that I am the only one who said it, that in the state of nature a man starts out and gets himself a small shack, and next he grows some turnips and potatoes, and has some pigs and chickens, and flour and sugar, and after he does all that he thinks about building a house; but what we have been trying to do is to build a house first, which I say cannot be done, and that is what you say?

Dr. GOODBAR. I say you cannot do it without building on disaster, and the condition we are in today is because we were doing it.

Mr. GOLDSBOROUGH. Now, in an editorial in the American Banker of this date, the Federal Reserve Board is quoted as follows:

> In the light of existing business and credit conditions, effective action to meet and overcome the present business recession should be taken outside of the field of the System's various monetary powers.

Then, further on, it says:

> A broad increase in business activity depended in considerable part on increased purchases of new houses, automobiles, and other durable goods, and on increased capital expenditures by industry.

Do you agree that if we are going to have any permanent prosperity, we should proceed in building durable goods on borrowed money, or in the creation of durable goods on borrowed money, I will put it.

Dr. GOODBAR. I would say, Mr. Congressman, that it depends on where the borrowed money comes from. If it is newly created borrowed money, we are only giving ourselves, to use a medical term, a shot in the arm.

Mr. GOLDSBOROUGH. That is what we are doing now.

Dr. GOODBAR. Yes; and we won't get very far until we create the conditions by means of which savings are encouraged to flow back again into capital goods.

Mr. GOLDSBOROUGH. Now, then, I can readily agree with you that the conditions which you would impose upon the banking and currency mechanism will produce stability, but I also feel—and, of course, I have only heard you in the last hour—I also feel that your system does not permit full consumption of potential production. It seems to me that your system tends to restrain possible production so that it will equal the present power of consumption, and it does not do anything to enable full production and full consumption of that production.

Dr. GOODBAR. I think you have not interpreted it quite correctly.

Mr. GOLDSBOROUGH. That may be.

Dr. GOODBAR. And that is easily to be understood in just listening to something once, which does not give a very deep insight into its possibilities, but, for one thing, the stabilizing of the price level puts the pressure on business and industry to expand, each individual competing with the other, to expand his own business, and also gives means of putting these things on the market, which means that with the same circulation of money there will be more goods distributed and therefore a rising standard of living and of consumption. It is the same principle that the Germans have so successfully applied, because they have expanded the activity, but they have kept their price levels and wage scales and production costs on an even basis.

Mr. GOLDSBOROUGH. Wage scales on an even basis?

Dr. GOODBAR. Yes. It does not do any good to raise the wage scale of A, while B stands idle. It is a whole lot better to keep A employed at the same wage scale, and get B started to work.

Mr. GOLDSBOROUGH. Isn't it better to have them both working on a wage scale which will enable them to get the necessities and a few of the comforts of living?

Dr. GOODBAR. That is a question which nobody has ever solved. I could go back in this analysis very much further than I have; I have only touched the rules, rather than the analyses that sustain them, but I think if you went back far enough in the analysis of the functions and the purposes of money, and what it does in our economic system, you would come to the conclusion that money can only do two things, one of which, you might say, is the appendage of the other. One is to act as a medium of exchange between actual commodities or services, and the other is to measure the value of things that are being exchanged in relation to each other.

Anything it does beyond that gets us into trouble.

Mr. GOLDSBOROUGH. I am one of those who think that consumption has to bear the profit on manufactured goods, or goods at wholesale, or goods at retail, and has to stand the lack of wages which machines now take the place of, and that is an impossible burden. Consumption cannot possibly sustain that burden, and we must always have some device to enable consumption to do it.

The only device that I have been able to find is the device of a retail discount to the ultimate consumer, who is a natural person, on wanted goods and services.

Have you ever thought of that at all?

Dr. GOODBAR. I have given thought to it, because I have seen comments on things which you have said about it.

Mr. GOLDSBOROUGH. Most of those comments were not true that you saw in the press.

Dr. GOODBAR. I try to look beneath the prejudice, to see what the kernel of fact is underneath, but perhaps I did not conceive it accurately, so I may be quite wrong in my understanding. But I think that the situation you are dealing with in your mind is an unreal one, in one sense, and quite real in an actual sense. That is to say, at the present time we do suffer the kind of diminution of purchasing power that you mentioned, but the reason we suffer it is because money that is being spent to buy goods with is being lodged in idle bank accounts because of a lack of confidence and a lack of place for its reinvestment. There is no diminution in values if money moves. It is a system that is analogous to hoarding, and in my opinion we have approximately $5,000,000,000 of hoarded money in the banks at the present time. There is no way of measuring it accurately. I am only going on a ratio basis, by comparison with other years when business was more active, with a less volume of money in the banks.

Mr. GOLDSBOROUGH. We have never been able in this country, especially since, I will say, 1914, to do business except on an installment basis, which inevitably leads to destruction, and that apparently is because of the lack of money for consumption.

Dr. GOODBAR. I do not think that is the cause of it, Congressman, although I certainly agree with your facts.

Mr. LUCE. Mr. Chairman, I should like to be on the floor, and I would like to interpolate here for a moment.

Dr. Goodbar, I was exceedingly interested in the earlier part of your remarks. I think you would be of service to us if you should see fit to add to your description of what has gone on in Germany and England a little more about the machinery that has accomplished those results, and for my own part I would particularly like to have you pay some attention to any increases or decreases in the volume of money.

Of course, I have in mind chiefly what I call credit and currency.

Mr. CRAWFORD. May I ask a question?

Mr. GOLDSBOROUGH. The doctor has not finished his answer.

Mr. LUCE. Pardon the interruption.

Mr. GOLDSBOROUGH. That is all right. I just wanted to get the answer.

Dr. GOODBAR. I agree with your facts, Mr. Goldsborough, but I do not agree with the reason. I think the reason has been that we have had a false principle of monetary regulation in this country since 1914, although it antedates that time somewhat, and we had a mechanism which encouraged the developing of that falsity, and we were constantly expanding the volume of money and constantly increasing the amount of capital goods and contracted the bank credit throughout the entire period of the 1920's, and the event was coming ultimately in the form of profits and accumulating great investments, in the higher prices of securities and money and other things of that kind, and the situation that you saw was the result of that evolution, whereas in England they have not had that policy and they have not had the same results.

Mr. GOLDSBOROUGH. England had a pretty rough time for a while.

Mr. PATMAN. Will the Doctor have the right to extend his remarks?

Mr. GOLDSBOROUGH. Undoubtedly. Anything that he desires to add.

Dr. GOODBAR. I might ask if the Chairman would read the discussion that is very much apropos of his question in the first chapter of my book on Managing the People's Money. I go into the question of monetary theory very extensively, and those who have read it say it is also lucid and understandable. They might not always agree, but at least they know what it means.

Mr. GOLDSBOROUGH. What you have said this morning is certainly lucid and understandable and helped the committee a great deal, and I want to say on behalf of the committee that we appreciate very much your coming here and what you have said.

(Thereupon, at 12:05 p. m., the committee adjourned, to meet again in executive session, Tuesday, April 12, 1938, at 10:30 o'clock.)

SUPPLEMENTAL STATEMENT OF DR. JOSEPH E. GOODBAR, OF NEW YORK

English.—For more than 75 years the English have had a strikingly stable economic organization. Steady and constant rise in the Nation's wealth, hand in hand with rising standards of living, has taken place without much shock from business depressions, and none from financial panic.

In the English system the rate of progress is regulated by a financial stop-and-go system. It prevents economic speeding, but at the same time protects Englishmen against serious economic wreckage.

Keyed to the gold standard while that standard preserved prosperity, England cut loose from gold when about to be dragged under by its weight and formally espoused the principle of internal price stability. Since that principle was adopted England has staged a marvelous recovery.

Under British financial methods, the investor and the entrepreneur-type of businessman can proceed with wealth-producing activities in comparative safety against loss of principal—and they have gone ahead with such activities. Prosperity is the result.

For one thing, the stable internal price level means that monetary contracts for performance in the future will be carried out by the payment of monetary units that will then have substantially the same purchasing power as of the date of the contract. They have no reason to expect their pockets to be picked by any important shrinkage in the purchasing power of the pound sterling.

At least equally important, however, is the further fact that the value of the tangible capital goods, in which their money is invested, will not be undermined and destroyed through competition financed by bank-credit expansion.

The stop-and-go signals of English finance are just this. You can go ahead with new investment so long as actual savings are available for investment. But when available savings are used up, you must stop—and wait until a new supply is available.

This process slows down the exploitation of business—but permits its constant development. It protects investments when made—and prevents the periodic break-downs that are caused when banks stand ready to finance capital goods as long as the sucker list of investors will buy new securities on the partial-payment plan.

Because English commercial banks do not finance investment bankers to any important extent and do not lend funds for speculative uses, the owner of true money savings can invest them with a high degree of safety. With safety comes justifiable confidence—and with confidence we find a continuous movement of money, and a high degree of economic activity.

As another element of the protective measures thrown about investment by British government policies, I would mention the tax laws relative to real estate. When houses are occupied by the owner, or are rented, the owner pays a tax based on the estimated or actual rental value of the property. If, however, the houses are vacant, and thus produce no income, then they likewise pay no taxes. England does not turn property ownership into a liability by taking taxes where there is no income. That, without doubt, has something to do with the fact that English capital, even in these difficult times, flows readily into house construction.

English banking, then, permits progress to proceed as rapidly as savings are accumulated and invested. The green light is controlled by the volume of savings available for investment. The moment, however, that optimism tries to push the speed beyond this limit, it comes up against a red light—and must wait for new savings to be made before it can go ahead.

One other aspect of English banking is the unwritten bank tradition in that country that the total of bank deposits must be related to the total amount of currency. Since the total of currency is itself maintained at a level of fluctuating stability, the result of banking tradition is that the aggregate volume of both currency and deposits continues at a much more constant amount than in America. This aggregate stability in deposits and currency is another important part of the stop-and-go system by which British financial methods encourage economic speed, while at the same time they check, and largely prevent, dangerous economic speeding.

Germany.—The second type is, perhaps, best exemplified by Germany. The futility and weakness of the German Republic and the lack of any kind of stop-and-go system to regulate the speed of economic change permitted the inflation, and thereafter the complete disintegration of German economics. In 1932 there were 5½ millions of unemployed and production was down to 57.

Hitler came into power and somehow gathered about him a most able group of economic innovators. First they built a financial wall around Germany, so that capital could not leave the country save only for the purchase of things that Germany needed to import. Then, using again the simile of traffic control for economic progress, the Nazi Government put a Government officer in the driving seat of every important business and industrial enterprise.

Instead of leaving the speed and movement of business and industry to the determination of owners and management, orders from Berlin were issued direct to industrial and commercial enterprises, telling them when to march, when to mark time, when to advance at the double-quick—and instructing them, too, in many cases, to occupy fields of enterprise that looked sterile indeed from the viewpoint of profitable activity.

On the monetary side, affairs were in the hands of one of the world's most able banking technicians. He had carried out, successfully, the task of restoring a stable currency and banking system in the land where inflation had wiped out money, bank credit, business credit, foreign credit, and every form of intangible wealth. Whatever else the new regime might do in the way of economic innovation, he was resolved that it would not bring his country again into the disastrous grip of monetary or banking inflation.

The picture of this economic machine and its financial lubrication is too detailed to be painted within a time appropriate to my subject here. But, as the mechanism began to move forward, under exceptionally intelligent direction from above, the principle was adopted that the need to restore 5½ million men to constructive employment was the primary and paramount economic task. As activity increased, therefore, costs of production were held steady—wages were stabilized at the prevailing rates—cost of living was held constant. At the same time the productive activities of men previously idle did raise the standards of living of all the people and did expand the aggregate flow of wage earnings to a most extraordinary extent.

By 1937 unemployment had come to an end—and 200,000 workmen from neighboring countries were brought in to prevent the industrial program from falling behind the schedule set for its development. Production rose from 57 to 119. Thanks to skillful financial management, the most careful investigation does not disclose any tendency toward, nor danger of, either currency or bank-credit inflation. Monetary savings of a fully employed people are found adequate to finance all this tremendous surge of economic activity. And, so far as I could see, during a recent visit to that country, there is no shortage in foods nor any other necessaries of life. In fact, there is indication of a use of luxuries which was conspicuously rare only 4 years ago in Germany.

Impressive as this record is, it simply exemplifies what can be done when the economic traffic is regulated intelligently and with absolute disregard for individual taste, for individual preference, or for individual profit. So long as the quality of control remains what it is, so long as the zeal of the men who occupy seats of authority is white hot, and so long as the public sees its present prosperity against the nightmare of disorganization in the recent past, this record can be continued—unless war should come to break down the intricate machinery.

No such system can be imposed except at the cost of individual initiative. There is order and diffused prosperity. But there is no liberty as we understand that term. A manufacturer is not free to adjust his activities to conditions as he sees them. He must accept directions from a Government official—and if that official is hidebound or enamoured of red tape, or incompetent—then he is powerless either to help himself, or to withdraw his money effectively from his business, or to carry his accumulation of capital into some other country. As a simple cog in a unified economic mechanism, he is not permitted to jeopardize the machine just to satisfy his own tastes, preferences, or self-interest.

In the modern German system, then, we find economic controls that differ from those in England. Instead of financial stop-and-go signals, that regulate and coordinate the speed of independent and individualistic drivers, we find each high-powered machine under the control not of its owner but of a chauffeur representing the Government. It is interesting to note that in Germany in 1937 production had reached a level of 119. In England in the same year, under an effective stop-and-go financial system, production had reached the level of 122. There were unemployed in England, but quite possibly there would be none if compulsory labor service and military service were imposed on the youth of the country as in Germany.

From these two examples it seems plain that prosperity can be attained through a highly efficient bureaucracy, which effectively exercises traffic control over the industrial and economic activities of the country. It can also be attained, to an equally impressive degree, through the exercise of individual initiative, as in England, provided there is a stop-and-go financial system that permits economic speed but prevents speeding.

America.—In our own United States, however, we have attempted to carry on an increasingly intricate economic activity without traffic regulation of any kind other than, perhaps, some effort to prevent the development of monopolies. The present situation and the recent round trip from depression to depression within the brief space of 5 years seems clearly to indicate that our path of progress is too frequently to be traced by the heaps of business wreckage and the white skeletons of the human crews that fell victims to their own mania for speed and progress.

That effective traffic control is essential to prevent human wastage and misery, I most certainly believe. That our people will permit present disordered conditions to continue, without lending eager ears to advocates of some kind of totalitarian control, seems to me entirely impossible. If I am correct in these views, then those who wish to preserve individual liberty must give heed to the lessons taught by the British financial system.

As things are developing now, we must either choose and initiate a successful stop-and-go system of economic control or undergo a heavy risk that one or the other totalitarian control system will be imposed on us against our wills.

If we prefer the way of individual initiative, under a stop-and-go financial system, then we must formulate and adopt a program of bank practice and bank control that will bring to this country the orderly economic progress that English banking has produced in Great Britain.

On reading the banking bill, H. R. 7230, now under consideration by this committee, the most important and promising provisions are those which establish a congressional policy to stabilize the volume of credit and currency and to maintain a uniform purchasing power for the dollar.

Having subjected the American banking system to a thoroughgoing examination and analysis with regard to its capacity to preserve the stability which this bill declares a policy of Congress henceforth, I am convinced that there are serious mechanical and structural defects in our banking mechanism which must be corrected before the declared policy can be made practically effective.

Instead, therefore, of discussing the comparatively unimportant questions of ownership of the Reserve banks and of the number of governors that shall compose the Federal Reserve Board, I am giving herewith the details of a plan which, I believe, will produce the results desired by the authors of this bill. Not only does this plan indicate the specific machinery necessary to stability but it also provides directions for the effective use of that machinery in attaining a stable price level. In working out this plan we have avoided the adoption of purely English mechanisms, as few of these would be effective in the control of American credit policy. Instead, this plan is based on an analysis of the fundamental principles that underlie the British system and on a detailed application of those principles to our own economic and banking institutions.

PROGRAM FOR MITIGATING DEPRESSIONS THROUGH STABLE MONEY AND BANKING

(As presented December 15, 1937, by Dr. Joseph E. Goodbar, President of the Society for Stability in Money and Banking, Inc., New York, N. Y., at the National Economic Conference on Preventing Depressions)

Primarily, this plan is intended largely to stabilize banking in relation to production and distribution, cause the movements of prices and of profits to reflect truly the changes that occur in supply and demand, and thus to make the earning of business profits depend chiefly on the value of services actually rendered.

To the extent that it is successful, it will have the effect of directing the powerful "profit motive" into useful service, and away from the kinds of financial exploitation which our present unstable banking system invitingly, and often unwittingly, affords.

We all know that business and industry determine their policies with reference to prices and profits. When these reflect the true facts of supply and demand they automatically produce and preserve a balanced prosperity. On the other hand, when prices and profits falsify the facts, their guidance leads to booms and depressions. This plan is intended to correct our monetary and banking system so that supply and demand will no longer be prevented from controlling prices and profits.

Supply and demand are the only dependable guides for business and industry, but in our complex economic organism they can make themselves felt only through their influence on prices and profits. If the unwitting interference of our money and banking system were prevented, profits would be the prompt reward for those who maintain equilibrium with demand, while losses would be the penalty for those who do not. The profit motive would protect us from ever getting seriously out of balance.

Profits, however, are frequently being distorted by the vagaries of finance and of borrowing. You do not need to be told that expansion and contraction in money and bank credit and the use of bank credit for financing long-term investments exert a powerful influence on prices and profits. Over limited periods of time this influence is often dominant. And the result is that business and industry are led into unwise and unsound policies by profits which no longer reflect the true facts of trade.

Poverty amidst natural plenty is the bitter paradox of our times. Democracy is facing extinction, if we permit individual initiative to remain a synonym for the poverty and frustration of booms and depressions. To preserve individual initiative we must establish conditions under which it can work. And the condition, without which it positively cannot work, is the existence of some automatic guidance by which business and industry can maintain their balance, and are rewarded with profits when they do so.

It is, therefore, proposed that our money and banking system be divested of its direct influence on prices, which so frequently creates the illusion of a permanently expanded demand. When this is done we will have provided conditions under which individual initiative can operate successfully. Supply and demand will be in control of prices and profits, and these in turn will automatically induce a fuller and more constant utilization of production facilities because they reflect the facts of trade, rather than the vagaries of finance.

A stable monetary and banking system, therefore, will be done which accommodates itself to change and growth in population and in real income, but does not create the illusion of change through the influence of money and bank credit. Our own banking system can, we believe, be readjusted to comply with these requirements. That the making of these imperative adjustments need be neither complicated nor painful will become apparent as you read the following details of the plan.

STATEMENT OF THE PLAN

To prevent our money and banking system from exerting a direct influence on prices and profits some control over the volume of currency and of the bank deposits, which are equivalent to money, will be required. With respect to volume, then, two major conditions must be satisfied.

In the first place, there must be stability in the volume, as otherwise it would expand whenever the cumulative optimism of businessmen asked for additional credit. Experience and economic analysis alike agree that such expansion is the first stage of a boom-depression cycle.

In the second place, there must be sufficient long-range flexibility to the volume to permit an easy adjustment in harmony with changes in population and with a rising level in the real standards of living.

The following statement is therefore proposed as the—

I. *Basic objective of volume-control policy.*—With respect to currency and to those bank deposits which perform the economic function of money, the aggregate volume shall be maintained as nearly stable, from year to year, as is consistent with (*a*) changes in population, (*b*) changes in production methods, (*c*) an increase in real income and consequent rise in the standards of living.

II. *Detailed guidance for volume-control policy.*—To maintain this aggregate volume of currency and of bank deposits of the monetary type at a nearly stable level, while allowing for population and production changes, as well as for a rising standard of living, would not be possible without the aid of sensitive indexes. As nearly as possible these indexes should provide definite guidance, so that the Governors of the Federal Reserve Board and the public at large may know when in what direction the power of volume control should be exercised.

It is therefore proposed:

1. To enable the Board to combine flexibility with safety in its monetary policies it shall supply itself with the best attainable knowledge of developing conditions by preparing and establishing, subject to constant revision and improvement, a set of basic indexes. These will include the following:

(*a*) *Demand deposits.*—Complete reports showing (1) demand deposits, and (2) vault cash, shall be compiled and made public every week.

(*b*) *Prices.*—(1) For consumer goods; (2) for capital goods and fixed property, including the prices of materials and labor entering construction, and of securities representing value after completion.

(*c*) *Production activity,* as shown by (1) quantity of employment; (2) amount of wages paid out in industry; (3) stocks of goods on hands; (4) unfilled orders for future delivery.

(*d*) *Agricultural conditions,* as shown by (1) prices of farm property; (2) prices of farm products; (3) volume of farm production; (4) total farm income.

The above basic indexes shall be supplemented by

(*a*) *Accurate knowledge of debt conditions,* showing separately for each of the following groups the aggregate debt, and the amount due within 12 months. The subdivisions of each group shall likewise be shown separately. (1) Private corporations: (*a*) bank debt; (*b*) bond obligations. (2) States and political entities: (*a*) bank debt; (*b*) bond obligations. (3) Private individuals (*a*) installment debt; (*b*) debt for purchases; (*c*) mortgages.

(*b*) Accurate knowledge of foreign trade covering (1) imports and exports; (2) movements of money and credit among nations; (3) tariff laws and changes and their effects on trade and credit; (4) currency policies and changes and their effects on trade and credit.

In making use of these indexes the principle that mainly applies is the following:

When money and bank credit are not disturbing prices and profits the above basic indexes will remain substantially stable with respect to each other in the absence of powerful outside influences. The development of disharmony will normally indicate an excess or a deficiency of monetary flow in the places where such disharmony develops.

It is therefore further proposed:

2. The specific objective of the Governors of the Federal Reserve Board will be to maintain substantial stability and harmony among the above basic indexes or indicators of economic and industrial balance.

III. *Separation and segregation of demand deposits.*—To maintain harmony among the above indicators of economic and industrial balance the Reserve Board must be able to permit an expansion or cause a contraction in the volume of money without interfering with investments.

Included within the total of money, which must be controlled without necessarily affecting the amount or the value of investments, are the demand deposits held by our banks. These demand deposits perform the liquid functions of money.

Time and savings deposits, on the other hand, are not money. Instead, they represent money savings which depositors have turned over to the banks for investment. There should be no disturbance of these when demand deposits are contracted or permitted to expand. To prevent such disturbance, they must be separated and segregated from demand deposits.

Under existing law, there is only a limited power of separate control over demand deposits, and this power has never been exercised. As a result, whenever the volume of demand deposits has been checked or contracted, to stop incipient inflation, a heavy and needless pressure has been put on the investments represented by time and savings deposits.

To prevent this source of disturbance, we must first make reasonably sure that demand deposits really are current funds, rather than hoarded and idle savings; and that time and savings deposits really represent money savings, rather than interest-bearing cash. The two kinds of deposits must be so distinguished from each other that each depositor will be logically impelled to choose the kind of deposit which corresponds to the use he really intends to make of his money.

After this distinction has been made, it then becomes necessary to segregate the demand deposits from all other types of deposit, so that control policies directed at the one will not disturb the investments in which the others have been placed.

The following proposals are, therefore. advanced:

1. *Distinguishing between kinds of deposits.*—To induce depositors to put their current funds in demand deposits, and their savings in time or savings deposits, without temptation to intermingle them, the following distinctions between the two types of deposit are believed to be necessary; (*a*) For demand deposits: Immediate liquidity, without any payment of interest, should be continued as at present. (*b*) For time and savings deposits: Limitations on withdrawals should be made more definite and inflexible, while at the same time a good rate of interest should be paid on them, corresponding to long-term interest rates prevailing in the several parts of the country.

2. *Segregation of demand deposits.*—To permit separate control of demand deposits by the Reserve Board, and to prevent the mingling of the several types of deposit within the banks, each bank should segregate its demand-deposit department from other departments as completely as if it were operated by a distinct and independent corporation: (*a*) Segregation of assets: There should be no mingling of demand deposit assets with other assets, and no shifting back and forth between different departments of cash, other assets, or reserves. (b) Separation of reserves: The reserves held against demand deposits, at the Reserve banks should likewise be kept entirely separate from the reserves held against time and savings deposits.

IV. *Demand deposits not to be loaned as though they were savings.*—To prevent banking and financial influences from unwittingly affecting prices and profits, and thus falsifying the voice of supply and demand, a further important measure is necessary. The frequent lending of demand deposits for investment purposes, just as though the demand deposits were in fact money savings intended for investment, is a practice common to banking, but very disturbing to prices and profits.

For example, when the market for loans is active, the aggregate amount of demand deposits is often increased through the making of loans that finance new security issues.

When demand deposits are loaned and used in the financing of securities, they are made to serve the purpose of investable money savings. They are used to supply funds for the construction of office buildings, hotels, factories, power plants, houses, and other fixed property. The result is nearly always the same. There is overstimulation for business activity and in new building, with subsequent collapse.

The lending of demand deposits as though they were money savings is an abuse of the banking process which many conservative bankers view with profound distrust. It turns fixed property into money, without necessitating a sale—it monetizes fixed property, both before and after construction. It permits profits to be made from expansion which has no relationship to real demand, and which expansion could not have been financed and completed except for this misuse of demand deposits. The resulting collapse produces utter stagnation over long periods of time.

The following proposals are therefore advanced:

1. Lending and investing of bank deposits to purchase or construct fixed property, whether done directly or through the financing of security issues or purchase, is a process of investment that should be permitted only with respect to time and savings deposits, and subject to such safety regulations as may be adopted from time to time.

2. Lending and investing of demand deposits shall be permitted for the following purposes, but no others:

(*a*) *Short term loans.*—(1) To merchants and middlemen—for carrying ordinary quantities of consumer goods on their way to market; (2) to producers—on the production of ordinary quantities of (a) consumer goods on the way to market; (b) other goods and materials in the manufacturing and processing stage.

(*b*) *Personal loans.*—To be eligible, the loans must provide for amortization through regular payments, within a period of not more than a year. The borrower must agree not to use the proceeds of the loan for speculative purposes. The total of such loans must not exceed, in relation to total demand deposits, their average ratio to demand deposits during the 5 years before this plan becomes effective.

(*c*) *Investment in obligations of the Federal Government.*—The sum total of these three classes of loans and investments will make up aggregate of demand deposits, and the aggregate itself will be the object of control policies intended to maintain the supply of money at a level that will neither inflate nor depress the level either of prices or of business activities.

V. *Able and impartial Governors for the Federal Reserve System.*—To assure an intelligent and impartial exercise of the powers of control herein proposed, it is imperative that the Governors themselves be selected with the utmost care, and that they be protected from the possibility of being influenced by personal interests. These Governors should always possess the financial ability and integrity which lawyers attribute to the Justices of the United States Supreme Court.

The following proposals are therefore advanced:

1. *Investigation before appointment.*—As a matter of tradition and custom, a searching inquiry into the fitness of nominees should be made by the Executive before they are proposed to the Senate; likewise, a similar independent and searching inquiry should invariably be made by the Senate before a nomination is confirmed.

2. *Pensions to retired Governors.*—National questions of finance can be considered more impartially by Governors who have no financial necessity for providing funds against their own declining years. An ample pension should therefore be provided to continue during the lives of both the Governors and their widows, and also through the minority of any surviving children; provided, of course, that no pension shall be paid those Governors who resign voluntarily for the purpose of engaging in private business or of intering the employment of private business.

VI. *Adequate powers of control to be vested in the Board of Governors.*—To maintain the flexible money and banking stability which we are proposing, the Governors of the Reserve Board must have power to control the volume of demand deposits without disturbing either the amount of time and savings deposits or the value of the properties in which they may have been invested.

Because the exchange value of our dollar in foreign countries is a powerful influence on price levels within our country, the powers of control over such exchange, now vested in the Treasury, should be lodged in the hands of the Reserve Board.

The following proposals are therefore advanced:

1. *Separate control over demand deposits.*—To permit separate control over the volume of demand deposits, independently of the volume of time and savings deposits, the Federal Reserve Board should have the following powers:

(*a*) *Ratio of reserve to deposits.*—(1) Determine the reserve ratio for demand deposits without regard to the reserves required on other deposits; (2) impose a special reserve ratio on deposits of foreign funds if needed.

(*b*) *Aggregate total of reserves.*—To increase or decrease the total of reserves held by the banks against their demand deposits, without disturbing the existing volume of reserves held by the banks against their time and savings accounts. This means that the increase or decrease in total bank reserves, produced through the buying or selling by Reserve banks of Government securities in the open market, may be applied to the existing total of demand deposit reserves, while leaving the time and savings account reserves as they were.

2. *Limitations on powers of control.*—(*a*) *Public hearing required.*—No change of 50 percent or more in either direction in reserve totals or reserve requirements within any period of 12 months shall be inaugurated until after a public hearing thereon by the Governors of the Reserve Board. (*b*) *Fluctuations based on experience.*—The actual amount of change in the volume of currency and of demand deposits caused or permitted to be issued within any period of 12 months shall be restricted within such limits as experience during the first few years shall show to be both adequate and safe.

3. *Foreign exchange control.*—Certain discretionary powers over the exchange equalization fund and over the foreign value of the dollar are now vested in the Treasury. These powers should be transferred to the Federal Reserve Board; subject, of course, to the same criteria of policy set up for the guidance of monetary and bank-credit control policy.

VII. *Demand deposits interchangeable with currency.*—To make it possible for a solvent bank to pay off every dollar of its demand deposits, without loss to depositors, or injury to the banks, or change in the total volume of circulating currency and demand deposits, and without inflationary or other dangers, it is suggested that demand deposits be made interchangeable with currency.

Assuming that the foregoing mechanisms and policies of stability and control are made effective, the interchangeability of currency and of demand deposits is both possible and safe. In providing interchangeability, however, there must be a provision to prevent the currency withdrawn in liquidating one bank from becoming reserves in another bank, and thus the basis for a large expansion in demand deposits.

The following proposals are therefore advanced:

1. *Currency for lawful demand-deposit assets.*—To make demand deposits virtually interchangeable with currency, the Reserve banks should be required, at the request of any member bank, to exchange currency for lawful demand-deposit assets, under the following conditions: (*a*) Government obligations: Such Government obligations as are being held against demand deposits by the member banks shall be bought outright, for cash, by the Reserve banks. (*b*) Private obligations: When these represent assets lawfully held behind demand deposits, and when they are endorsed and tendered by a solvent member bank, which thereby becomes secondarily liable, they shall be purchased by the Reserve banks for cash. The amount to be paid shall be the face value of the obligation, or the original price paid for it by the member bank, whichever is lower.

2. *Currency to be ineligible for use as legal reserves.*—To prevent an unintended expansion in reserves, when demand deposits are being drawn down in favor of currency, a special "redemption currency" may be authorized, as follows:

(*a*) *Nature of "redemption currency."*—In every respect this "redemption currency" shall have complete equality with Federal Reserve notes, except only that it may not be used by member banks as legal reserves.

(*b*) *Amount and time of issuance.*—When the amount of demand deposits is being depleted by cash withdrawals, with consequent reduction in the aggregate total of circulating currency and demand deposits, the Governors of the Reserve Board shall have the duty to instruct the Reserve banks to protect member bank reserves by purchasing demand deposit assets with "redemption currency" instead of depleting those reserves by paying our Reserve notes. The amount to be issued will be limited, of course, by the lawful assets tendered from the demand deposit departments of member banks, and also by the need for protecting the size of bank reserves.

(*c*) *Maintenance of legal reserves:* The Reserve Board should have full power to pay out additional Federal Reserve notes. in place of "redemption currency," if the volume of demand deposits is being forced down by a depletion of bank reserves. In such case, the Reserve Board should have authority to issue to the banks whatever amount of Reserve notes may be needful to maintain stability in the total volume of currency and demand deposits, without regard to the then condition of the gold reserve.

VIII. *Summary of proposals.*—Summarizing what has been said, it appears that the stimulus of free enterprise cannot hope to continue in this country, unless in some way it can be made consistent also with a reasonable steadiness in business and in employment. The desirable combination of both these important elements is the problem which we are here attempting to solve.

Prices and profits are the only effective regulators of individual enterprise. If these truly reflected the realities of trade, the facts of supply and demand, then business would be rewarded with profits for success in maintaining a balance with demand, and promptly penalized with losses when it failed. The regulation would be automatic and constant.

Unfortunately, under our present mechanism of banking and of bank credit control, the course of prices and profits is often diverted over rather long periods of time by the unwitting influence of financial practice. The effect is to falsify the only guidance that industry and commerce can feel and understand.

To prevent this false guidance and thus to provide our system of individual enterprise with an automatic control able to keep it in close touch with the realities of trade, we must deprive money and bank credit of its artificial power to influence prices and profits. This means that the amount of currency and of demand deposits must be kept substantially stable, but with allowance for growth and for progress.

If this be true, then the maintenance of this flexible stability in money and bank credit should be made the major objective of monetary and banking control by the Federal Reserve Board.

To exercise such control effectively and wisely the Reserve Board must provide itself with sensitive indexes, which constantly indicate the conditions and the changes occurring within commerce and industry. Under our heading, "Detailed guidance for volume control policy," we have suggested indexes which would seem to disclose not only the location of developing economic disorders but indicate also the monetary treatment needed to restore balance if monetary factors are involved.

Within our banking and bank credit control mechanism, however, we find serious defects which make it difficult, if not impossible, to maintain control over money and bank credit without disturbing the value of investments made through the banks. In fact, the control policies of the Reserve Board can often be largely defeated by the banks. This is done very easily. To illustrate, you know that New York City banks are required to maintain 26 percent reserves on demand deposits, but only 5 percent reserves on time and savings deposits. This being true, a shifting of deposits from one classification to the other can offset a very considerable change in reserve totals, or in reserve ratios.

Underlying these defects, is failure of banking law and practice to recognize that demand deposits are equivalent to money, and should therefore be regulated in volume according to the needs of industry and trade for money. On the other hand, time and savings deposits are not equivalent to money. Instead, they represent money savings left with the banks for investment. They are invested savings, rather than money.

There is, therefore, no valid reason why the amount of money savings held and invested by the banks should be squeezed or inflated merely because some change in financial methods or in industry makes it desirable to increase or diminish the supply of circulating money. If the public wished the banks to do most of its investing, the total of time and savings deposits might expand almost indefinitely—and without disturbing our economic structure. But a similar growth in circulating money would be disturbing to an almost incredible degree.

Under present practice, however, there is no differentiation in the regulatory treatment imposed on these wholly dissimilar types of deposit. When demand deposits are permitted to expand, or forced to contract, then the investments represented by time and savings deposits are subjected to the same treatment. And, as if this were not disturbing enough, we find that banks are frequently using their demand deposits for loans and investments that are appropriate only for funds that represent real money savings left with the banks for investment.

This lending of demand deposits for investment-type lending is a process of monetizing fixed property. It occurs whenever demand deposits are loaned to finance the construction or purchase of factories, houses, office buildings, or similar fixed property, or to finance the purchase or issuance of securities representing such property.

Such loans are suitable only for deposits which represent money savings left with the banks for investment. The use of demand deposits for investment purposes means that overexpansion can always be financed in good times, and that good times are therefore permitted to develop rapidly into inflation, with paper profits which vanish overnight.

To correct these defects, therefore, is an essential step in bringing about stability in combination with individual enterprise. Under the heading "Separation and segregation of demand deposits" it was proposed to differentiate time and savings accounts more effectively from demand deposits so that depositors will use the latter for current funds and the former for money savings. It was also proposed that demand deposits and the reserves and assets behind them be completely segregated so that they may be subjected to control without in any way necessarily affecting the volume or use of time and savings accounts.

Under the further heading, "Demand deposits not to be loaned as though they were savings," it was proposed that loans of investment type be restricted to funds in the time and savings departments and that funds in the demand-deposit department be made lendable and investable only for such purposes as will maintain them in steady volume, while preventing the dangers constantly inherent in their use for the monetizing of fixed property.

While these changes will provide a banking system that can be conducted profitably yet without danger to the economic security of our people, it is necessary to provide Governors of the highest ability and impartiality and to supply them with powers adequate to keep the monetary and banking system from dominating or disturbing the movements of prices and profits.

It has therefore been proposed that a rigid and exacting investigation should precede every appointment to the Board of Governors, and that after appointment they be freed from financial temptation by the assurance of a pension of generous size after they have retired.

It has also been proposed that the powers of the Board should include control over the reserve ratios required for demand deposits and over the amount of reserves held against demand deposits without disturbing the reserve ratio or reserve total required or held by the time and savings departments. They should have power to impose a separate reserve ratio, if needed, on foreign-owned demand deposits, and they should also be given the discretionary powers over the exchange equalization fund and over foreign exchange now vested in the Treasury.

Assuming these changes to have been made effective, it will then be possible safely to make demand deposits interchangeable with currency. Certain safeguards, to preserve the monetary and banking system from distortion, were set forth in discussing that subject. With interchangeability between currency and demand deposits, solvent banks will be freed forever from the specter of runs on their demand deposits.

No members of this society either believe or claim that money and bank credit are responsible for all the economic disturbances that trouble us. It would be foolish indeed to disregard the effects of wars, trade barriers, floods, droughts, and other like forces. Besides these, there is the innate perversity of human mass psychology.

We might even go further and say that money and bank credit are usually not responsible for actually initiating the disturbances in which they themselves afterward play a very potent part. At the same time our present banking system could hardly have been better devised to encourage and finance an economic disturbance once it has gotten itself under way.

Business and industry reach out with expanding bank credit and dig a hole in the future. That is a boom. When time brings them to that hole they fall in. That is a depression.

They are lured into digging this hole because the course of prices and profits contains a false promise that these holes will be filled up and the surface paved before time brings industry and commerce to the place where they were dug. To business and industry this promise seems to speak in the tones of supply and demand. Too often they learn too late that it was, instead, the voice of expanding bank credit or an inflated currency.

During the 20 years that have followed the World War the ebb and flow of money and bank credit has swept the entire economic organization of this country from its proper and orderly course. Anchors have failed to hold. Charts have been found misleading. The compass of prices and profits has proved itself deceptive.

Into these chaotic conditions we seek to bring order and progress. More abundant and more constant employment. More stability to the conduct of business and industry. Greater safety for the savings and investments of the thrifty and industrious.

We do not insist that this plan is perfect in every detail.

Criticisms are invited and suggestions for improvement will be warmly welcomed. Despite the years of disinterested and patient analysis and thought from many sources which lie behind it, we expect it to benefit from discussion. Subject, however, to the changes and improvements which discussion and criticism may develop, we believe this to be a workable and logical plan for mitigating future depressions; a positive program around which, it is hoped, the abler and more constructive minds in business, banking, labor, and economics can conscientiously concentrate their support.

RESOLUTIONS—NATIONAL ECONOMIC CONFERENCE ON PREVENTING OR MITIGATING DEPRESSIONS

(Sponsored by Society for Stability in Money and Banking, Inc., held at Hotel Astor, New York, N. Y., December 15, 1937)

The resolutions committee submits the following report as a summary of the findings of the conference:

Whereas at a conference called by the Society for Stability in Money and Banking, and held on December 15, 1937, to consider a program for preventing or mitigating depressions through stable money and banking a comprehensive plan was presented by Dr. Joseph E. Goodbar, president of the society; and

Whereas, following submission, the essential features and structure of the plan were given careful consideration and fully discussed by members of the society and other participants, representing many sections of the country and widely divergent fields of activity: Therefore be it further

Resolved, That this conference recommend that the Society for Stability in Money and Banking take whatever course is necessary to present said plan or program, without delay and as effectively as possible, to the monetary authorities of the Federal Government, to the Congress of the United States, to all State and national banking associations, and to each separate banking authority, that they may give it the consideration which this conference believes it merits.

C. R. SATTGAST, *Secretary.*

Committee: Newton D. Alling, chairman, banker, New York, N. Y.; Thomas C. Bushall, president, Morris Plan Bank of Virginia, Richmond, Va.; Elmer H. Youngman, financial editor, New York, N. Y.; C. R. Sattgast, president, Northern State Teachers College of Minnesota; A. Cloyd Gill, writer-economist, New York, N. Y.

GOVERNMENT OWNERSHIP OF THE 12 FEDERAL RESERVE BANKS

TUESDAY, APRIL 12, 1938

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee resumed hearings on H. R. 7230 at 10:35 a. m., Hon. T. Alan Goldsborough presiding.

Other members of the committee present:

Mr. Reilly, Mr. Williams, Mr. Spence, Mr. Ford, Mr. Brown, Mr. Patman, Mr. Transue, Mr. McGranery, Mr. Fish, Mr. Gifford, Mr. Luce, and Mr. Crawford.

Mr. GOLDSBOROUGH. The committee will come to order, please.

Gentlemen, we have with us this morning Mr. Marriner S. Eccles, chairman of the Board of Governors of the Federal Reserve System, who will speak on H. R. 7230.

The committee will be very glad to have your views, Mr. Eccles.

STATEMENT OF HON. MARRINER S. ECCLES, CHAIRMAN, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM

Governor ECCLES. Mr. Chairman and gentlemen of the committee, the statement that I am about to make is the statement of the Board of Governors, not merely my own statement.

The fundamental purpose of H. R. 7230 is to establish a mechanism that would control the volume of money with a view to maintaining a fixed price level.

Mr. GOLDSBOROUGH. Mr. Eccles, are your remarks directed also to the amendment which Mr. Patman states he will propose to H. R. 7230, or merely to the bill as originally introduced?

Governor ECCLES. Mr. Wyatt advises me that this also has taken into account the amendments to the bill. That would be evident, I think, as the statement is read.

THE MANDATE

In an amendment the Board of Governors is instructed to raise the all-commodity index until full employment of all persons able and willing to work shall have been achieved, and until the price level shall at least reach the all-commodity index of 100, as established by the Department of Labor for the year 1926. The Board is further directed to maintain this price level with variations not to exceed 2 percent. To accomplish this the Board is directed to expand and contract demand deposits by engaging in open-market operations.

The position of the Board of Governors on the problem of monetary objectives was indicated in a statement issued on August 2, 1937, in response to a congressional inquiry. The Board is in full agreement with the ultimate objective of proposals to promote economic stability, which means the maintenance of a volume of business activity and of national income adequate to assure as full employment of labor and of the productive capacity of the country as can be continuously sustained. The Board is aware that commodity prices are an important element in the Nation's economic life and that violent fluctuations of prices have disastrous effects. It believes, however, that price stability does not necessarily lead to economic stability and, therefore, should not be the principal objective of public policy. In its opinion the objective of economic stability cannot be achieved by monetary means alone, but rather should be sought through coordination of monetary and other major policies of the Government which influence business activity.

The principal difficulty with a stable price level as the objective of economic policy is that it is not in itself a satisfactory indicator of a continuously smooth working of the economic machine. There have been periods in the past when the price level was stable and nevertheless there were developing numerous maladjustments which led to an economic collapse. For example, from the latter part of 1927 to the latter part of 1929 the index of wholesale prices showed little change, but other developments were threatening economic stability. Prices and activity on the stock market were rising rapidly, and brokers' loans grew at an unprecedented rate. Construction of office and apartment buildings was being promoted with a view to quick profits at a rate that endangered the long-time outlook in the building industry. Loans were being made for enterprises abroad without careful investigation of credit risks, and business activity in general was increasing, partly as a result of speculative developments, to a level that could not be sustained. The use of the commodity price level as a guide to credit policy in these circumstances would have been entirely unsatisfactory. There is no assurance that it would be satisfactory in the future.

The proposal is that the Board of Governors bring the commodity price index up to at least the 1926 level. The average for that year is about 25 percent above the present level and an advance of that magnitude, except over an extended period, would cause speculative buying and would lead to boom conditions which would culminate in a break and a depression. Furthermore, in periods of rapid advance disparities between prices of different groups of commodities generally become more pronounced and yet, both from the point of view of justice and of economic stability, the most important thing in regard to prices is the maintenance of proper relationships between prices of different commodities that are exchanged for each other. Activity of producers depends on the relationship between their costs, including principally prices of materials, labor, taxes, and debt service, and the prices at which they can sell their products. In the last quarter of 1936 and in the first qarter of 1937, for example, building costs and prices of new houses rose so rapidly and so far as to discourage buying, and this resulted in a decline in residential building. Moreover, the rise in prices of industrial raw materials at that time was much sharper than the advance in finished goods, and this was a factor in causing speculative purchases, forward orders, and building up of inventories, all of which contributed to the subsequent collapse of business.

Present prices of individual commodities in the Bureau of Labor statistics index, compared with 1926, range from a decline of 75 percent to an increase of 100 percent. A restoration of the 1926 level could be achieved through an advance of all commodities, including those that are too high, as well as those that are too low, or through a rise in one or the other group of these commodities. There is nothing in monetary policy that could determine which of the commodities would rise, and yet this would be all important from the point of view of the effects that the rise in prices would have on the economy.

In the Board's view the essential objective of monetary policy is to contribute to the maintenance of a flow of money and income through the channels of trade, industry, and agriculture that would tend to utilize to the full the country's human and material resources. This is the Board's understanding of the broad mandate stated in the Federal Reserve Act as "accommodating commerce and business." To this end and to the maintenance of sound banking conditions the Board devotes its efforts, and there is nothing in the proposed mandate that would add to the Board's desire or ability to achieve those objectives.

In directing the Board to achieve price stability and full employment through open-market operations, the proposed mandate disregards the limitations on the effectiveness of this instrument of credit policy. It assumes that open-market operations can always create or destroy deposits and that changes in the volume of deposits in turn are immediately reflected in the price level. The fact is that open-market operations do not always create deposits, since purchases of securities from the banks do not increase deposits. Whether open-market purchases result directly in an increase in deposits or not, they do result in the creation of a corresponding amount of reserves. These reserves may or may not result in the creation of deposits, depending on whether conditions are favorable for the expansion of loans and investments by banks. The great bulk of deposits in the banks of the United States are created through such an expansion. A given volume fo reserves created by Board action, therefore, might result in no increase in deposits at all; or, in the other hand, might result in a growth of deposits several times as large as the reserves. Which of these developments would actually occur would depend on forces that are largely, if not wholly, outside the control of the Board of Governors.

It is not true, furthermore, that the creation of deposits necessarily results in an equivalent rise in prices. We have had increases in deposits without corresponding increases in prices. The volume of deposits at the present time is greatly in excess of the amount that existed in 1929, and yet the price level is much lower. Nor is it clear that a rise in prices necessarily results in an increase in employment. An unbalanced advance in prices may, on the contrary, be an influence in decreasing employment, as was the case early in 1937.

Aside from many factors that are not under the control of the Government, there are numerous phases of Government activity other

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than monetary action by the Federal Reserve System that have effects on prices and on economic activity. Among such factors are the actions of the United States Treasury in relation to the inactive gold account and the stabilization account; policies in regard to taxation, exchange rates, the volume and character of Government spending; its action in regard to the capital market, to railroads and utilities; the Government's housing program, its agricultural policies, and its policies in regard to labor. All of these Government activities have a distinct bearing on the volume of business activity and on the price level. They are beyond the influence of the Federal Reserve System, and yet without them and their coordination with monetary policy the system would be powerless to achieve either an advance in prices or the restoration of full employment, as would be required under the proposed mandate.

The Board of Governors, therefore, does not favor the adoption of the proposed mandate.

Mr. GOLDSBOROUGH. Mr. Eccles, H. R. 7230 is entitled "A bill providing for Government ownership of the 12 Federal Reserve banks, and for other purposes."

Mr. ECCLES. I have not finished.

Mr. GOLDSBOROUGH. I thought you had finished.

Mr. ECCLES. No; I just finished that part of it.

In addition to prescribing a mandate for the Federal Reserve policy the bill proposes a reorganization of the Federal Reserve System. The reasons offered for this reorganization are that the System has not been operated in the public interest; that it has been dominated by bankers; that it has been conducted in the selfish interests of a small group; and that it has made large profits at the expense of the community. The Board of Governors does not believe that any of these assertions can be sustained by the record.

Ownership of stock by member banks does not enable the bankers to control the Federal Reserve System. It is more nearly in the nature of a compulsory capital contribution than stock ownership. Although the member banks elect two-thirds of the directors of the Reserve banks, the large banks elect only two out of nine directors. The small banks elect two, the medium-sized banks elect two, and the Board of Governors in Washington appoints three. Only a third of the directors can be bankers, and all directors and officers are subject to removal by the Board of Governors. The Board in Washington appoints the chairman and deputy chairman of each Reserve bank, and the appointment of all presidents and first vice presidents, as well as the salaries of all officers and employees, are subject to its approval.

Complete authority over all matters of major national policy, such as the determination of discount rates, reserve requirements, margin requirements on security loans, and maximum rates of interest to be paid on time deposits, is vested in the Board of Governors. Authority over open-market operations is vested in an open-market committee, consisting of the seven members of the Board of Governors and five members elected by the Reserve banks.

It is clear, therefore, that in matters with which the bill is primarily concerned the System is dominated not by banks but by the Board of Governors, a governmental body whose members are appointed by the President and confirmed by the Senate.

FEDERAL RESERVE BANKS NOT OPERATED FOR PROFIT

During the 23 years of its existence the Federal Reserve System has earned approximately one and a quarter billions of dollars, of which about one-half has been used for operating expenses incurred largely in performing public services, such as the clearing and collection of checks, the supplying of currency to the banks and to the public, the performance of many duties for the United States Government, and in furnishing rediscount facilities for the member banks.

Earnings of the Federal Reserve banks above these expenses and reserves for contingencies amounted to $600,000,000. Of this amount approximately $150,000,000 has been paid to the Government as franchise tax, about $140,000,000 has been appropriated by Congress for the Federal Deposit Insurance Corporation as capital, $160,000,000 has been paid as the statutory dividends to member banks, and the remainder is held in a surplus account, which in case of liquidation becomes the property of the Government.

Member banks contribute 3 percent of their capital and surplus to the capital of the Reserve banks and receive 6 percent annually on this contribution. In addition, member banks are required to keep balances with the Reserve banks amounting on the average to 16 percent of the member banks' deposits and receive no return on these balances. For example, a member bank having a capital and surplus of $100,000 and deposits of $1,000,000 contributes $3,000 to the Reserve bank's capital and, on the average, would be required to hold $160,000 on deposit with the Reserve bank as legal reserves, on which it receives no interest. The dividends such a bank would receive on its stock in the Reserve bank would be $180 a year.

The System was established and is operated in the public interest and dominated by public officials; it performs a service that saves the people of the country far more than the cost of the System; and it makes no profit for any private interest other than the amount paid annually to stockholders at a fixed rate, which has been prescribed and can be changed by Congress.

PROPOSALS WOULD NOT IMPROVE BANKING SYSTEM

Proposals in the bill for reorganizing the Reserve System would transfer ownership of the stock in the Federal Reserve banks to the Government and would have all the directors of the Reserve banks appointed by the President and approved by the Senate. It would enlarge the membership of the Board of Governors to 15, including 3 ex-officio members—the Secretary of the Treasury, the Comptroller of the Currency, and the Chairman of the Federal Deposit Insurance Corporation.

A Board of Governors of 15 members proposed in the bill would be too unwieldy to function promptly and effectively. The proposal in the bill to offer all the privileges of membership to nonmember banks so long as they choose to keep their reserves in a Federal Reserve bank would remove all incentive to become members of the System. It would enable all banks to profit by the services of the System so long as it suited them, without contributing anything to its strength or complying with its regulations, and to withdraw their reserves when to maintain them would seem to be burdensome. It would make futile the proposed enlargement of the power to increase reserve requirements. It would remove all incentive to membership and would make it impossible for the System to discharge its responsibility for maintaining sound credit conditions.

DISTINCTION BETWEEN MONETARY AND FISCAL AUTHORITIES SHOULD BE MAINTAINED

The primary function of the Treasury is to collect taxes, borrow money, and provide funds for the various agencies of the Government in accordance with congressional apropriations. The primary function of the Federal Reserve System is to influence the flow of money and to contribute to the soundness of the banking situation. In a broad sense the objectives of both agencies are the same, namely, to serve the public interest, but their points of view and experience, and their approach to current problems may at times be different. The maintenance of an organization for the regulation of credit separate from the fiscal arm of the Government has been found advantageous in most countries of the world, and its abandonment, which is proposed in the bill, would, in this Board's opinion, be a backward step.

LOCAL AUTONOMY IN LOCAL MATTERS SHOULD BE PRESERVED

Since its establishment in 1914, the Federal Reserve System has undergone many changes in the direction of increased control by the Board of Governors. With the passage of the Banking Act of 1935 this control has been greatly strengthened insofar as national policies are concerned. In regard to local matters, the maintenance of local autonomy under general supervision and close Government regulation is advantageous in a country like the United States, consisting of various regions with diverse economic interests. The maintenance of locally elected directors on Federal Reserve bank boards is of great advantage in creating local pride and local interest in the System and in inspiring the business community with confidence in its management. This advantage would be lost if the appointments of all local directors were handled entirely from Washington. Consequently, the System's ability to render a disinterested public service to all classes of the community would be greatly diminished.

To sum up, the Board is convinced that improvement in our banking system is needed but sees nothing in this bill that would tend in this direction. The Board is convinced that the main objective of the bill is not practicable; that the evils which the reorganization features of the bill propose to correct do not exist; that the organization which it proposes to establish would result in less satisfactory service to the country; and that enactment of the bill would be a backward and not a forward step in the development of the banking system in the public interest.

That is the statement of the Board with reference to this matter, that I would like to have inserted in the record.

Mr. GOLDSBOROUGH. Without objection, of course, it will be inserted in the record.

Gentlemen of the committee, I am sure that Mr. Eccles will now be glad to answer any questions he can which you would like to ask him.

Mr. PATMAN. I would like to ask some questions, Mr. Chairman.

Mr. GOLDSBOROUGH. Proceed.

Mr. PATMAN. Under the law at present, as you said, I believe, the open-market committee is composed of the members of the Board, 7 when all of the vacancies are filled, and 5 selected by the 12 Federal Reserve banks. That is right, is it not?

Governor ECCLES. Yes; that is correct.

Mr. PATMAN. Do you believe that anyone except members of the Board should be on the open-market committee?

Governor ECCLES. I do not. When the Banking Act of 1935 was up, I made quite an extensive record before this committee on that subject, and I have not changed my views.

Mr. GOLDSBOROUGH. You had considerable support on the committee, too.

Mr. PATMAN. In other words, that particular change you believe is a helpful and constructive one?

Governor ECCLES. So far as I am concerned, and so far as the House was concerned, I think our record speaks for itself on that subject.

Mr. PATMAN. So to that extent the bill is good; to that extent you think it is constructive.

What about the advisory council? Do you believe that you should have a legally established advisory council, composed of private bankers, with the authority that they have today, to confer with the Board relative to open-market transactions and other major matters, or do you believe it would be helpful to abolish the advisory council and leave all matters up to the Board?

Governor ECCLES. The council, although it is a body legally set up, has no legal power; it is an advisory body only. It meets but four times a year, in Washington, and the members bring to the Board their views with respect to various matters, which are very often of a local nature, with reference to the territory that they represent.

I am sure that they do not influence the Board with reference to its monetary policies, other than by furnishing information that would tend to enable the Board to come to its decision. I personally do not feel that the council is able to contribute very much in the situation.

The suggestion made at the time the Banking Act of 1935 was before this committee was that the bank presidents or governors, as they were called at that time, be an advisory committee for the Board with reference to its monetary policy. It would seem that such a program as that, if it had been carried out, would have resulted in there being little or no place for the council. The bank presidents would have been well able to represent the regional areas, and they would, of course, have had no private interests, but would have been public officials well able to represent the public interest.

Mr. PATMAN. Did you favor that change?

Governor ECCLES. I do not think the question of abolishing the council was a part of the bill at that time. I did favor the change of making the bank governors an advisory committee.

Mr. PATMAN. Those who are now the bank presidents?

Governor ECCLES. That is right.

Mr. PATMAN. And, of course, you would be in favor of abolishing the Board in event that change was made?

Governor ECCLES. What board do you mean?

Mr. PATMAN. I mean the advisory council.

Governor ECCLES. That is a subject——

Mr. PATMAN (continuing). You would not want two advisory councils?

Governor ECCLES. No; I do not think that two would be necessary, and it would seem quite obvious that if the other set-up were created there would be little or no place for the present council.

I feel that inasmuch as the members of the council are bankers, and have always been bankers, their point of view naturally would be that of private bankers engaged currently in the private banking business.

I do not think that it makes very much difference one way or the other, as a matter of fact, whether there is an advisory council or there is not an advisory council. It would make virtually no difference so far as the conduct of the Reserve System is concerned.

Mr. PATMAN. Has the advisory council influenced the Board in the past on any matters?

Governor ECCLES. I cannot speak——

Mr. PATMAN (continuing). In other words——

Governor ECCLES. You say the past. Since I have been on the Board, it would be my view that the Board has not been influenced by the council in undertaking any policy that it would not have undertaken in any case.

Mr. PATMAN. In other words, they have been worthless? They have not influenced the Board either way?

Governor ECCLES. So far as monetary policy is concerned, I would say that they have not influenced the Board in taking any action that the Board would not otherwise have taken. They have kept the Board advised with reference to the banker and business point of view in the various reserve districts. We possibly would have gotten that information anyway from other sources, but we at least did get a cross-section of what we would term the banker point of view in the various areas.

Mr. PATMAN. Would you not consider it a constructive change to use the presidents of the banks as the advisory council in preference to the present advisory council?

Governor ECCLES. I would. I think it would be a constructive move, because in that way——

Mr. PATMAN. The private bankers would be taken off?

Governor ECCLES. In that way you would substitute an advisory council composed entirely of public officials.

Mr. PATMAN. I agree with you on that.

Mr. FORD. Might I inject a question there?

That council, then, would be appointed by the Board, would it not?

Governor ECCLES. No. As I recall the proposal, in the Banking Act of 1935, an advisory committee of bank governors was to be chosen, so that there would be no appointments——

Mr. FORD (interposing). I did not mean it in that sense; but who appoints the presidents of the reserve banks?

Governor ECCLES. The directors of the reserve banks.

Mr. FORD. Who appoints the directors?

Governor ECCLES. The member banks elect six out of nine.

Mr. FORD. Then the president of each Federal Reserve bank is the appointee of the directors of that bank, six out of nine of whom are local bankers?

Governor ECCLES. They are appointed by a board of nine directors, of whom three are appointed by the Board in Washington and six are appointed by the banks, two by the small banks, two by the medium-sized banks, and two by the large banks. Three of those six are bankers, and three represent commerce, agriculture, and industry.

Mr. FORD. But that is in the local district?

Governor ECCLES. That is right.

Mr. FORD. That is what I am getting at.

Mr. PATMAN. In regard to your first statement, and I did not hear all of it, because I was delayed, but I judge from what I did hear that you do not believe that the quantity of money can determine the price level.

Governor ECCLES. That is right.

Mr. PATMAN. You do not think the quantitative theory of money is sound?

Governor ECCLES. I do not. I wish the problems were that simple.

Mr. PATMAN. You think, of course, that the other factors are so great, such as the expenditures made by the Government, the sterilization of gold, and the stabilization fund, but I see no reason why the sterilizing of gold should have upset the policy. You could have placed more money in circulation through the open-market transactions. I do not know of a single transaction of the stabilization fund that could possibly affect the price level, do you?

Governor ECCLES. How do you figure that we can put more money in circulation?

Mr. PATMAN. You can buy bonds.

Governor ECCLES. Yes; but when you buy bonds, who sells the bonds?

Mr. PATMAN. The banks sometimes sell the bonds.

Governor ECCLES. They usually sell them.

Mr. PATMAN. To increase their reserves.

Governor ECCLES. That is where you get most of the bonds from, and that would run the price so high, and make the interest rate so low, that you would create such a terrific profit in the hands of the investors that they would want to sell and take the profit, and it would leave the Reserve System in the position where they were buying high and selling low.

Mr. PATMAN. I have a feeling that we made a mistake, possibly, and I was guilty of making it with others, in making it so easy for the banks to get additional reserves, for they do not have the incentive to make loans that they used to have. In the days gone by, they were paying interest on demand deposits, and they were paying a higher rate of interest on time deposits, the total aggregating about 500 million dollars more than they are having to pay now. Therefore, when they accumulate these excess reserves, they do not have the incentive to lend. In addition to that, they have inaugurated service charges and from these service charges they obtain a large part of the revenues necessary to carry on their institutions.

So we have reached the place, it occurs to me, where the banks do not have the incentive, but I still believe that if you kept buying bonds, and kept putting money out, the time would come when loans would be extended and money would percolate among the masses of the people.

Governor ECCLES. You sasy that the banks do not have the incentive. We will say that they have a billion and a half of excess reserves, and that they do not have the incentive to loan or to invest those funds, but if they had two or three billion dollars, they would have the incentive—is that your point?

Mr. PATMAN. If you keep taking their revenue away from them, if you buy their bonds, if they get interest from the Government now, they would want to put that money to work, I would presume.

Governor ECCLES. There is not any question but what the banks would like to put the money to work at the present time. It is not reluctance on the part of banks to put money to work, but a business concern is not going to borrow money to produce goods if the warehouses are full of goods and the community has not got the buying power to buy what has been produced.

The rate of return on short-term money today is almost negligible. The banks, of course, are restricted in their loans and also in their investments as the result of regulations governing investment policy, the Comptroller's regulations, and also the regulations governing the examination policy. You cannot on the one hand build up excess reserves, and expect those reserves to operate in the direction of inducing the banks to loan and invest funds when on the other hand during the period of deflation the available loans and investments are less favorably regarded than they are in a period of business activity. The very effect of a deflationary process reduces the availability of both loans and investments that banks are able to get.

Mr. PATMAN. Mr. Eccles, you have discouraged me so much—you can always give a reason, or what you consider a reason, why you cannot do anything. What would you do? Can't you offer just one suggestion that can be followed to bring us out of this depression?

Governor ECCLES. I have offered——

Mr. PATMAN. You are in the driver's seat.

Governor ECCLES. I have offered a good many——

Mr. PATMAN. If anybody is in position to do anything, it occurs to me that you are in position, together with the Federal Reserve Board, to take some action that would help in this situation. What would you do?

Governor ECCLES. I appeared for two days before the unemployment committee of the Senate. There is a very extensive record over there, which includes my views with respect to this whole subject, and——

Mr. PATMAN. What is No. 1?

Governor ECCLES. And I have made public speeches with reference to what I consider some of the reasons for the present situation, and what might be done about it, and I have advised in private with other officials of the Government with reference to the subject.

Now, so far as the Reserve Board is concerned, we are only one arm of even the monetary or the banking function. You have here the Treasury with monetary powers possibly equal to if not greater than those of the Reserve System. You have the Comptroller. You have the Federal Deposit Insurance Corporation, and you have 48 bank commissioners who also have responsibility with respect to the banking function, and the idea that some people have with reference to this overall power that the Board of Governors has just does not harmonize with the facts.

Mr. PATMAN. But you are talking about responsibility. I am talking about privileges. You have the privilege of doing certain things.

Governor ECCLES. What?

Mr. PATMAN. You can go into the open market and buy bonds.

Governor ECCLES. Yes. What would we do——

Mr. PATMAN (continuing). You can buy them, and as money begins to get cheaper, people will exchange their money for goods, because goods will be higher.

Governor ECCLES. How would money get cheaper if you buy bonds in the open market? Money is so cheap today that the banks, as you have said——

Mr. PATMAN. You are talking about the interest rate. I am talking about the value of money.

Governor ECCLES. You are talking about raising the price of goods.

Mr. PATMAN. That is right, until there is incentive for people to exchange their deposits for something visible or tangible—goods or services.

Mr. FORD. Is there any corresponding table between the rising price of bonds and the price level? If you went into the market and bought a billion dollars' worth of bonds in the next 30 days, the result would be that you would raise the price of bonds, would it not?

Governor ECCLES. Yes. You would run bonds up so high, and the interest rate so low, that there would be a lot of banks and private individuals that would sell the bonds as they got up high, because they would get a big profit, and all that we would do would be to assure these people that have bought governments at a substantially lower price a profit. Then at any time that we undertook to dispose of or let those bonds run off, of course they would drop, and when they got low enough the people that sold them high would buy them low.

If we could operate in the short-term market, where the prices in the securities would fluctuate but little—for instance, if we bought 90-day Treasury bills, or short-term Treasury notes in the market, that would not, of course, tend to run up the price of bonds, because you would not be bidding on bonds. The interest rate now on short-term Treasury paper has been running at around one-tenth of 1 percent, so it is almost a negligible factor. You could buy that paper, but that paper is held almost exclusively by banks, and you would not create any deposits. All that you would do if you went into the market and bought that paper is that you would give the banks more excess reserves as a substitute for the bills that they now carry. That would not increase in any way the amount of money in circulation or the amount of money on deposit. It would merely increase further the ability of banks to extend credit, but you would have to have somebody willing to borrow, and people are only willing to borrow and put people to work and to buy goods when they feel that they can do so profitably. They can do so profitably only when there is consumer buying power or a willingness on the part of the consumers to buy.

The way to get increased deposits, to get increased buying power, is not through monetary action alone, but it must come through putting money in the hands of people that do not have it, by giving employment to those who are unemployed, and by assuring those who are employed that they are not likely to lose their employment and then have no other source of income.

Mr. PATMAN. I agree that that is one good way——

Governor ECCLES. That is the only way, it seems to me, that it can be done.

Now, it can be done by Government or by private business. If private business is willing to use credit in order to put people to work, or whatever the reason may be, to a greater extent than other businesses are contracting credit; that is, if private credit on balance expands, then the need for an expansion of Government credit would be unnecessary, or would be less necessary.

We have in the present situation, and have had for a period possibly of a year, a situation where private bank credit has been contracting, not because the banks were under pressure, not because of the lack of ability of banks to extend credit or to carry existing loans and investments, but because the borrowers were in the process of liquidating inventories or securities, and in doing so paid off their obligations. In some cases, of course, where investments become questionable, or loans become questionable, due to a deflationary process, there has been pressure on the part of the banks to liquidate. This has not been due to the inability, however, of the banks to carry a greater volume of loans and investments. It has been due to conditions, as I said awhile ago, beyond our control. If the banks were putting pressure for liquidation on borrowers because of a shortage of funds, and because of an inability on their part to extend further credit, then the Reserve System would be guilty of maintaining a restrictive credit or monetary policy that was stopping a credit expansion.

Mr. PATMAN. What I cannot understand, Mr. Eccles, is that the Federal Reserve Board has always been able to deflate but has never been able to expand. You take in 1920, I believe, there were about 12 reasons set out by Mr. W. P. G. Harding, 12 ways that deflation could be brought about, and it just occurs to me that at least the reverse of some of those ways would cause some expansion. I have noticed that the Board has taken action in the past that I considered deflationary, but I am just at a loss to understand how it is that you can always get down to deflating but never do anything to expand.

I have always had the idea that the value of money determines the value of everything else and that if you make a statement today that indicates——

Governor ECCLES. You mean by the value of money, the interest rate on money?

Mr. PATMAN. Yes; the value which money determines, measured in commodities and everything else. I do not mean the interest rate. I mean the value of money compared to goods and services, and I have had the idea that if you made a statement indicating that money will be a little cheaper, many people will rush their money now on deposit into goods and services, because there would be an incentive to do it, but as long as goods and services are becoming less valuable every day, there is every incentive for people to keep their money because it is becoming more valuable every day, and if you made a statement or took some action that indicated that the commodity price level was going to rise, going to increase, people would make an effort to exchange their money for these goods and services. Don't you agree with that?

Governor ECCLES. Well, there is such a thing as frightening the public into the belief that you are going to have inflation and causing speculative buying. That might be brought about.

Mr. PATMAN. I know that the old words "frightening" and "inflation" are used, but don't you think that people are frightened on the other side? They are led to believe that if they keep their money it is going to become more valuable all the time, and as long as that feeling continues, I see no reason in the world for their not holding it

(At this point there was a brief intermission, while Governor Eccles was called to the telephone.)

Mr. PATMAN. I want to make this observation, and I think I will finish.

This bill has four major provisions. One is the price level. The next is that the open-market committee should be changed so as to have just the Federal Reserve Board members on it. The next is that the advisory committee should be dispensed with, since it consists of private bankers only. The next is that the State banks should have the privileges of the Federal Reserve System by carrying their reserves with a Federal Reserve bank.

Now, the first, of course, you are against the price level. You say that the quantity of money has nothing to do with the price level, and that there are too many other factors.

Governor ECCLES. I did not say that it had nothing to do with it.

Mr. PATMAN. You mean that it cannot alone cause it.

Governor ECCLES. Yes.

Mr. PATMAN. Of course, I think it is the greatest factor and it can influence it. But you take the other side, you say.

Governor ECCLES. No. I think it depends a good deal on the time, and I do not underrate at all the importance of an adequate supply of money to——

Mr. PATMAN. Anyway, you are not in favor of trying to maintain a price level?

Governor ECCLES. Well, I am not in favor of the Reserve Board being given a mandate to maintain a certain price level. I——

Mr. PATMAN. Are you in favor——

Governor ECCLES. I am in favor of using such powers as we have to bring about business stability, but, as has been indicated in my statement, there is a distinction between a fixed price level and business stability. You may have a stable price level and have a great disparity within that price level. The thought that you suggested a little while ago—to the effect that if through Board action they could cause people to exchange their money for goods, thus putting into circulation a supply of money, it would tend to put up the price level—that is true if it caused people who had money to go from money to goods for speculative reasons, and that is usually where an inflationary psychology manifests itself. That, however, would tend only to retard a construction program. If you begin to get a speculative inflation in building material prices, it certainly would not in any way stimulate the buying of railroad equipment, or the expansion of the utilities.

So far as the price of cotton is concerned, as well as the price of wheat, they depend upon world prices, so that you could not run up the price of some of the basic commodities that are dependent upon the world price merely by a monetary device. They would adjust themselves to the world price level.

Mr. PATMAN. Of course, I do not agree with you there, but since you are opposed to a mandate you do not believe that the Board should have a mandate.

Governor ECCLES. I am not opposed to a mandate. I recommended that the Banking Act of 1935 should have a mandate——

Mr. PATMAN. I mean on the price level.

Governor ECCLES. And this committee inserted in the banking bill of 1935 a mandate, but it was not a mandate of the sort which is proposed here.

Mr. PATMAN. I am talking about the 1926 price level. Are you willing to tell this committee that, although you are opposed to a mandate on the 1926 price level, you are really looking for a higher commodity price level, that you are hoping the price level will go up instead of down, and that you are working in that direction?

Governor ECCLES. I did not feel that the commodity price level, even at the highest point in 1937 or 1936, was too high.

Mr. PATMAN. You do not believe it was too high?

Governor ECCLES. No; I do not. I am in favor of a higher——

Mr. PATMAN. You are willing to do something that will make it go back in that direction?

Governor ECCLES. I am in favor of a higher average price level.

The trouble with the price level was the disequilibrium within the price structure. It was not that the average price level of 1937 was too high. There is no question but what the present average price level is too low, but what you have in your structure today are certain rigid wages and rigid prices within a part of your economy that are as high as or higher than the 1929 level, whereas you have flexible wages and flexible prices in the balance of your economy.

Mr. PATMAN. That is what I object to. You can raise the part that is down through monetary action by placing money in circulation, by causing the value of your money to be lessened, to be worth less.

Governor ECCLES. What assurance have you that that would not put up the existing prices, which are now too high, and make them still higher?

Mr. PATMAN. Let us not talk about exceptions. You can always pick out a few members of a lodge or of a church and condemn the whole church or lodge. Let us talk about the general rule, the average price.

Governor ECCLES. I think that applying your theory would be the exception and not the rule.

Mr. PATMAN. No; I think the exceptions are the cases like steel, where they are the same price today, a week ago, or a month ago.

Governor ECCLES. Not only steel, but there are dozens of prices higher than 1929; and you have the same thing also true with reference to certain great groups of wage rates.

Mr. PATMAN. Anyway, I will not discuss that further, because other members of the committee want to interrogate you; but I do want to suggest this—that out of the four major proposals you oppose the prive-level mandate of 1926; you are not opposed to the open-market committee change, so that it will be composed only of the Board, as we propose in this bill, and you are not opposed to abolishing the advisory council, composed of bankers only, also contained in this bill——

Governor ECCLES. I would say——

Mr. PATMAN. But you are opposed to the fourth one—you are in favor of half of it and against half of it?

Governor ECCLES. With reference to the council, if Congress saw fit to abolish the council, I would not appear to make an argument against that proposal, and if Congress did not propose it, I would not propose it. I would not want to come here at the present time and recommend that the council be abolished. However, I would not come here and make an argument in support of retaining it.

Mr. GIFFORD. Right there, has there ever been any difference of opinion between the advisory council and the Board?

Governor ECCLES. What is that question?

Mr. GIFFORD. Has there ever been any violent difference of opinion in your policies?

Governor ECCLES. My experience has been, as a general rule, that the Board is not in agreement with the views of the council, but I do not think that the council has influenced the Board.

Mr. GIFFORD. But their views are generally at variance?

Governor ECCLES. That has been true to quite an extent since I have been on the Board. How it was before, I cannot say.

Mr. CRAWFORD. May I ask one question there?

Mr. GOLDSBOROUGH. Proceed.

Mr. CRAWFORD. Governor Eccles, do I understand that the advisory council goes so far as to lay down before your Board a definite proposal, thereby enabling you to arrive at the conclusion that there is a great variance between the two opinions?

Governor ECCLES. No; I would not say that. The discussion is usually an informal discussion. At times the council might make definite recommendations, and they have passed resolutions on definite proposals, but the relationship between the Board and the council has been a very friendly one, and the discussions are very largely informal, but there is a difference in point of view between the members of the council and the members of the Board at times, but I would not say between all of them. You cannot take a body of men as large as the Board and the council together and expect that there is going to be any unanimity of viewpoint.

Mr. CRAWFORD. But the functions and the powers of the council are so dissimilar to those of the Board——

Governor ECCLES. They have a different responsibility. In fact——

Mr. CRAWFORD (continuing). That you could not really tie the two together?

Governor ECCLES. That is right.

Mr. GIFFORD. I want to press one more question.

Mr. Patman, you asked Governor Eccles what he had to suggest, and he stated to you that he had been before the Senate committee for 2 days——

Governor ECCLES. Well, 1 day.

Mr. GIFFORD. And that he has expresesd himself, and you asked him what was No. 1, and he said either private or governmental activity, and I think that at the moment the committee is very much interested in that phase of his statement, as to what we can do. As I recall it, the gist of that hearing before the Senate committee was the spending by the Government at the moment of a billion dollars; is that correct?

Governor ECCLES. Well, that was an extended hearing; it lasted about two and a half hours, and I was asked four questions, and I can state those questions, so that you may have an idea as to the extent of the discussion; and then after I state those questions, if the committee wants to go into that, which will take considerable time——

Mr. GIFFORD (interposing). Can't you boil it down? Do you recommend the Government's spending of a billion dollars?

Governor ECCLES. I cannot answer questions of that sort in a yes or no answer.

Mr. GIFFORD. Can you answer yes or no to whether you would approve the Government's lending the States $1,000,000,000 without interest for 50 years?

Governor ECCLES. I would prefer not to answer that. That is a question up for consideration at the moment by the administration, and I would feel it is not proper for me at this time to express my personal views with reference to a specific program that has not been yet determined upon.

Mr. GIFFORD. Then we cannot get any information except that surrounded by long explanations and under certain conditions and ifs, and so forth—is that correct?

Governor ECCLES. I do not think that questions as important as the questions which you people are interested in can be answered by a yes or no answer.

Mr. GIFFORD. When this proposal to lend a billion dollars for 50 years comes before this committee, and we want you as a witness, will you express yourself then?

Governor ECCLES. Yes; if the matter was before the committee, and I was called upon, I would be glad to express my views with reference to the question.

Mr. PATMAN. One other question. Do you express the unanimous opinion of your Board in the statement that you made?

Governor ECCLES. This is the statement of the Board, unanimous.

Mr. PATMAN. I want to say that I get lots of encouragement from one thing that you say, and I hope that the country will take notice that you say that you are looking upward, that you are looking for a price level even better than the best of 1937.

Governor ECCLES. Yes, sir.

Mr. PATMAN. And if you will go in that direction as effectively as I believe you can, I believe that we will go places.

Governor ECCLES. As a matter of fact, at least some of the members of the committee may have gotten the impression that the Board has pursued only a deflationary policy, with the idea of keeping down the price level.

Mr. PATMAN. That has been my impression.

Governor ECCLES. Now, of course, that is not borne out by the record, and I would like very much to suggest to the members of this committee that they read the first seven or eight pages in the annual report of the Board just filed with Congress. That gives a review of the Board's action for the year 1937, and the reasons therefor, and it seems to me that if the committee would read the first seven pages of that report they would find that the Board had not taken action of a deflationary nature and that the Board has throughout the year, through open-market operations and through the requests made to the Treasury that it desterilize, continued to maintain the volume of excess reserves and a money market condition that has been one of ease and one of reasonable stability so far as the money market is concerned.

Mr. FISH. Has the Board got any definite price-level policy? For example, does your Board actually want to get back or try to get back to the price level of 1926?

Governor ECCLES. The Board has no price-level policy that they are working to.

The difficulty when we talk about the price level, as I pointed out in this memorandum with reference to the mandate, is that there is a great difference between an all-commodity price level and the price level of certain commodities, and you may have the all-commodity price level of 1926 and have a very unsound situation developing.

We had in 1934, 1935, and 1936 in this country a condition of reasonable stability. The price level was increasing slowly. There was a condition of equilibrium or balance within the price structure, at least a reasonable one——

Mr. FISH (interposing). Does that apply to copper?

Governor ECCLES. I say 1936. Copper advanced in the winter of 1936–37. Up until that time it was around 9 or 10 cents. It went as high as 17 cents within 4 months.

Mr. GOLDSBOROUGH. You are referring to the general commodity price level, are you not?

Governor ECCLES. Yes; I am referring to the general commodity price level.

Now, it was not the increase in the general comodity price level in the spring of 1937 that brought about the present recession. It was the disequilibrium between certain wages and certain prices in what we termed a group of rigid wages and prices and those prices and wages which are flexible. You had in the field of construction, railroads in particular, in utilities, and what we term the capital goods field——

Mr. FISH (interposing). You understand what I am trying to find out. I think that you are one of the most intelligent witnesses we have.

Governor ECCLES. Thank you.

Mr. FISH. But so far I have not been able to find out just what your price level is and what reference it has to 1926, if any.

Governor ECCLES. Our job is not to regulate prices, and if Congress saw fit to give us the responsibility to regulate prices in connection with this mandate, it would seem to me that we would have to have in addition to the powers we have all of the powers of Congress and all of the powers of the executive departments of the Government. In other words, no group could carry out the provisions of that mandate short of dictatorial powers.

Mr. FISH. Let us assume that. Suppose that you had the powers that you now have and all of the powers that you could get. Do you want to get back to the 1926 basis?

Governor ECCLES. I do not think——

Mr. FISH (interposing). I am trying to get information.

Governor ECCLES. Yes; that is right.

To get back to the 1926 price level, if you could, quickly, would bring about a great period of inflation. You are today possibly 25 percent in your price level below the 1926 price level. To get back to that level, it should be brought about over a long period of time, that is, over a considerable period of time, because a rapid increase in prices, like a rapid fall in prices, upsets the economy. It makes for speculation on one side and inflation and a later collapse, that is, it makes for a bad situation on the deflationary side.

Now, we talk about the price level as though we were in a vacuum, apart from the rest of the world, just as though the world price level had nothing to do with our price level. We cannot determine upon a certain price level in this country and have any hope of meeting that specific price level aside and apart from other factors and other conditions. It is all right to have an objective of trying to maintain a fair relationship between debtor and creditor, and it is certainly true that deflation is unfair to debtors, as inflation is unfair to creditors. What we would all like to have, of course, is a price level that is reasonably fair to debtors and creditors. In other words, we would like to have a condition of stability.

Mr. FISH. Why do you use the yardstick of 1926, if that is not stability? Why do you use that particular yardstick?

Governor ECCLES. I do not use it. I have not used it.

Mr. FISH. May I ask another question which is a little bit different? Do you approve this recent R. F. C. bill that went through, providing for $1,500,000,000 to be spent without any maturity dates, and without any restriction as to the size of the loans, and without any limitations at all?

Governor ECCLES. That bill has passed, has it not?

Mr. FISH. It has just passed.

Governor ECCLES. Then it is water over the dam, and therefore I see no occasion at this time to express a view with reference to a matter of that sort. If I had been asked to testify when the bill was under consideration, I might have had something to say about it.

Mr. FISH. We had nothing to say ourselves in the House about it, so I thought that I would ask you now.

Governor ECCLES. I am not familiar with the details of the bill.

Mr. FISH. There is just one other question that I want to ask you, and that is this: Has there been any increase in the currency of the United States since 1929, and, if so, how much?

Governor ECCLES. Yes; there has been an increase.

Mr. FISH. Approximately how much? The reason I raise this question is that there is feeling in the country today that there has been an enormous increase.

Governor ECCLES. There has been an increase of about 2 billion dollars.

Mr. FISH. What does that make it? From five to seven billions?

Governor ECCLES. No; from about four billion four hundred million to six billion four hundred million.

Mr. FISH. Therefore we have more currency today than we had in the boom days?

Governor ECCLES. We have about $2,000,000,000 more.

Mr. PATMAN. What about demand deposits?

Governor ECCLES. Demand deposits are also substantially greater.

Mr. PATMAN. How much greater?

Dr. GOLDENWEISER. About one billion.

Mr. PATMAN. Then compare it with the velocity?

Governor ECCLES. The velocity is very much lower, but you just passed a bill with reference to the undistributed profits tax that will tend to slow up rather than stimulate velocity, and one reason your velocity is slow in part is because of the concentration of these bank balances.

Mr. PATMAN. I want to ask about that——

Mr. TRANSUE (interposing). Will you give us your opinion of that undistributed profits tax?

Governor ECCLES. That is water over the dam, too.

Mr. TRANSUE. No; that will come back. We want your views.

Governor ECCLES. You raised this question, Mr. Patman, about the velocity of money. You have an increase here of about 50 percent in the volume of currency in circulation as compared with 1929, and yet you have a volume of business very much less. You have more demand deposits than you had in 1920. You have a total of about three billions more currency and demand deposits than you had in 1929.

Now, three billions is about 10 or 11 percent more total money than you had in 1929, and that in itself would tend to prove that the volume theory of money does not assure an increased price level or an increased business activity; because here you are with a national income and a total production of possibly 25, 30, or 35 percent below the 1929 figure, with the volume of money almost 11 percent more.

Mr. GIFFORD. Governor, let me ask you one question.

Mr. TRANSUE. May I ask him a question?

Mr. GIFFORD. I beg your pardon.

Mr. TRANSUE. I was just trying to get to the undistributed-profits-tax proposition.

Governor ECCLES. I was going to answer that question now. The indication is, then, that the volume of the means of payment is adequate to supply a very much larger volume of production and employment than we had in 1929, at an average price level which was much higher. It is the velocity of money, or the turnover, that is sluggish, and therefore to find the reasons for the present situation, we must find some of the reasons or consider some of the reasons for the slowness or the inadequacy of the turnover of funds as compared with past experiences.

Mr. GIFFORD. Now, Governor——

Governor ECCLES (interposing). Now, this question of tax is only one factor.

The question of the undistributed profits tax was one of the questions raised. The tax required business to disburse earnings, and the elimination of the tax will make it unnecessary for business to disburse earnings. It will encourage, if anything, the payment of debt. At the present time we are trying to get an expansion of credit and an increase in business activity. To the extent that business as a whole will take more money in than it pays out and uses the funds to liquidate debt, the total supply of the means of payment will be reduced. Someone has to take up the slack, and that is where Government has to come into the picture, if the process of liquidation goes far enough.

Mr. TRANSUE. Let me ask you——

Governor ECCLES. If business retained earnings, and invested those earnings in capital account, the money would then go back in circulation. It would seem to me that if Congress in the consideration of this tax takes into account the monetary effect of it, and requires corporations either to disburse their earnings in dividends—exempting little companies altogether because they have no access to the capital market, and I have always been in favor of that exemption—or permits companies to invest their funds in expansion of plant and facilities, to give employment, the exemption would be justified because the money would be put into circulation.

Mr. GOLDSBOROUGH. Mr. Eccles——

Mr. TRANSUE. I just want to ask him this one question.

Mr. GOLDSBOROUGH. We have to adjourn.

Mr. TRANSUE. I want to make this one observation to the witness. You do not agree with those who claim that the repeal of this tax will create confidence?

Governor ECCLES. I think the elimination of the tax is deflationary.

Mr. GIFFORD. I am anxious to make an observation.

Governor ECCLES. I think the present tax law should be modified, but the proposal to eliminate it altogether rather than to modify it and encourage expansion is deflationary, and it will be deflationary in its effect.

Mr. GOLDSBOROUGH. Mr. Luce has been wanting to ask a question.

Mr. LUCE. Mr. Chairman, one question.

The President has from time to time committed himself to the proposition that it is desirable for contracts to be executed by the payment of the same purchasing power as that which existed when the contracts were made. If that is to be done, there should be determination of the average life of contracts in order to work the most justice and the least injustice. Has your Board ever attempted to ascertain even roughly what the average life of outstanding contracts of this country is?

Governor ECCLES. Not that I know of.

Do you know, Dr. Goldenweiser?

Dr. GOLDENWEISER. No.

Governor ECCLES. He says not. By contracts, you mean credit instruments?

Mr. LUCE. All kinds of credit instruments.

Would it be possible for you to furnish us with an estimate, at your convenience, as to that, because if we set any figure, 1926 or any other, it would certainly be desirable to have that information.

Governor ECCLES. That of course is constantly changing, and any figure that would be given would certainly have to be a rough estimate, and even then it would no doubt require considerable study. Naturally, on Government securities, and on listed bonds, you could determine the volume, the amount of each issue, and its maturity, but when you get into the question of the numerous debts between individuals, and between corporations and individuals, and various types of contracts and credit instruments which would make up a great part of the total volume of debts, that would have to be purely an estimate.

Mr. GOLDSBOROUGH. Mr. Eccles, there is a bill being read for amendments on the floor, and I think that if the committee meets promptly tomorrow morning at half past 10, we can get through with you gentlemen so that you won't have to return any more. Can you come tomorrow morning?

Governor ECCLES. Tomorrow at half past 10?

Mr. GOLDSBOROUGH. Yes.

Governor ECCLES. Yes.

I would like to say this to the committee, that Governor Ransom, the vice chairman of the Board, is here, and also the senior members of our staff are here, and any of them would be prepared to testify with reference to the Reserve System and its present operation in a detailed or technical manner to whatever extent the committee might desire to go into the question of the present operation of the Reserve System or the banking system. But I should be very glad to come back tomorrow.

Mr. GOLDSBOROUGH. I think that there are some members of the committee who would like to interrogate you further.

Mr. GIFFORD. I want to make an observation.

A leading financial expert states that money is being hoarded lately not because of its increase in value, but for safety because of the very action of the Government in insuring bank deposits. That is why they are keeping it safe, and keeping it idle.

Mr. PATMAN. You mean those who have more than $5,000?

Mr. GIFFORD. That is distributed all around.

Mr. REILLY. The committee members have heard a great deal about the English system of controlling the currency, and how they manage things in England. I wonder if Governor Eccles cannot have somebody come before this committee and tell us about the English system, and how it functions?

Governor ECCLES. I think that Dr. Goldenweiser could testify with reference to that matter. We certainly have a lot of data at the Reserve System, and I am sure that we would be able to give to this committee some information with respect to that subject.

Mr. GOLDSBOROUGH. The committee will adjourn until half past 10 tomorrow morning.

(Thereupon, at 12:15 p. m., an adjournment was taken until Wednesday morning, April 13, 1938, at 10:30 a. m.)

GOVERNMENT OWNERSHIP OF THE 12 FEDERAL RESERVE BANKS

WEDNESDAY, APRIL 13, 1938

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

Hearings on H. R. 7230 were resumed at 10:35 a. m., Hon. T. Alan Goldsborough presiding.

Other members of the committee present: Mr. Reilly, Mr. Williams, Mr. Spence, Mr. Farley, Mr. Ford, Mr. Brown, Mr. Patman, Mr. Transue, Mr. Gifford, Mr. Luce, and Mr. Crawford.

Mr. Goldsborough. The committee will come to order.

Is Mr. Eccles here?

Mr. Ransom. He has not yet arrived.

Mr. Goldsborough. Dr. Goldenweiser, it was stated yesterday that you could give us some information about the English system. While we are waiting for Mr. Eccles, will you give us such information as you can, please?

Dr. Goldenwweiser. All right, sir.

Mr. Goldsborough. Dr. Goldenweiser, you had better give the reporter your name and your association, please.

Dr. Goldenweiser. My name is E. A. Goldenweiser, Director of the Division of Research and Statistics of the Board of Governors of the Federal Reserve System.

Mr. Goldsborough. How long have you been Director?

Dr. Goldenweiser. I have been Director since 1926.

Mr. Goldsborough. It seems to me that I have been getting information from you a good deal longer than that.

Dr. Goldenweiser. I have been connected with the Federal Reserve Board since 1919, but have been in my present position since 1926.

Mr. Goldsborough. Doctor, the committee yesterday expressed interest in information concerning the English system of regulating the supply of money, production, and business generally, and the committee would be very glad to hear from you.

Dr. Goldenweiser. Mr. Chairman, I am not as much of an expert on this subject as I wish I could be for your benefit, because my time is given so much——

Mr. Goldsborough. Governor Eccles has just come in. Will you please suspend?

Governor Eccles. I am sorry to be late.

(After a brief conference at the bench between Mr. Goldsborough and Governor Eccles:)

Mr. GOLDSBOROUGH. Governor Eccles has to leave here at 11 o'clock to attend what I know is a very important conference. If we can assist him by rushing as rapidly as feasible, let us do it.

Now, Mr. Williams, you have some questions that you want to ask. I believe.

STATEMENT OF HON. MARRINER S. ECCLES, CHAIRMAN, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM—Resumed

Mr. WILLIAMS. I understood from your statement yesterday, Governor, that you did not think that the Federal Reserve Board could establish a price level equal to that of 1926, and, if they could, that it would not be desirable. Is that correct?

Governor ECCLES. No; I did not say that the 1926 price level would not be desirable, or that the Reserve Board had no power by which it could establish the 1926 price level. I said that a stable price level may not be necessarily satisfactory, that a fixed price level may not be necessarily a satisfactory price level, because within the range of prices you may have some articles very low, and others very high.

Mr. WILLIAMS. Do you think that the price level in 1926 is a desirable goal?

Governor ECCLES. The price level of what?

Mr. WILLIAMS. The general price level as it existed at that time.

Governor ECCLES. I would see no objection to that price level if it were arrived at over a sufficient period of time, and if all items within that price level could be brought into balance or an equilibrium maintained.

Mr. WILLIAMS. That is the question that I had in mind. Were the individual prices so balanced and adjusted at that time as to be quitable and just?

Governor ECCLES. I could not say.

Mr. WILLIAMS. You do not know whether that is true or not?

Governor ECCLES. I do not know. I think that the agricultural people were not satisfied with the agricultural prices of 1926.

Mr. WILLIAMS. Beyond any question, the agricultural prices were not on a parity with others.

Governor ECCLES. They were dissatisfied in 1926.

Mr. WILLIAMS. And there was a disequilibrium so far as that is concerned. At least, that is my recollection of it.

Governor ECCLES. There will always be, no matter what the price level is, a feeling that certain groups are not getting prices that are equitable as compared with other groups.

Mr. WILLIAMS. I understood you to say yesterday that the price level was fairly stable during the period from 1927 to 1929 especially.

Governor ECCLES. That is right.

Mr. WILLIAMS. What, if anything, from your study of the situation, or your knowledge of it at that time, did the Federal Reserve Board have to do with the stabilization of that price level?

Governor ECCLES. Well, I do not know that it had anything to do with it, unless by changing the discount rate. The discount rate, Dr. Goldenweiser, was changed several times during that period. Was there any open-market operation?

Dr. GOLDENWEISER. In 1928 there was a very large one. In 1927 there were purchases, and in 1928 there were very large sales of securities.

Governor ECCLES. How much?

Dr. GOLDENWEISER. About four hundred million.

Governor ECCLES. And they were bills, in part?

Dr. GOLDENWEISER. Mostly Government securities.

Governor ECCLES. And bankers' acceptances were also——

Dr. GOLDENWEISER. Bankers' acceptances ran off rather later, but the System's open-market investment account was in large part liquidated in 1928, because of the speculative situation that was developing at that time.

Governor ECCLES. You could ask Dr. Goldenweiser that when he goes on. He was with the Board at that time. I do not recall just now what action was taken.

Mr. WILLIAMS. Now, the action of the present Board in raising the reserve requirements took place in the latter part of 1936, as I recall, and the first half of 1937.

Governor ECCLES. August of 1936.

Mr. WILLIAMS. That was the first one?

Governor ECCLES. That is right.

Mr. WILLIAMS. And the second was in 1937, extending from March to May, as I recollect.

Governor ECCLES. That is correct.

Mr. WILLIAMS. What was the purpose of that, Governor? Generally, what did the Board have in mind?

Governor ECCLES. When the Board got power to increase reserve requirements, it was recognized that there was an abnormal amount of gold that had come into the country, and there was a prospect of its continuing to come into the country. That gold added to the excess reserves of the banking system. The excess reserves were such as to enable the banking system to extend a very large additional volume of credit, an amount of credit which, had it been expanded on the basis of the total excess reserves available, would have created an undesirable inflationary condition.

Mr. WILLIAMS. Was there any——

Governor ECCLES (continuing). Now, in the Banking Act of 1935, when this power was given to the Board, it was given for the purpose of meeting the abnormal situation that the gold imports would bring about by adding to the excess reserves.

The Board felt that action should be taken at a time when these excess reserves were universally distributed, and when they were larger than could possibly be used, and at a time when there was a condition of increased prices developing.

It was not a case of eliminating all excess reserves, and it was not a question of creating a tight money situation, and when the first increase was put into effect in August of 1936, it had little, if any, effect. As a matter of fact, the real upturn in prices, particularly in the heavy goods field, in construction costs, and in machinery and equipment, happened in November, December, January, February, March, April, and May of 1936 and 1937.

So the increase of 50 percent in August of 1936 had not the slightest effect in either slowing up the business activity or in affecting the price level, and it was anticipated that it would not. It was merely a question of putting the Reserve System nearer to a position where, if need be, at some time in the future, it could control the situation. It would have taken a preliminary step so that it would be nearer to that position of control.

Now, action on the later increase was taken at a time when there was a rapid inflationary development. Particularly was that true in certain fields. The whole thought and spirit of the country was inflationary. There was talk everywhere that there was going to be an uncontrolled inflation. The stock market reflected it. The business interests throughout the country, as the result of anticipating that inflation, bought heavily—not only the current requirements, but they placed orders for weeks and months ahead. The labor situation may have had some effect in placing those orders, but I think that in a great majority of cases it was the prospect of higher prices, and people were buying in anticipation of the profits.

It was that very action of speculative forward buying in itself that tended to force prices up, and it was the expectation of an inflationary development that did it.

Now, certainly the situation that developed no one can say was desirable. But it is my view that had we taken no action whatever with respect to reserves, you would have had approximately the same pattern that has developed. If there was a mistake in the action that we took in 1937 it was that we acted in the spring of 1937 instead of in the fall of 1936. I am sure that had we taken no action in 1936 and 1937 with reference to increasing the reserve requirements you would still have your present situation very largely as it is, because of these other factors that I have referred to, but you may have had a situation much worse than at the present time, because your inflationary development might have gone even further than it did. Our action may have tended to slow it up.

Had it gone further than it did, and you had gotten a futher disequilibrium in prices, the reaction could have been even greater.

Now, I am conscious of the fact that many people say today that because we did not act sooner but continued an abnormal easy money policy, we brought about the inflationary condition that developed, and hence we are responsible for the recession.

I am also conscious of the fact that there is another great body of opinion that says we put on the brakes and tightened up money, and that brought about the recession.

No matter what the Federal Reserve does in the future, and no matter what it has done in the past, it will always be on the spot, and so long as I am on the Board, I expect to be in just that position. You have in the country your debtor and your creditor classes. Your debtor classes as a general rule want inflation, so that they can pay debts with cheaper dollars, and your creditor class wants the opposite, and neither one of them is ever thoroughly satisfied with the purchasing power of the dollar.

Our job is to try to find a middle ground and to try to be fair to all groups so far as the limited powers that we have enable us to contribute in the national picture toward maintaining a condition of full employment, or as full employment as possible, and with full employment I mean full production. That should certainly be our objective, and we should do nothing to restrict the ability of the credit mechanism to furnish an adequate means of payment to meet the requirements of the country.

As I said last spring, at the time action was taken, so long as you have idle men and idle facilities, it would be a great mistake not to make available a continued supply of funds at the lowest possible interest rates.

Mr. WILLIAMS. Well, then the purpose of the raising of the reserve requirements was to check what appeared to be a threatened undue expansion or inflationary movement.

Governor ECCLES. No. I suggested to the committee yesterday that if they would read the first few pages of the annual report of the Board, it would pretty well cover the reasons that the Board gave for the action taken.

Mr. WILLIAMS. I understood from your statement just now that there was a condition developing in the spring of 1937——

Governor ECCLES. That is right. There was not in 1936, when the Board took action.

Mr. WILLIAMS. But there was in 1937?

Governor ECCLES. That is correct.

Mr. WILLIAMS. What effect on that movement did your action have?

Governor ECCLES. Well, of course, that is something that I cannot say. We did not take any action for the purpose of putting on the brakes or restricting the available supply of credit or increasing the interest rates.

Mr. WILLIAMS. Did you take it with reference to the inflationary movement that was evident?

Governor ECCLES. No.

Mr. WILLIAMS. And you do not know now what effect your action had on that movement?

Governor ECCLES. No. I can give only an opinion, which I have given, with reference to that. That is my personal opinion and, of course, there is a difference of opinion.

Mr. WILLIAMS. Your personal opinion, as I understand it, is that it did not have much to do with it?

Governor ECCLES. That is right. That is my personal opinion.

Mr. PATMAN. Much or any?

Governor ECCLES. Well, it may have—I would not say it did not have any. I think that psychologically it may have tended to sober up the country and to give notice that we were conscious of the situation that was developing and were moving into a position where we could, if need be, take further action.

Mr. GOLDSBOROUGH. All of its effect is psychological, is it not?

Governor ECCLES. That is right.

Mr. WILLIAMS. What effect did it have on the banks? What action became necessary, if any, on the part of the banks to meet those requirements?

Governor ECCLES. Practically none.

Mr. WILLIAMS. It has been stated here that they had to sell considerable bonds.

Governor ECCLES. They did not. Most of the bonds that were sold were not sold because it was necessary to sell them to meet the reserve requirements. You must recall that the Government bond market had been going up almost continuously for several years, and that the interest rate on Government long-term bonds had dropped down to about 2.2 percent; that practically every bank in the country that had bought Government bonds had a very large profit in those bonds; that there was very little prospect that the bonds could continue to go higher after such a rise over such a period, and that the interest rate would likely go lower. The fact that we did move in the direction of reducing excess reserves was, of course, notice that there was not likely to be a further increase in the price of bonds at the time; and many banks, I think, sold bonds—they did not have to at all—in order to take the profits which they had.

There may have been a few instances in the money market banks where it was necessary to sell. I think we estimated $122,000,000 as the aggregate of these cases in which individual member banks would be short of the proposed second increase, after allowing for use of half their balances with correspondent banks. Approximately $100,000,000 of that estimated shortage was in the New York money market banks. Only $22,000,000 was in banks outside of New York and only $2,000,000 at banks outside Reserve cities. After the 1937 increases became effective there were approximately $900,000,000 of excess reserves, taking the country as a whole. The estimated $100,000,000 that banks in New York had to provide affected comparatively few banks. These were money-market banks, and the principal reason they sold their Governments was to take their profits, because they had a very large amount of short-term paper that they could have permitted to run off; they were holders of Government bills maturing every month; in fact, most of the Government bills were held by the money-market banks. They were also large holders of call loans; they were holders of bankers' acceptances; so that they were in a position where they could have let the shorter term securities run off, and those banks that had the excess, of course, would have been glad to take them up immediately.

But instead of doing that, they chose to take their profit on long-term Governments, and that adjustment in the price of Government bonds, whether we had increased reserves or not, would have come sooner or later, because you cannot have bonds go up and interest rates go down and have an increasing amount of profits accumulating without having banks wanting to take those profits.

Mr. WILLIAMS. As I understood it, you want to quit at this time, but I wanted to ask some more questions.

Mr. SPENCE. I just want to ask him one question.

Mr. GOLDSBOROUGH. Mr. Crawford has been asking for recognition for some time.

Mr. WILLIAMS. I have a number of questions that I would like to ask, but I understood that you wanted to get away.

Governor ECCLES. I would like to get away within 10 or 15 minutes.

Mr. SPENCE. Right along the line that he has been discussing, I would like to ask just one question.

Mr. GOLDSBOROUGH. Proceed.

Mr. SPENCE. On May 17, 1920, the Senate adopted this resolution:

> *Resolved*, That the Federal Reserve Board be directed to advise the Senate what steps is purposes to take to recommend to the member banks of the Federal Reserve System to meet the existing inflation of the currency and credits and consequent high prices, and what further steps it purposes to take or recommend to mobilize credits in order to move the 1920 crop.

Now, Governor Harding answered that resolution, and he thought that by the control of credits of the member banks he could very vitally affect the price level, as I read this report, and I want to know if you agree with that.

Are you familiar with his report?

Governor ECCLES. No, sir; I am not familiar with it. I am somewhat familiar with the condition which existed in 1920 and 1921, which is a very different situation from that which now exists in the banking system.

Mr. GOLDSBOROUGH. He appeared before this committee for 3 hours, and he said that they never contracted credit. He spent 3 hours in trying to say that he had not done it. That is all that we got out of him.

Governor ECCLES. In 1920 the banking system did not have excess reserves, and the discount rate was the most effective instrument at that time for credit control.

Mr. GOLDSBOROUGH. That is what was used.

Governor ECCLES. That is right.

Mr. GOLDSBOROUGH. In some of the southern banks, the discount rate was put up to 87 percent.

Mr. PATMAN. Wait a minute—87 percent? Do you mean the discount rate?

Mr. GOLDSBOROUGH. The rediscount rate.

Mr. PATMAN. 87 percent?

Mr. GOLDSBOROUGH. Correct.

Mr. PATMAN. I never heard of that.

Mr. GOLDSBOROUGH. It is a fact.

Mr. CRAWFORD. May I ask a question?

Were you through, Mr. Spence?

Mr. SPENCE. Yes.

Governor ECCLES. I was going to say that you could increase the discount rate so that the member banks would restrict the use of credit to their customers and that would tend possibly to reduce outstanding credit, which would force a liquidation in the sale of commodities and could stop business expansion. You can certainly bring down the price level and slow up business expansion on a tight money basis. I do not think there is any question, but what if you act promptly enough through monetary action you can control an inflationary credit expansion by the banking system if the excess reserves are not so large that the means available to the Reserve System are inadequate. If the means available to the Reserve System are of sufficient adequacy to absorb excess reserves, so that your discount rate becomes effective, there is no question but what you could control such an inflationary development.

Now, in 1920 the situation was such that the banks were borrowing from the Federal Reserve System during that period, or a good many of them, at least, and the Board raised the discount rate and did create a restrictive money policy.

Compare that with the situation that existed in 1936 and 1937, when it is said we put on the brakes, although there were $900,000,000 of excess reserves, an amount of excess reserves many times as great as ever existed at any time during the period of the 1920's.

Psychologically, the action that we took did have a sobering effect, because it did give notice to the country, just as the Treasury's sterilization gave notice, that the Treasury and the Federal Reserve System were conscious of a situation that seemed to be developing. It served notice that we were prepared to meet a dangerous inflation.

But certainly we never met it; we never had to meet it. The psychological effect, apparently, was at least partly sufficient, or the very weight of the excess inventories, the very fact that prices went up so fast and inventories became so large, and the building of homes and the buying of railroad equipment stopped or slowed down—that in itself was sufficient without any action, it seems to me, to bring an adjustment. The disequilibrium that was developing in the system between agricultural prices and manufacturing prices as a result of that development is another factor that was sufficient, it seems to me, to create the condition that we have.

Mr. WILLIAMS. What would have been the difference between raising the reserve requirements, as you say, and selling governments?

Governor ECCLES. Well, raising the reserve requirements affects all banks. It was universally applied. The selling of governments would affect only those institutions that bought governments, and it would largely have affected—well, it would affect any institutions that bought them. I was going to say that it would have affected the money market banks, mostly, but that may have been true or may not. It would have been true had we sold bills, because only the money-market banks are purchasers of bills. In selling bonds, they may have been purchased by banks or individuals; I do not know. Open-market operations are a more flexible instrument, without question, for current adjustments, but for absorbing any substantial part of the excess reserves they would have been too drastic, because such operations would involve far greater sales than merely the current selling of governments or buying of governments in small amounts such as the market can absorb, or such as you can pick up in the market, without upsetting prices. Current operations, if not on too large a scale, help to determine the ability both to sell and to buy. If you go into the market and buy a lot of governments—and the law prohibits us from buying them directly from the Treasury—you could very well run up the market, normally, just as undertaking to sell them would do the reverse.

Mr. WILLIAMS. But you did buy following this order, did you not?

Governor ECCLES. We bought along in April, during the period of several weeks, a total of 96 millions, and at the time we announced this order, we made a statement that we had a flexible instrument of monetary control which we could and would use.

Mr. WILLIAMS. What was the purpose of that buying?

Governor ECCLES. The purpose was to give to the banks that were short of reserves, these banks that I mentioned, an opportunity to sell if they wanted to. It was done for the further purpose of stabilizing the capital market, because the Government bond market is the determining factor in the capital market.

Mr. WILLIAMS. The bond market had gone down?

Governor ECCLES. Yes.

Mr. WILLIAMS. What effect did the desterilization of gold have?

Governor ECCLES. It had the effect of keeping the excess reserves from building up from that source. It had the effect——

Mr. SPENCE. He said the desterilization.

Governor ECCLES. I thought you meant the sterilization of gold, when it was started.

Mr. WILLIAMS. Yes; that is it, to the extent that it was desterilized.

Governor ECCLES. In September 1937?

Mr. WILLIAMS. Yes.

Governor ECCLES. It added to the reserves by the amount of the desterilizing, which was about 300 millions.

Mr. WILLIAMS. Why didn't we desterilize $1,200,000,000 more?

Governor ECCLES. It would add to the excess reserves by that amount.

Mr. WILLIAMS. Would that tend to create an inflationary condition?

Governor ECCLES. It would tend to create a basis for one if the excess reserves were used to the extent that they could be in the expansion of credit. I think psychologically it would be inflationary, just as I think decreasing the reserve requirements would be psychologically inflationary. Those two actions might tend to induce borrowing, or to induce the more rapid flow of existing funds. They would tend to increase the volume of funds to the extent that such action induced borrowing, and to the extent that the action induced owners of money to feel that they should use the money it would be inflationary in increasing the velocity. But so far as the ability of banks as a whole to expand credit is concerned, the action would not be necessary, because they are not using now anywhere near their ability to expand credit.

So the effect of such action as desterilization or decreasing reserve requirements probably would be, psychologically, inflationary.

Mr. WILLIAMS. If that should be done, then we would be in the same position we were before the Board made the order increasing the reserves?

Governor ECCLES. That is correct.

Mr. WILLIAMS. In other words, we would have on account of taking that action almost in the neighborhood of $3,000,000,000?

Governor ECCLES. That is correct; that is, if the desterilization were undertaken. The total excess reserves got up to about three billion three hundred millions at the high point, before we increased reserve requirements in August 1936. At that time we increased them a billion and a half. Excess reserves dropped down to one billion eight hundred millions, and then built up again from gold imports to two billion two hundred millions before we increased reserve requirements again in the spring of 1937.

I would just like to point out the distinction between the increasing of reserve requirements and sterilization. Gold was sterilized largely for the purpose of keeping it from adding further to the excess reserves. Gold was sterilized in December of 1936; that is when the program was first instituted, by the Government borrowing money. It would seem hardly reasonable to expect the Government to borrow money and sterilize gold in order to keep that gold from adding to the excess reserves, while the Board failed to use the powers which Congress had given it to increase reserve requirements, which would have, of course, the same effect.

In other words, Congress gave to the Board the power to increase reserve requirements, which in effect was the same as sterilizing gold imports. That could be done without the Government borrowing any money, or without any cost to the Treasury. That power represented an amount of three billions; that is, we had the power to sterilize up to three billions through increasing reserves. The borrowing of money by the Treasury to sterilize gold had the effect of keeping that gold from adding further to excess reserves.

As to the proposal to desterilize now, everybody knows that I have favored it, if the funds which are desterilized are spent for public purposes and go into increased buying power. Also when they come back they will add to the deposits of the banks and add to the reserves of the banks. The situation today is very different from what it was at the time either sterilization was undertaken or the increase in reserve requirements of the banks was undertaken. The psycohology is deflationary today, as it was inflationary then. If further excess reserves would tend to stop a deflationary process, psychologically that would be a favorable result. However, it would take more than mere psychology. It must be followed up by consumer buying power. It must be followed up by more than merely speculation in prices, induced by a fear of inflation. To the extent that relief money or other funds for other purposes go into the spending stream, that will increase the flow of money, increase the means of payment in the hands of those that would spend, where merely an increase in the excess reserves alone, if it had any effect, would have a psychological effect of an inflationary nature that might cause certain commodities or securities to rise temporarily, and might cause a further increase in inventories. But unless there was buying power to follow that up, it could bog down again, just as happened after the N. R. A., which tended to put prices up because everyone thought things were going to cost more. At that time production went up very rapidly for 2 or 3 months, but because there was no mass buying power to take away what was produced, you will recall that it soon collapsed.

A merely monetary action to bring people into speculative activity could bog down again and you would be as bad or worse off than you were before unless you did something by way of enabling consumer buying power to move inventories, to carry out a program of construction and general business activity.

Mr. Transue. Can you give us, briefly, your suggestions for furnishing that consumers' buying power?

Governor Eccles. That is a long story.

Mr. Crawford. Just one question, and I think that he can answer it very briefly.

Referring to your observation relative to eliminating the Open Market Committee, and to the so-called pump-priming announcement in the papers this morning, do you feel that your group would be more inclined to purchase the bonds which will be necessary under this program, if bonds are sold for the Federal System, if that Open Market Committee is thus done away with and the Federal Reserve bank representatives thus removed?

Governor Eccles. I do not know that that would make any great difference. But let me see if I understand your question. Would the Reserve System be more willing to buy the bonds if——

Mr. Crawford. Would the Reserve System be more likely to buy bonds?

Governor Eccles. If the power were exclusively in the Board, and if the bank members were off the Open Market Committee?

Mr. Crawford. That is right.

Governor Eccles. Well, this, of course, is true. The bank representatives on the Open Market Committee are not the appointees of the President, nor are they the representatives of Congress at all. They are selected in the first instance by private bankers and business people, and they therefore represent less of a public interest, possibly, than the Board. At least they would be required, if anything, to represent less of a public interest in their point of view, and maybe because of that situation they would act differently. I have felt very strongly that the function of the Open Market Committee should be confined exclusively to members of the Federal Reserve Board, who are the representatives of Congress in dealing with these monetary and credit problems.

Mr. CRAWFORD. And public necessity?

Governor ECCLES. That is right.

Mr. CRAWFORD. That is all that I will take time on now.

Mr. PATMAN. I do not want him to answer these questions now, but I want to ask them so that the reporter may give him the questions, and he can put them in his testimony.

Governor ECCLES. Could I get a copy of them?

Mr. PATMAN. Surely. I want you to get a copy of them and answer them later. Will that be all right?

Governor ECCLES. Yes.

Mr. PATMAN. The first question is that the law prohibits the Federal Reserve System from buying bonds directly from the Treasury. I wonder if you are in favor of changing the law, so that you can buy bonds directly from the Treasury?

(The answer subsequently submitted by Mr. Eccles is as follows:)

The prohibition against direct purchases of securities by the Federal Reserve banks from the Treasury was put in the Banking Act of 1935 not on our recommendation. Apparently, those who placed it there believed that it would prevent the Federal Reserve banks from financing Treasury deficits. As a matter of fact, the provision would not prevent this, as the Federal Reserve banks may time their purchases of Treasury securities in the open market with sales by the Treasury. The only effect the provision has in practice in this regard is to make it necessary for the Reserve banks to pay commissions to brokers. It also makes it impossible for the Reserve banks to accept short-term certificates of indebtedness from the Treasury in anticipation of tax receipts during quarterly financing and income-tax payment periods. Such advances were previously used to avoid large temporary fluctuations in the volume of bank reserves. In view of these considerations I would be glad to see the provision taken out of the law.

Mr. PATMAN. The next question is, Did you take into consideration the money that was being paid to the veterans on their adjusted service certificates commencing June 15, 1936, when the Board ordered the reserve requirements to be raised in the summer and fall of 1936?

Is it not a fact that you took that into consideration, and you were making an effort to offset those payments?

(The answer furnished later by Mr. Eccles is as follows:)

In determining upon raising reserve requirements in July 1936 the Board was guided by the fact that there was a large amount of member bank reserves brought about by gold imports and was in no way influenced by the payment of the veterans' adjusted service certificates. The payment of these certificates had no direct relationship to the reserve position of member banks and was not a factor in the Board's decision.

Mr. PATMAN. The next question is, I want you to insert in the record a definition of the word "inflationary."

(The answer furnished by Mr. Eccles is as follows:)

It is not easy to define "inflationary." Sometimes the word is used to mean anything that results in a rise of activity or an advance in prices; often it is limited only to monetary developments that result in rising prices. I would say that the word "inflationary" describes conditions where a large element of speculation comes into the picture so that activity is motivated in part by the expectation of advancing prices and costs. It is usually characterized by excessive forward buying and inventory accumulation. I would distinguish such conditions sharply from those where expansion of activity is orderly in character, and production is motivated by and geared in with the current requirements of consumption. The latter set of conditions can be longer sustained and result in a rising standard of living. The former are usually short-lived and invariably have a painful aftermath.

Mr. PATMAN. Next, on February 16 of last year, following the increase in reserve requirements, you testified that you did not believe this action would raise long-term interest rates. Within 6 weeks Government bond prices declined about five points with an increase in the yield to maturity on those issues of almost one-half of 1 percent. Was this demoralization of the money market due to the fact that the representatives of the Federal Reserve banks on the open-market committee refused to engage in prompt open-market purchases?

(The answer subsequently furnished by Mr. Eccles is as follows:)

When I said that I did not think long-term interest rates would advance I did not mean that there would not be temporary fluctuations and perhaps some upward adjustment in those rates, which were exceedingly low as compared with all past standards. The average rate of long-term Government bonds had gone down to 2¼ percent and a readjustment in those rates and in rates on high-grade corporate bonds was not surprising. The readjustment that took place last March was not necessitated by the action on reserves. As I have previously explained, the comparatively few banks in New York that did not have enough excess reserves to meet the increase had a very large profit in Government bonds and decided to realize the profit on these bonds, which, of course, had an influence on the long-term rate at that time. Had these banks been concerned merely with meeting the reserve requirements, they could have permitted some of their holdings of short-term paper to run off or they could have reduced their call loans or bankers' acceptances, which would not have had the same effect on long-term rates and at the same time would have provided them with such additional reserves as they might need. The entire estimated shortage of reserves amounted to not more than $100,000,000 for the few New York money-market banks which I have mentioned and did not exceed $22,000,000 for banks outside of New York, yet, all told, the banks sold approximately $1,000,000,000 of bonds in the first half of 1937. There had already been a fall in bond prices in England beginning in October of 1936 which exceeded the drop in our market and, of course, there was no increase in reserve requirements in England. As a matter of fact, the Federal Reserve System acted to temper the decline. During March and April of 1937 the System purchased $202,000,000 of bonds and disposed of $106,000,000 of its short-term holdings. Subsequently prices rose somewhat, and since the end of last year long-term Treasury bond yields have averaged approximately 2½ percent.

As to the position of the bank representatives on the open-market committee, as you know, I am on record as favoring their removal from the committee. However, it would not be fair to the bank representatives, who, of course, are not a majority of the committee in any case, to give the impression that because of a refusal or obstructive attitude they had failed to act or had prevented prompt action at this period.

Mr. GOLDSBOROUGH. Now, Mr. Eccles, if you desire to leave, the committee appreciates very much your coming down, and we were very much helped by your discussion.

Mr. REILLY. The Governor can come back again. We like to have him visit with the committee.

Mr. GOLDSBOROUGH. We are always happy to have the Governor.

Mr. PATMAN. I wish that you could answer that first question now, as to whether or not the Federal Reserve System——

Governor ECCLES. I would like to answer all four of them, but it would take a little time.

Mr. CRAWFORD. May I put in, with those questions, this question also?

Mr. GOLDSBOROUGH. Without objection; yes.

Mr. CRAWFORD. It is to be addressed to the Chairman of the Board.

What inducements, if any, has the Board to offer nonmember State banks in order to bring them into the Federal Reserve System, and this question is directed to the impression I got that Chairman Eccles is opposed to the provisions of the Patman bill which would bring into the System present nonmember State banks.

I just throw that question in.

(The answer subsequently submitted is as follows:)

The principal inducements that the Federal Reserve System offers to nonmember banks are, first, the prestige of membership, growing out of public knowledge that member banks must conform to established standards, are subject to Federal supervision, and can resort to the Federal Reserve banks for assistance in case of need, and, second, the definite assurance to the banks themselves that they can always obtain accommodation from the Federal Reserve banks. It is well known that correspondent banks are likely to be under pressure themselves at a time when their correspondents want help and that it may be difficult for them to get help in that way. In addition, facilities for clearing and collection of checks and other items and for obtaining currency are provided to member banks. It is true that in most cases nonmember banks may obtain similar facilities through city correspondents, but the correspondents are aided in providing them by being members of the Reserve System. Balances required to be carried by country banks with city correspondents in order to obtain these privileges have resulted in building up the importance and dominance of large city banks in our financial structure. As I understand the Patman bill, it would not bring State nonmember banks into the System, but on the contrary would remove all inducements for their joining because it would make it possible for them to get all the privileges of membership without joining whenever they chose to hold their reserves with the Reserve banks. The banks would, therefore, be able to go in and out at their own whim and pleasure, and many banks now belonging to the System might withdraw from membership. This would weaken the ability of the System to serve the public interest.

Mr. FORD. Might I put a question in there?

What effect would an amendment to the Federal Reserve Act providing for the segregation of demand deposits and time deposits, so far as reserve requirements, have? For instance, they could make the reserve requirement on demand deposits different from what it is now but leave the reserve requirement on time deposits where it was prior to the reserve requirements being raised.

My question is, What effect would that have?

(The answer subsequently submitted is as follows:)

Time deposits and demand deposits now have different reserve requirements. Under the terms of the Banking Act of 1935, it is possible for the Board to vary, within limits, the required reserves for time and demand deposits separately, and it has done so.

Mr. GIFFORD. Mr. Chairman, I should like to ask a question, if I may.

Mr. GOLDSBOROUGH. Proceed, sir.

Mr. GIFFORD. Because the Federal Reserve Board is compelled to work in harmony with the policies of the Treasury, does that deter them from proceeding with plans of their own?

(The answer subsequently furnished is as follows:)

The Treasury and the Federal Reserve Board have many questions in common, and as a regular thing have consultations on these problems. Mr. Ransom and I have regular meetings with the Secretary of the Treasury, and it is

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the Secretary's custom to invite the members of the executive committee of the open-market committee to meet wih him when problems of Treasury financing are discussed. Likewise, in considering the adoption of measures that may affect the Treasury there is consultation with the Secretary. The two bodies are independent, however, and the Board is not obliged to follow Treasury suggestions.

Mr. WILLIAMS. I would like to put in this question.

Mr. PATMAN. Isn't the Vice Chairman here? Why couldn't we ask him some of these questions?

Mr. GOLDSBOROUGH. I think that we had better finish this line of questions first.

Mr. WILLIAMS. What effect, if any, on the open-market policy of the open-market committee have these five members representing the banks of the country had?

Mr. CRAWFORD. May I ask you a question there, Mr. Williams?

Mr. WILLIAMS. Yes.

Mr. CRAWFORD. Do you mean effect or influence? There is a question there in my mind.

Mr. WILLIAMS. What has been the effect or the result of their being on the open-market committee whether they have affected the Board's policy or not.

Mr. PATMAN. If they have affected it, they should not be there. If they have not, they are of no use.

Mr. WILLIAMS. I think that that is something we might be interested in.

(The answer of Governor Eccles is as follows:)

The Federal Reserve bank representatives on the open-market committee are five individuals, each one of whom has a vote and the right to his own opinions. They bring to the meetings a knowledge of conditions in different parts of the country, and the New York representative in particular is familiar with conditions in the money market. As I have said before, I am in favor of placing the open-market committee's functions with the Board of Governors, which is a public body appointed by the President and confirmed by the Senate, to represent the public interest. I do not wish to imply that the bank representatives are less conscientious than Board members or that they do not act in good faith and with the best of intentions. But since they are presidents of the Reserve banks and are elected by the directors of those banks, two-thirds of whom are in turn elected by the member banks, their viewpoint necessarily is likely to reflect that of member banks. I feel that a committee which is entrusted with monetary policies as important as those given to this committee should consist entirely of persons representing the public interest.

Broadly, it seems to me, there are two important considerations in this connection. One is that the open-market committee should be in a position to act promptly in an emergency, and it is not always possible to assemble a committee from all over the country at a moment's notice. Furthermore, the problems before the committee should be constantly studied and discussed by the body charged with the responsibility of making decisions, and yet this is impossible when the members are scattered.

The second, and perhaps the more important, consideration is that the Board of Governors has full authority over changes in reserve requirements, discount rates, margin requirements, and maximum interest rates on time deposits. To have one of the most important instruments of credit policy in the hands of a different body from the Board, which has authority over the other instruments, could result in a policy adopted by the Board being nullified by the committee. To be sure, the Board has a majority of the committee, but this means that the Board, in order to make its policy prevail against the unanimous opposition of the bank representatives on the open-market committee, must be unanimous itself. The Board might, for example, reduce reserve requirements and thereby increase excess reserves. It might conceivably do so by a vote of 5 to 2. The open-market committee might be opposed to an increase in reserves, and by combining the five votes of the presidents with the two minority votes of the

Board, might decide to reduce the open-market portfolio by an amount sufficient to offset the decrease in reserve requirements. Whether this course of events is probable or not, it is certainly possible under the existing law. In my opinion, it should not be possible.

Mr. GOLDSBOROUGH. Mr. Ransom, could we ask you a few questions?

Mr. RANSOM. All right, sir.

Mr. GOLDSBOROUGH. Will you give the reporter your name?

STATEMENT OF HON. RONALD RANSOM, VICE CHAIRMAN, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM

Mr. RANSOM. My name is Ronald Ransom, Vice Chairman of the Board of Governors of the Federal Reserve System.

Mr. GOLDSBOROUGH. The question that I am now about to ask you cannot be complete, because it must be short, but I would like to open the discussion in this way: All of the testimony which we have received from the Federal Reserve Board for the last several years has been based almost entirely on what has been spoken of as the psychological effect of their action. Now, the psychological effect of their action means simply their guess as to what the effect of their action will be, which in turn means, as I see it, that the opinion of a small group of men decides very largely the opportunities, the fate of 127,000,000 people.

Now, that, of course, presents a tremendously serious situation.

The Chairman of the Board has said a few minutes ago, and very properly so, that this whole question resolves itself around the question of consumption, the question of having consuming power, and that unless the opinion of the Board which results in its action does develop consuming power, it can have nothing but temporary effect and an effect which will cause a greater collapse than no action at all.

Now, last August bill H. R. 7188 was taken up for consideration in this committee, which was a bill looking to a serious investigation of the problem of a sustained relation between consumption and production. At that time you were present when I addressed the committee. The request was made by me that that question, which certainly is the fundamental question, be considered by the Board, and that when Congress opened in January the Board make such suggestions as to the merits of the bill which was then under consideration or make some recommendation as to what could be done to directly affect consumption with relation to production.

Now, a great section of the country is discussing the problem of poverty in the midst of plenty. The fact that we have been unable to bring consumption up to production, the fact that we do not appear to be trying to bring consumption up to production, the fact that instead of doing that we appear to be adopting a policy of scarcity of production so as to enable what consumption we have to take up that production—that is the problem that is being discussed among sociologists, that democracy itself is in danger, in serious danger, for this reason, that one of the fundamentals of democracy is the profits system, the capitalistic system. Those two systems are the very fundamentals of democracy, and the situation is being discussed very, very seriously.

We have this situation, that consumption—and I mean consumption as an entity, just as production is an entity—that consumption has to bear the profits of the prime producer, of the manufacturer, of the wholesaler, and of the retailer, and in addition to that consumption has to bear the nonwage-producing work of machinery, which does not get into consumption and a great part of which is piled up in reserves, and unless we can invent something which will solve that problem, the destruction of democracy itself is inevitable.

Now, then, among financiers, among bankers, among members of the Federal Reserve System, and in the Treasury Department, apparently there is not a single solitary bit of consideration being given to that fundamental problem, and to me that discussion is absolutely necessary.

To be specific, since the meeting of last August, has the Board given any specific consideration to solving the problem which to me is the whole fundamental problem? Do you mind telling us?

Mr. Ransom. No; not at all.

I was present when you made your statement about your bill. I was greatly impressed, first, by your sincerity, and secondly, by your very clear statement, which you have in large part repeated this morning, as to the great national problem which is involved, and, thirdly, by the fact that you did appeal not only to all of the agencies of government, but to all private interests to devote all the time possible to the study of the problem which you propounded.

I may say in the first place, if I may go back to the beginning of your question, that I myself am a little weary of the use of the words "psychological effect," but I do not know of any better words to use in relation to many of the things with which we deal. While weary of those words, I have not a substitute.

We must recognize the fact that there is a herd instinct, that people do respond in the mass to influences which are brought to bear upon them, and that that simple truth must be borne in mind in relation to many actions which would be wholly unrealistic if they were not adjusted to that.

In the second place, I think that there is perhaps some lack of understanding of the fact that the Board of Governors is charged with a great many responsibilities which are perfectly proper which do lie outside of the fields of monetary and fiscal matters, and which do require the time of the Board. If we had either one or the other, I think the organization would be very incomplete. Having both accounts in part for the chairman's statement that we are always on a hot spot. We are, and we recognize that.

Getting down specifically to the answer to your question, I would say that in all of our discussions since that time, and preceding that time, we have not been at all unconscious of the national problem which you put in your statement, and that any action the Board may have taken has not been taken without some realization that consumption and production and the other factors mentioned do bear a part.

Specifically, again, on your particular bill, there has been consideration and discussion. It has not been possible up to the present time, because we have not, as I recall, been asked other than by you at the time you made that statement, to make a report on that bill. I would say that it would be perfectly proper and entirely correct for you to ask us specifically to report as to what we think might be done.

I say that with some trepidation, Mr. Goldsborough, because inevitably a central bank authority, in a modern economy, has to go pretty far afield and cannot always stick to its own back yard. Your question is going to open up a tremendously wide field of exploration.

Mr. GOLDSBOROUGH. Let us see how far afield you have gotten, if you do not mind my interrupting.

I noticed in the chairman's statement this morning several reasons why the Board took its action in raising reserves. It was because it was indicated that the business people of the country were buying heavily and filling up their shelves too rapidly, and that therefore, although that was not a monetary phenomenon at all, and did not constitute true inflation because there were millions of people still unemployed, the Board nevertheless undertook to control the mental operation of the businessmen of the country by their action.

Now, I do not criticize that, not for the present at least, but it seems to me you could not go much further afield than that.

Mr. RANSOM. Well, let me say, Mr. Goldsborough, that I think the chairman, in answer to that question, was referring to the second action which took place in January of 1937. That did not refer to the Board's action, as I recall his answer, the first time.

Now, might I take this opportunity, to say in regard to this mechanism of credit control, that I think it is a new mechanism. I think it is necessarily an experimental mechanism. I think that we can learn much from trial and experience. I think that we must recognize the fact that, with our experience of two years as a background, it may be quite desirable for us to suggest some changes in that mechanism. I would not like this morning to undertake specifically to say what I think those changes should be, because in the first place I think that, if it ever crystallized, it should be a matter of Board recommendation and not the recommendation of an individual member of the Board, but I do not see how Congress could have done other than it did when it created that mechanism. I think the limitations put upon it at the time were wise, and whether those limitations should be relaxed or constricted, I think, remains an open question, certainly in my own mind.

But one thing that I feel definite about is that you cannot be dogmatic at the present time in regard to the use by a central banking agency of that particular mechanism of control, if you can be dogmatic about the use of any other.

Mr. TRANSUE. Will you say what mechanism you are referring to?

Mr. RANSOM. I was referring to the mechanism of controlling credit through changing the required bank reserves. You see, the report—and I have a copy of it here—made by Mr. Steagall at the time the Banking Act of 1935 was considered is quite clear as to what was then in the minds of Congress. This refers to section 209 of the Banking Act of 1935, which is the section dealing with the reserve requirements:

> It is essential to give the Board more authority in dealing with credit conditions, in view of the possibility of dangerous credit expansion on the basis of existing member bank reserves, and also in order to give the Board another instrument for easing credit conditions if at sometime in the future that policy should become in the public interest.

Clearly indicating, as the act indicates, that this thing is a two-way street, that changes in reserve requirements are similar in their effects to open-market operations, although they differ from those operations in the fact that they directly and immediately affect a wider group of banks.

It is probable that these powers would not be used, but in view of the very large volume of available excess reserves, and the possibility of credit expansion on these reserves, it is important to clarify the Federal Reserve Board's power to arrest inflation.

The excess reserves at that time were $2,614,000,000. At the time the Board first increased reserve requirements, and I am speaking of the day before the action became effective, those reserves had reached the figure of $3,258,000,000. At the time the second step was taken, and you will recall that there were two steps, the first and second increase, which exhausted the powers of the Board, and that is on February 28, 1937, there were $2,078,000,000 in excess reserves. At the time the last step went into effect, and I am talking of the day before it became operative, April 30, 1937, excess reserves were still $1,594,000,000.

Now, in reaching a determination as to whether or not the Board should exercise this mechanism of credit control, it seems to me important to get the legislative background as well as the existing conditions.

Mr. Transue. The observation that I wish to make is this, that at the time you made those reserve requirement raises there was not complete employment in this country, and the increases of prices on the stock market would indicate that money was going for this purpose instead of for the production of goods that were wanted.

Is that a correct observation?

Mr. Ransom. I think it would be correct in part, as to the second step. I do not think that, at the time the first step was taken, there was evidence of the momentum which an inflationary condition had developed at the time the second step was taken.

I am perfectly well aware of the fact that unemployment then was very substantial, and that was stated in our explanation of our action, that we were well aware of the fact that unemployment was at a large figure. I do not think, however, that the sole fact of unemployment would be the determining factor in the Board's decision as to whether this mechanism should be used, because it is quite possible, as I see it, to have a very large volume of unemployment and at the same time to have an inflationary condition developing which might add greatly to that unemployment and to the problem of the Government in taking care of that unemployment.

I know that in answering that question that way, I am running head first into the question that my friend Mr. Patman asked the Chairman, to define "inflation," which is quite a difficult thing to do.

Mr. Transue. Were farm prices prior to 1929 comparable to the unemployment that existed at the time you raised your requirements?

Mr. Ransom. I do not seem to be able to relate the question of unemployment at that time to farm prices in 1929.

Mr. Transue. What I was trying to get at is that prior to 1929, in my mind, there was a large segment of our population that had a very small income, and in that way it was related to the people that were out of employment at the time you raised the reserve requirements. There is a comparison there, and we did have an inflation in 1929 when a large segment of the population were not receiving an adequate income.

Mr. RANSOM. Might I ask if the low income of that particular group in 1929 might not be due to the very low farm prices which then existed?

Mr. TRANSUE. For whatever reason, we did have a low income, and that does relate itself to the question of stabilizing prices by monetary action.

Mr. RANSOM. Now, there is still one other aspect of the action of the Board in regard to raising reserves that I think should be borne in mind. It was getting the reserve requirements more nearly in relation to existing conditions, and getting them to a point where the Board, through the more ordinary and usual mechanism of open-market operations, did have some chance to influence the situation either one way or the other, and at the time we took action on both of these occasions we were very careful to explain that we did reserve the thought that by the use of open-market operations we could produce a result which might expand or contract the situation as it might thereafter develop.

Of course, with a perfectly huge volume of excess reserves of almost astronomical propositions, the System might not have adequate securities in its portfolio to accomplish the result that might then seem desirable. That, I think, is a factor which should be borne in mind when you consider the Board's action.

Mr. SPENCE. To what extent do the nonmember State banks respond to the policies of the Federal Reserve when you adopt these monetary policies? Is it then immediately reflected in the State banks?

Mr. RANSOM. I do not know any mechanical reason why it should be, but I would say that in the field of banking I thought it might produce results.

Mr. SPENCE. From your experience, haven't you observed those results?

Mr. RANSOM. No; I do not recall at the moment an illustration that would prove that, but I think it quite possible that the nonmember bank might be influenced by the action of member banks in the System.

Mr. CRAWFORD. May I ask a question on that point?

Are you through, Mr. Spence?

Mr. SPENCE. Yes.

Mr. CRAWFORD. Mr. Governor, do I understand that, for instance, a nonmember bank out in middle Iowa, or southwestern Texas, or eastern Missouri will tend to change its rate of interest on commercial or industrial paper, or agricultural paper, when the Board changes the rediscount rates through the member banks?

Do you mean to convey that idea?

Mr. RANSOM. I mean to convey the thought that there might be a natural competitive response to that situation. It does not necessarily follow, but let us assume that an easy-money policy is put into operation by action of the Federal Reserve System, and all the banks that are members of the Federal Reserve System respond to that easy-money policy. I take it as a matter of course that the competitive nonmember bank would have to more or less fall in line, or it would be in a rather awkward position.

As I said, there is no mechanical connection. It is a question of competitive response.

Mr. Crawford. I had gotten a distinct impression otherwise, in two ways, one by actual experience and the other by reading testimony. For instance, just a few days ago there appeared before this committee Prof. Ray B. Leffler, of Dartmouth College, and in going over his testimony last evening, I got the very distinct impression from his statement, based on surveys and studies which he has made, that these nonmember banks run along through the years without making any practical change whatsoever in the rates that they charge to the agricultural, small industrial, and commercial customers; and I think that my own practical experience, limited as it has been with nonmember banks, proves that to be true.

So, if you do have information which shows otherwise, I should be delighted to have it.

Mr. Ransom. I was not answering from information, but mostly from impression or from deduction, which may be wholly wrong. As a matter of fact, isn't it true that small country banks do not consider an easy-money policy at any time? Their rates seem to me to be pretty rigid and pretty stiff, but I do not know——

Mr. Crawford. That is the point that I am making.

Mr. Ransom. But I do not know that the member banks, for that matter, in the rural sections necessarily respond to actions which do produce a result in the larger banks and the money center banks. I think that perhaps my answer to your question, in part, should be that perhaps some of them do not respond.

Mr. Reilly (presiding). I think the committee will have to suspend now, and come back tomorrow at half past 10.

Mr. Ransom. Do you want further testimony, sir?

Mr. Reilly. Have you anything else you wish to add?

Mr. Ransom. As far as the Board is concerned, if we have put into the record all that you gentlemen want, we have nothing further to add, and I do not want to take up the time of the committee when I know that you are busy on other matters. But there is one specific question, as to what has been done in the British banking system, that we could answer by a memorandum, which I think might take care of that question very fully.

Mr. Reilly. I would like to have that given to us orally.

Mr. Ransom. Very well, sir.

(Thereupon, at 12:05 p. m., an adjournment was taken until Thursday morning, April 14, 1938, at 10:30 o'clock.)

GOVERNMENT OWNERSHIP OF THE 12 FEDERAL RESERVE BANKS

TUESDAY, APRIL 19, 1938

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

Hearings on H. R. 7230 were resumed at 10:45 a. m., Hon. T. Alan Goldsborough presiding.

Other members of the committee present: Mr. Reilly, Mr. Williams, Mr. Spence, Mr. Farley, Mr. Ford, Mr. Brown, Mr. Patman, Mr. Transue, Mr. Gifford, Mr. Luce, and Mr. Crawford.

Mr. GOLDSBOROUGH. The committee will come to order.

Mr. Ransom, I think you had not completed your statement.

I do not recall just who was questioning you at the time we adjourned when you were here last.

STATEMENT OF HON. RONALD RANSOM, VICE CHAIRMAN, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM

Mr. RANSOM. I believe, Mr. Chairman, that the questioning had been completed at the time of adjournment.

I would like, with the permission of the committee, to put into the record this morning some charts which we have been using for our own information, which show something of the banking structure of the country as it is at the present time, some of the problems of banking supervision and examination, and some charts which illustrate the organization of the Federal Reserve System. We will have them prepared so that they can be included in the record at the proper time.

My reason for making that request is that the chairman of the Board of Governors, in answering one or two of Mr. Patman's questions, referred to the fact that there were a number of problems which, in his opinion, made it impossible for the Board alone to achieve the objectives of Mr. Patman's bill. There have been some questions asked also that do refer to the organization of the Federal Reserve System, and I have some charts along that line which I think are self-explanatory, and if I may exhibit them to the committee and, with your permission, later have them prepared so that they may be inserted in the record, we would appreciate it.

Mr. GOLDSBOROUGH. Of course, we would be very happy to see the charts, and, without objection, they will be inserted in the record, as you suggest.

Mr. RANSOM. It will take but a few minutes, I think, to show them to you.

This first chart shows the total deposits of banks. It shows you first the volume of deposits in the national banks, then the State member banks, the insured member banks, and the noninsured banks. I think the chart speaks for itself.

Due to the very large concentration of deposits in New York City, we have to put the New York City circle separate and apart from New York State.

Mr. PATMAN. What percent of the uninsured banks are in New York?

Mr. RANSOM. I will ask Mr. Smead to give you that.

Mr. SMEAD. I could not give you that offhand.

Mr. PATMAN. Anyway, it is a large percent?

Mr. SMEAD. The chart shows that is true as to deposits.

Mr. PATMAN. I can get the information from the chart?

Mr. SMEAD. Yes.

Mr. RANSOM. This is exclusive of mutual savings banks [indicating]. The scale, which shows you $100,000,000 in deposits in this circle [indicating] and $1,000,000,000 in deposits in this circle [indicating].

Chart No. 2 shows the number of banking offices. It is helpful to show the number of banking offices in their relation to the total deposits of banks as shown on chart No. 1. You see a smaller percentage numerically of national banks and a smaller percentage of State member banks but a very large percentage of insured nonmember banks and noninsured banks in comparison with deposits as shown on the first chart. The distribution of offices, while differing in a good many States, is similar in some areas.

Mr. PATMAN. Do you mean the banking units?

Mr. RANSOM. Yes. That includes all banking offices, the total number of offices where anybody can do business with a bank. In the case of California, the large branch-bank systems there make the number comparatively large.

Next we show here in chart No. 3 the structure of commercial banking supervision; first, the 48 States, with their supervisory authorities, the Federal Government, the Treasury, the Comptroller, the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Reconstruction Finance Corporation, and the heavy dark lines represent major supervisory relationships and the smaller lines the incidental supervisory relationships and the dashed lines here [indicating] represent supervision not applicable to all banks. It may be applicable to some national banks in the case of the Reconstruction Finance Corporation, where there is preferred stock, and may be in the case of some State member banks.

Mr. PATMAN. Now, as to the State banks that are outside of the Federal Reserve System, their deposits will be only a small part of the total deposits.

Mr. RANSOM. You can get that from putting this column [indicating] on top of this one [indicating], and comparing them with this [indicating].

Mr. PATMAN. It would not be over 15 percent?

Mr. RANSOM. I do not believe I have reduced it to a percentage. It is 40 billions against 6 billions here [indicating].

Mr. PATMAN. You mean 6 billion State?

Mr. RANSOM. Yes; insured nonmember commercial banks, not in the Federal Reserve System.

Now, the total deposits in the noninsured banks are relatively very small, as you will see, and these figures are exclusive of the mutual savings banks.

Mr. PATMAN. Are you in favor of changing the insurance law so that all deposits would be insured, instead of a $5,000 limitation? Have you discussed that?

Mr. RANSOM. Mr. Patman, there is a serious question involved there, and if I may defer that answer until later on, I would rather do so.

Now, this chart (No. 4 map of United States showing Federal Reserve districts) is merely for the purpose of reminding you gentlemen that the Federal Reserve System is a Nation-wide system, with 12 banks, 25 branches, and 2 agencies.

Mr. PATMAN. Where are the agencies?

Mr. RANSOM. The agencies are at Savannah, Ga., and at Habana, Cuba. The others are branch offices.

Mr. PATMAN. You have about the same number of banks and branches as the Reconstruction Finance Corporation?

Mr. RANSOM. Well, the Reconstruction Finance Corporation usually has its offices in our buildings.

Mr. PATMAN. You have about the same number?

Mr. RANSOM. I think it is about the same number, but I would not risk a statement on that, because I do not recall at the moment. But I think that is about right.

Mr. PATMAN. If the Reconstruction Finance Corporation was the rediscounting agency for the State banks, it would dovetail in pretty well with the Federal Reserve?

Mr. RANSOM. Geographically, the divisions might be about the same, but there are other considerations involved which would not lead me to answer "yes" to your question.

Mr. CRAWFORD. Will you give us a word or two with reference to the functions of those two agencies?

Mr. RANSOM. Let me ask Mr. Smead to answer that question.

Mr. SMEAD. The Savannah, Ga., agency takes care of the currency and coin requirements of the banks in Savannah, Ga.

The Habana, Cuba, agency takes care of the currency requirements of the banks in Cuba, to the extent that they are not taken care of by the Cuban currency. The agency buys and sells cable transfers on the United States, which are paid for in currency turned over to the agency, or by currency paid out by the agency.

Mr. CRAWFORD. Does Atlanta, Ga., require this additional service by reason of its distance from a Federal Reserve bank?

Mr. RANSOM. It is at Savannah and not at Atlanta. Atlanta has a Federal Reserve bank.

Mr. CRAWFORD. Did he say Savannah, Ga.?

Mr. RANSOM. Yes. As a matter of fact, I think I can answer that that agency is not necessary, and, so far as the Atlanta Bank is concerned, it is my recollection that they suggested closing the Havana agency, but there are some questions of international relationship involved there, and I think that the System would be perfectly willing to close the Savannah agency, which is not an important affair at all. In my own opinion, I do not mind saying that it is unnecessary.

Mr. WILLIAMS. I was wondering why there should be one at Savannah necessary, when it is that near to Atlanta, and when there is none any place else.

Mr. RANSOM. I might say that if you lived in Georgia and knew the feeling between Atlanta and Savannah, you might understand why in the early days of the System Savannah acquired an agency.

Mr. WILLIAMS. That is just a local matter, then?

Mr. RANSOM. I think it is just a local matter.

Now, no organization chart that I have even seen is wholly satisfactory, for many reasons. This one (No. 5) I have tried to work out for my own guidance in thinking about some of the problems that confront us. It shows the Federal Reserve organization, and I think that it does serve the purpose as nearly as can be done on a chart.

The President appoints and the Senate confirms a board of governors, and the Board of Governors, in turn, appoints three class C directors of each Federal Reserve bank, and the member banks elect three class A and three class B directors of each bank. The class A directors are bankers, elected by three groups of member banks in each district, the larger banks in one group, the next sized banks in one group, and the smaller banks in one group, each of these groups electing one class A director, and the same group divisions of banks selecting class B directors who are representatives of commerce, industry, and agriculture, and the Board of Governors in Washington appointing the three class C directors.

These mine directors, in turn, appoint a majority of the directors of the branches, the Board of Governors in Washington appointing a minority of the directors of the branches. The boards of directors of the Federal Reserve banks elect the presidents, the first vice presidents, and the other officers. The banks select their own employees. The Board in Washington has the approval of the presidents and the first vice presidents, and the approval of the salaries of all officers and employees, and can remove any of them for cause.

The members of the Board of Governors are 7 of the 12 members of the open-market committee, the other 5 being presidents of the Federal Reserve banks. That is the composition of the open-market committee.

The Federal Reserve banks select the members of the Federal Advisory Council, one from each district.

Mr. PATMAN. What is the highest salary of any of these officers?

Mr. RANSOM. The highest paid official is Mr. Harrison, president of the Federal Reserve Board in New York, $50,000 a year.

Mr. PATMAN. Who is next?

Mr. RANSOM. Do you mean in New York or elsewhere?

Mr. PATMAN. In New York.

Mr. RANSOM. $30,000 for the first vice president.

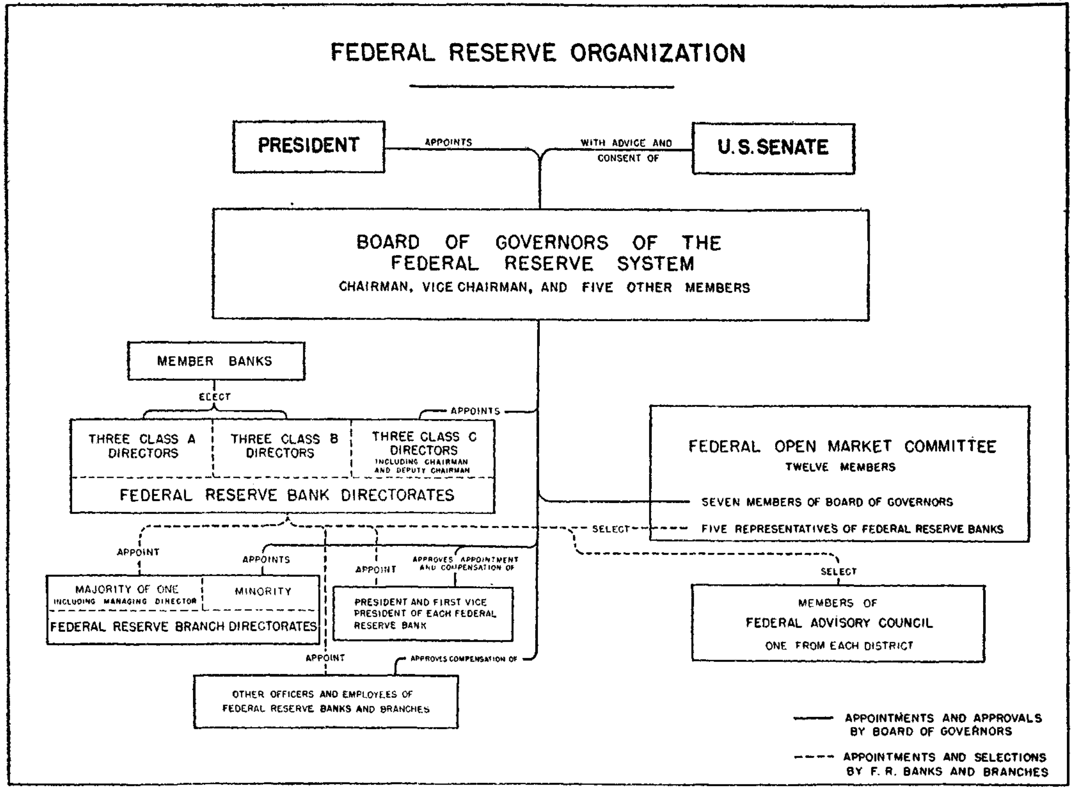
Mr. PATMAN. What about Chicago?

Mr. RANSOM. Mr. Schaller is the president, $35,000.

Mr. PATMAN. Do you think that that salary compares favorably with the salary of the members of the Board of Governors?

Mr. RANSOM. That question is quite personal.

But, after all, the question of the selection of these presidents is one for the directors of the Federal Reserve banks. They have to take into consideration the question of competition from other bank-


FEDERAL RESERVE ORGANIZATION
PRESIDENT
APPOINTS
WITH ADVICE AND CONSENT OF
U.S. SENATE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
CHAIRMAN, VICE CHAIRMAN, AND FIVE OTHER MEMBERS
MEMBER BANKS
ELECT
APPOINTS
THREE CLASS A DIRECTORS
THREE CLASS B DIRECTORS
THREE CLASS C DIRECTORS
INCLUDING CHAIRMAN AND DEPUTY CHAIRMAN
FEDERAL RESERVE BANK DIRECTORATES
FEDERAL OPEN MARKET COMMITTEE
TWELVE MEMBERS
SEVEN MEMBERS OF BOARD OF GOVERNORS
SELECT
FIVE REPRESENTATIVES OF FEDERAL RESERVE BANKS
APPOINT
APPOINTS
APPOINT
APPROVES APPOINTMENT AND COMPENSATION OF
SELECT
MAJORITY OF ONE
INCLUDING MANAGING DIRECTOR
MINORITY
FEDERAL RESERVE BRANCH DIRECTORATES
PRESIDENT AND FIRST VICE PRESIDENT OF EACH FEDERAL RESERVE BANK
MEMBERS OF FEDERAL ADVISORY COUNCIL
ONE FROM EACH DISTRICT
APPOINT
APPROVES COMPENSATION OF
OTHER OFFICERS AND EMPLOYEES OF FEDERAL RESERVE BANKS AND BRANCHES
APPOINTMENTS AND APPROVALS BY BOARD OF GOVERNORS
APPOINTMENTS AND SELECTIONS BY F. R. BANKS AND BRANCHES

ing institutions in their own communities. I would say, roughly speaking, that the salaries of the higher paid officials of the Federal Reserve banks are generally less than comparable salaries in the banks in the communities in which they are located.

Mr. PATMAN. Have you given consideration to what might happen if you did ont hold these Government bonds? That would enable you to acquire enough revenue to pay the expenses of the System, and you could come to Congress to get an appropriation.

Mr. RANSOM. I do not see that there is any objection to Congress looking into this question of salaries at any time. I think the record discloses that it has looked into it and discussed it several times. There was once a quite lengthy investigation of that matter by some congressional committee.

Mr. PATMAN. Senator McKellar's committee?

Mr. RANSOM. I think that it was the Senate Committee on Banking and Currency. There is a very long report.

Mr. WILLIAMS. In that connection, who are these five members of the open-market committee? I do not mean their names.

Mr. RANSOM. At the present time?

Mr. WILLIAMS. Yes. They are selected, as I understand, by the Federal Reserve Board of Governors?

Mr. RANSOM. By the Federal Reserve banks. These stars within the circle [indicating chart No. 4, p. 486] represent the location of the 12 banks.

Mr. WILLIAMS. I understand the division of them, but who are the men? The presidents of those banks? In each case?

Mr. RANSOM. The directors of those banks select every officer of the——

Mr. WILLIAMS. I understand that, but the question is, Who are they? Have they invariably selected their own president, or the president of one of the banks?

Mr. RANSOM. The law was changed in 1935. At that time there were really two head executive officers. Now, under the present set-up, the directors of a Federal Reserve bank select their president, who is the executive head of the bank, and I think the law is absolutely clear and not subject to any possible doubt on the question of who can be named on the open-market committee and that Congress intended the officers of the Federal Reserve banks should be their representatives on the committee. They are selected by a system of rotation, the country being divided into districts under the law.

Mr. WILLIAMS. New York and Boston is one?

Mr. RANSOM. Yes.

Mr. WILLIAMS. Richmond, Atlanta, and Dallas another?

Mr. RANSOM. That is right.

Mr. WILLIAMS. And Kansas City, Minneapolis, and——

Mr. RANSOM. That is correct. At the present time the representatives of the 12 banks are Mr. Harrison, of the New York bank; Mr. Newton of the Atlanta bank; Mr. Schaller, of the Chicago bank; Mr. Peyton, of the Minneapolis bank; and Mr. Sinclair, of the Philadelphia bank. All of them are presidents of their respective banks.

Mr. WILLIAMS. Is it your idea that the law itself compels the selection of those presidents?

Mr. RANSOM. Do I understand your question to be that the directors of these Federal Reserve banks could select anyone other than officers of the banks?

Mr. WILLIAMS. Yes.

Mr. RANSOM. I do not think they could.

Mr. WILLIAMS. Where does the approval of the Federal Reserve Board come in, then? Isn't the selection subject to the approval of the Board?

Mr. RANSOM. Let us take Dallas, for instance:

If the directors of the Dallas bank select the president of that bank, which they do, that man is subject to the approval of the Board in Washington. Therefore, after we have approved him, he does become qualified to serve as one of the members of the open-market committee representing the 12 Federal Reserve banks.

Mr. WILLIAMS. Have you ever had any trouble about approving those presidents? Is there any question about that?

Mr. RANSOM. I would like to answer that question in this way and say that we give it the most careful consideration, and if the Board did not think that the man who was selected was qualified to serve as president of the bank, we certainly would not approve him. There have been a few changes since the new Board came into existence, and a few retirements during that period.

Mr. WILLIAMS. Is the president, so selected, allowed to be one of the members of the Board?

Mr. RANSOM. No; he is not.

Mr. WILLIAMS. Of course, he is a banker, and is engaged in the banking business, as a rule, is he not?

Mr. RANSOM. Well, they could select whomever they pleased. There is no compelling motive that I know of for one of the 12 Federal Reserve banks to select a banker. Certainly, once he becomes a president of a Federal Reserve bank, he is in a somewhat different category from the ordinary commercial banker.

Mr. WILLIAMS. What has been the practice?

Mr. RANSOM. I know that Mr. Sinclair, in Philadelphia, was a lawyer by profession. Mr. Harrison, in New York, was a lawyer by profession. I would say, so far as I can recollect, that the other 10 presidents are men who have been in the banking business, that were in the banking business for some time before they went into the Federal Reserve banks, or were men who were first in the Federal Reserve banks.

Mr. WILLIAMS. Must they divest themselves of all interest in their banks?

Mr. RANSOM. There is no legal requirement.

Mr. WILLIAMS. They cannot be a stockholder, or an officer?

Mr. RANSOM. That is not the law as to stockholdings.

Mr. WILLIAMS. Then they may continue their interest in the various commercial banks of the country? It is not like the Board?

Mr. RANSOM. It is not like the Board.

Mr. Wyatt reminds me that the Board expects them to divest themselves of that interest.

Mr. WILLIAMS. But that is not the law?

Mr. RANSOM. That is not.

Mr. WILLIAMS. It is just a matter of practice on the part of the Board?

Mr. RANSOM. It seems to me to be a matter of good faith that the job should be occupied, as a matter of fact——

Mr. WILLIAMS (interposing). Do you think there would be any conflict in the duties there?

Mr. RANSOM. With their ownership of stock in a member bank?

Mr. WILLIAMS. Yes.

Mr. RANSOM. Yes; I would think so. I should not think that a man occupying the position of president of a Federal Reserve bank ought to be a stockholder in the banks which have to do business with that institution.

Mr. WILLIAMS. Suppose that he holds stock in a nonmember bank? Would that affect him in any way, do you think?

Mr. RANSOM. No; but if I were in his place, I would prefer not to. That might be a matter of opinion again.

Mr. WILLIAMS. The reason that I am asking those questions is that there has been quite a bit made of the fact that these bankers are influencing the policy of the Board.

Mr. RANSOM. I read over the questions which were asked Mr. Eccles as he was leaving the stand the other day, and it seems to me that there was some slight confusion in questioning whether these presidents of the Federal Reserve banks or the Federal Advisory Council influenced the thought or the policy of the Board of the open-market committee.

As to influence on the policy of the Board, I would say that they would have the same influence that anyone else would have who had a good argument to present, and that would go for anybody, whether he was in the banking business or out of it, and so far as operating the open-market committee is concerned, you gentlemen know that a member of that committee, whether he is a member of the Board or the president of one of the Federal Revenue banks, has an equal vote. There is not any question about that. To the extent that he has a vote in that committee, to that extent he does have a definite influence, of course.

Mr. WILLIAMS. Have there been any serious differences of opinion between these five and the seven, the Board and the other members?

Mr. RANSOM. I think that the policy record which we report to Congress once a year shows that during the year 1937 there was a division in the vote on an important question. That question, as I recall it, was whether or not the open-market committee should, in the following week, purchase $25,000,000 of Government securities in the open market during that particular week and at that particular time, and, as I recall it, two of the presidents and one member of the Board voted no, all other members of the committee voting in the affirmative.

That is disclosed by the policy record. I would say that there are always those difference of opinion which will occur when the same number of men are gathered together and engaged in considering any question at any time.

Mr. CRAWFORD. Going back to the observation made by Chairman Eccles before I propounded that question, as well as his partial reply to it, I got the distinct impression that Chairman Eccles feels that if those five members were not a part of the open-market committee, the open-market committee would be more inclined to act somewhat more responsively to the purchases of governments, especially in times of so-called pump priming.

Mr. RANSOM. I do not think that you could have gotten that impression from the testimony of the chairman of the Board. I think that he made the positive statement that he was on record on a number of occasions as thinking that the open-market committee should be composed of members of the Board only, but not for the reason stated.

Mr. CRAWFORD. I am glad to have you state it that way. I did not want to do that.

Mr. RANSON. I think the record will show that.

Mr. WILLIAMS. That was his recommendation in 1935, was it not?

Mr. RANSOM. Was that the end of your question?

Mr. CRAWFORD. That is all, thank you.

Mr. RANSOM. Now, the functions of the Federal Reserve System which we mentioned the other day as rather extensive and going beyond the question of pure monetary policy, I think are fairly well illustrated by this chart on Federal Reserve Functions (No. 6) open-market operations, Federal Reserve Bank discount rates, reserve requirements, margins on security loans, interest on deposits, Federal Reserve notes, discounts of commercial, agricultural, and industrial paper, advances to member banks, and so forth.

Then we have here in this block [indicating] the machinery of enforcement and supervision, and where [indicating] the grouping of functions, such as credit policies, currency provision, credit facilities and banking supervision. The reason for putting this chart in the record is the statement I made the other day that we have a good deal to do besides those functions which are only related to monetary and credit matters.

Mr. GOLDSBOROUGH. That is one of the charts that will go in the record?

Mr. RANSOM. Yes.

Mr. CRAWFORD. Before you get away from that, may I make this observation, that in looking over the statement of the President on October 20, at the dedication of the Federal Reserve Building, he said this:

> Much as they may contribute to the country's progress, monetary powers possess no peculiar magic. They are not omnipotent. To be effective in performing their function, they must be closely coordinated with the other major powers and policies of government which influence the country's economic life.

Personally, this chart will give me great light on that particular statement made by the President, especially in the light of some other observations that he made in his message to Congress the other day, under date of April 14, in which he made this observation:

> The Federal Reserve System curtailed banking credit.

Do you agree that the Federal Reserve System, in the spring and summer of 1937, curtailed banking credit?

Mr. RANSOM. Could I defer that answer, with your permission, until we get to a chart here on excess reserves? I will remember it.

Mr. CRAWFORD. Yes, sir.

Mr. SPENCE. You do not have there the margin requirements?

Mr. RANSOM. Yes; it is here. We will have the chart reproduced so that it can be put in the record.

Mr. Eccles spoke of the fact that we could not alone do quite as much as Mr. Patman's bill would contemplate, and among the things that I certainly had in mind when he made that statement, and I rather suspect that he had in mind, is the question of the duplication in the exercise of banking supervision, and this chart (No. 7) is just a preliminary chart, which I will follow with another one in just a moment. It shows the existing duplications, as simply as they can be shown. I will show you on another chart how very complex the whole picture is at this time.

This chart (No. 8), on the principal bank supervisory relationships, will show you something of the problem which the Board and all the other agencies of the Federal Government face when it comes to the question of influencing banking policy as it may be related to national credit or monetary policies. These lines [indicating] are to indicate that the Treasury exercises certain monetary controls, and we exercise certain monetary controls. When you get over here [indicating on chart], to the banks, national, State member, State nonmember, insured and noninsured, it is apparent that the influence of these agencies has a direct bearing on the whole problem of national policies.

Mr. Patman. At the same time, the Federal Reserve System has direct control over the banks representing 85 percent of the banking resources of the Nation—isn't that right?

Mr. Ransom. May I ask what you mean by "direct" control?

Mr. Patman. What I mean is that they are in the Federal Reserve System.

Mr. Ransom. We do not examine all banks. We do not charter them. Our regulations do not run as to all of them.

Mr. Patman. All except about 1,000 State banks.

Mr. Ransom. Well, as I showed you on the first chart, there are a large number of banks outside the system.

Mr. Patman. They are in the F. D. I. C., are they not?

Mr. Ransom. Not all of them.

Mr. Patman. And the F. D. I. C. has some control?

Mr. Ransom. Yes; a very important control over its insured banks.

Mr. Goldsborough. My recollection may be faulty, but I am under the impression that Mr. Eccles testified that within the year, insofar as assets were concerned, the banks which were not in the system represented 13 percent of the banking assets of the country.

Mr. Smead. Do you mean in number or in deposits?

Mr. Goldsborough. In amount.

Mr. Smead. Yes; about 13 percent in insured nonmember commercial banks and about 3 percent in uninsured commercial banks.

Mr. Patman. I said 15 percent. I was in error, then, I presume.

Mr. Williams. I thought the figures that you gave a while ago showed 20 percent.

Mr. Ransom. About 45 percent in number.

Mr. Williams. No; it could not have been in number of banks.

Mr. Spence. It is 20 percent in dollars.

Mr. Ransom. This "slice of pie" on this chart would represent the banks wholly outside of the Federal Reserve System, but the orange color here would indicate those that are insured, so that the total deposits I would say that it is perfectly obvious to you that a very large part come within the Federal Reserve supervision at the present time.

Mr. Patman. About 85 percent under the Federal Reserve System?

69972—38——32

Dr. GOLDENWEISER. Approximately.

Mr. PATMAN. And under the F. D. I. C., about what percent? About 95 or 98?

Dr. GOLDENWEISER. I think about 96 or 97.

Mr. PATMAN. It is about 96 percent?

Dr. GOLDENWEISER. Between 96 and 97 percent. That excludes the mutual-savings banks.

Mr. SPENCE. The chart indicates that in the State of New York the State banks have greater deposits than the national banks. Why is that?

Mr. RANSOM. That is due to the fact that so many large national accounts carry large balances with the New York banks, and that deposits from all of these banks flow into interbank balances with the New York banks. This chart [indicating chart No. 1] and these figures [indicating] differ from some figures which are often used because they take into consideration the fact that interbank balances are included. If you will take a small deposit in Louisiana, it may come over here to Texas, and go from there to Chicago, and from there to Philadelphia, but ultimately the final destination of interbank balances seems to be New York. The whole question of interbank balances, I think, is one of the difficult and serious questions that we have to consider.

Mr. SPENCE. But, so far as New York is concerned, my question is, Why is it going to State banks rather than to national banks? In some of those rural sections, the national bank has almost monopolized the deposits, but in New York it seems to have a very small proportion.

Mr. RANSOM. In New York City there are many large banks that are not national banks, such as the Guaranty Trust—any number of them that I could mention.

Mr. SPENCE. Under the laws of New York, do the State banks have any peculiar benefits that would cause them to get these larger deposits?

Mr. RANSOM. No; it is simply because there are a great many very large banks in New York City that are not national banks. I do not think that there is any significance in it except possibly some problems connected with their trust departments.

Mr. CRAWFORD. In that same group of deposits where you mentioned interbank deposits, you also include the balances carried in New York banks by medium size and large industries scattered back and all through the country that have credit lines with New York banks?

Mr. RANSOM. They are included.

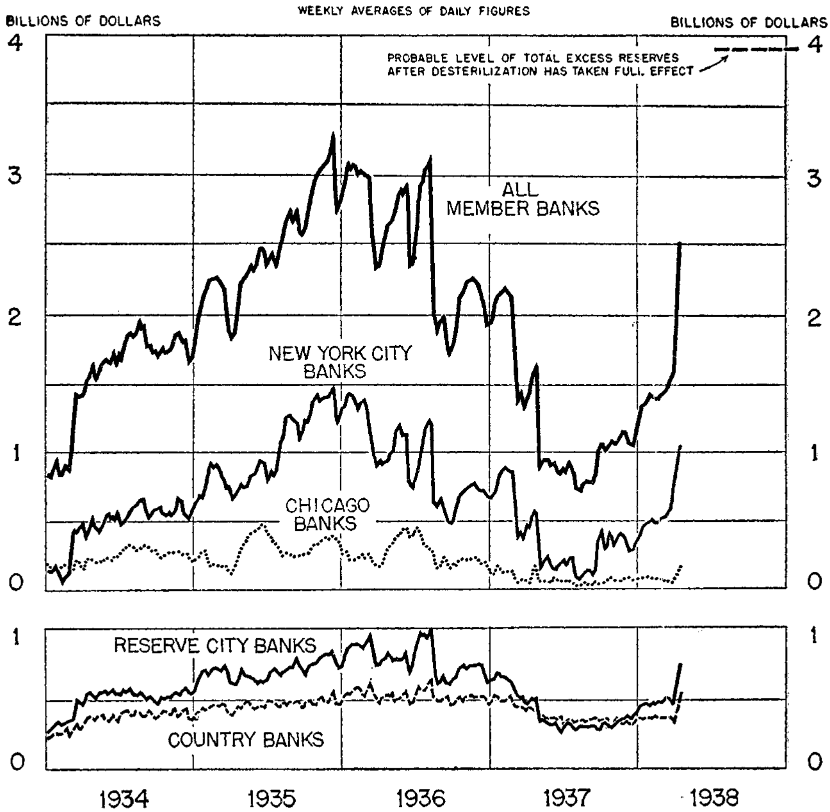
Mr. FORD. Here is a question that I have had propounded to me. I am told that in a number of small country banks, and the case that I have in mind is in Missouri, there are deposits of a number of New York banks of sums up to $5,000, and that they are getting on them 2¼ or 2½ percent as time deposits.

Does the Board look to what extent that has taken place?

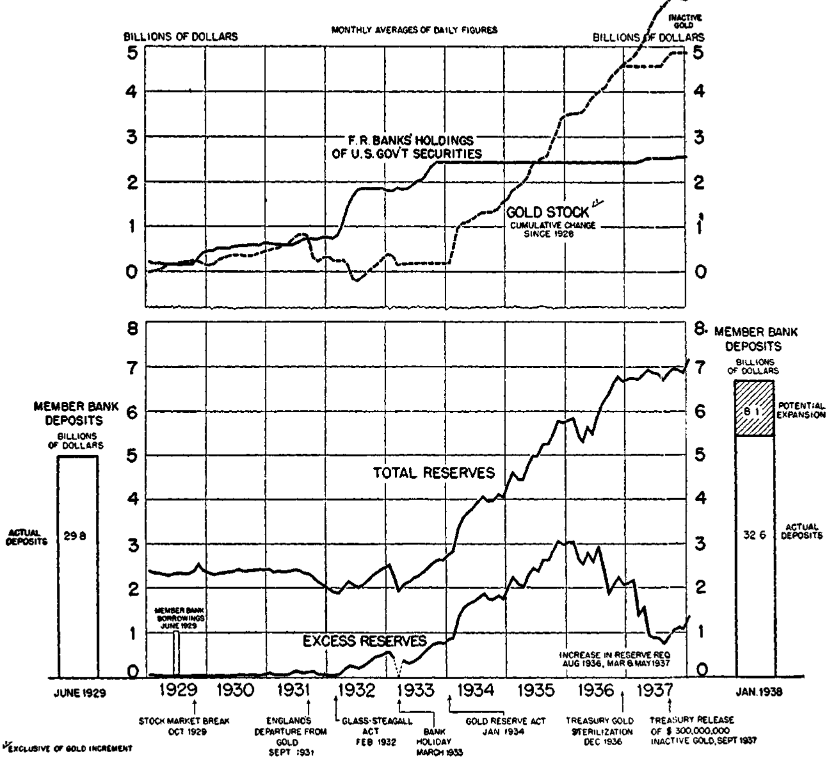
Mr. RANSOM. We are always watching the fluctuations between demand and time deposits.

Mr. FORD. They cannot get but 2 percent in a national bank, so they will take their money out to a State bank and get 2¼ or 2½

EXCESS RESERVES OF MEMBER BANKS



EXPANSION OF MEMBER BANK RESERVES AND DEPOSITS



1/ Exclusive of gold increment

percent on it. Isn't that to some extent responsible for the clogging up of the flow of money?

Mr. RANSOM. I never thought of it in just those terms, but, of course, a true savings account which is kept for the mere purpose of accumulating it until it reaches a point where the owner wants to invest it is one thing, and a lot of idle money carried on time deposits is another. National banks, however, are permitted by the Board's regulations to pay up to 2½ percent on savings deposits and on time deposits payable in 6 months or more after date of deposit. On December 31, 1937, all member banks in New York City reported only $45,000 of time balances on deposit with other domestic banks.

Mr. FORD. If we had a unified banking system, you could control that, if Congress gave you the power?

Mr. RANSOM. Yes; I think it could be controlled?

Mr. FORD. And I do not think that the banking system will ever we worth a damn until we have a unified banking system.

Mr. WILLIAMS. You will never have it.

Mr. RANSOM. Are there any other questions on these charts? I thought that they might be of interest to the committee.

Mr. GOLDSBOROUGH. They are of very great interest, I am sure.

Mr. RANSOM. Now, I will take two charts on excess reserves (Nos. 9 and 10), and try to answer the question that was asked sometime ago.

Mr. WILLIAMS. Let me ask you this question in connection with those time and demand deposits that you were just talking about: What effect has the F. D. I. C., or the insurance of deposits, had on postal savings accounts?

Mr. RANSOM. I am afraid that I do not know the answer to that question.

Dr. Goldenweiser, have we any statistic that would indicate the increase or decrease of postal savings during the period that the F. D. I. C. has been in force?

Dr. GOLDENWEISER. Yes. I can get those for you.

Mr. PATMAN. They have increased all along.

Mr. RANSOM. That has been my recollection.

Mr. PATMAN. About $200,000,000.

Mr. RANSOM. Postal savings deposits increased from 170 millions in April 1930 to 1,160 millions in April 1933 and now amount to about 1,270 millions.

Mr. PATMAN. And the banks hold only about $100,000,000 of that money.

Mr. RANSOM. Postal savings deposits in member banks declined from nearly 800 millions in 1933 to 95 millions at the end of 1937.

Mr. WILLIAMS. As I remember it, it was to allay the fear that people had of the banks that that was provided for.

Mr. RANSOM. It is a little difficult for anyone familiar with the banking business to understand why postal savings have accumulated as rapidly as they have, or to understand why there is so much money in circulation, because it is difficult to believe that the holders of that money in circulation could not be fully protected under the $5,000-insurance provision of the F. D. I. C. law, but, nevertheless, that figure does stare us in the face.

Now, if I may go back to your question, Mr. Crawford, the excess reserve position of the member banks, as you will see (chart No. 9), was practically nothing at all in 1929, at a time when we had a very great expansion of banking credit. At that time the member bank borrowings went up to this figure [indicating on chart], which is considerably larger than would appear on this chart [indicating], which is on quite a small scale. The excess reserve position ran along on a pretty even keel until 1932, at the time of the enactment of the Glass-Steagall Act in February 1932, when it started to go up. This chart shows both cause and effect, and how excess reserves were built up by open-market operations of the Federal Reserve System and the increase of the gold stock.

This is the banking holiday period here [indicating], and from that point on the increase in excess reserves is due to the increase in the gold stock, as Mr. Eccles explained the other day, and that line [indicating], as you will see, goes straight up to this point [indicating], at which we branch it off into the inactive gold account and the active gold account.

At the time the Board took its first action, this [indicating on chart] was the amount by which this three billions and some odd millions of excess reserves was restricted to that point [indicating], and "curtailed" may be the right word, but in view of the lack of bank credit extension at that time, and the relatively small use of bank credit at that time, I do not think that into that word "curtailed" you should read anything more than the objectives and effects of Board action as explained by Mr. Eccles, the other day; namely, that the Board was moving into a position where it could later influence the situation through open-market operations.

Mr. CRAWFORD. The reason that I bring up this technical question and, I think it is technical, is because of the great difficulty that all of us, even right here in this committee, have in understanding this technical language as between your organization and our members. Now, when it goes out to the country, can we expect the country to understand it when we say that the Federal Reserve System curtailed banking credit? I am not talking about a decrease of excess reserves. I am talking about curtailing credit.

If I am wrong in my conception of what constitutes banking credit, and how the Board functions with reference to curtailing banking credit, and in my conception of what constitutes excess reserves and normal reserves, with plenty being left to carry out the normal activities of business, I want to be set straight, because when I take your first eight or nine pages of the 1937 report of the Board of Governors, I am convinced that you left ample leeway there for the normal functions of certainly all the business that we were carrying on in the country then, and what we are carrying on now, as it evidenced by the fact that the excess reserves had moved from the $700,000,000 figure right on up to $1,700,000,000.

This may be picking the President up a little bit on that language, but it seems to me that he used the language wrong there.

Mr. GIFFORD. Did he criticize the Federal Reserve Board?

Mr. CRAWFORD. If I were reading this message as it went out to the country, away from this committee, I would construe that as a criticism of the Board by the President for having curtailed banking credit. That is the exact interpretation that I would put on it.

Mr. RANSOM. It would not be the interpretation that I would put on it, which might be due to the fact that I have been close to the picture and have watched it from day to day. I should think that you might read into it "a curtailment of potential expansion" on the then existing credit base.

Mr. CRAWFORD. As a member of the committee, I can see—that is, with all of the tools that I have to work with—how that interpretation would be logically made, but I am thinking about the fellow out here in the country who probably wanted to get some credit and could not, and he will read this message and say that the Federal Reserve Board curtailed credit and he could not get it.

Mr. RANSOM. I think Dorothy Thompson said that we created the depression, and perhaps the same people won't read Dorothy Thompson, but nevertheless that does not happen to be my view of the matter at all. I would say that banking appears to most people as one of the most inexplicable businesses in which human beings engage. When you go out and try to explain it in simple, nontechnical language, you do run into lots of difficulty, and I want to say I have not intentionally used any technical terms, because I sometimes wonder what they mean.

Mr. GIFFORD. Did the President run headfirst into trouble?

Mr. RANSOM. In making that statement?

Mr. GIFFORD. Yes.

Mr. RANSOM. I do not so construe it.

Mr. GIFFORD. You do not regard it as a criticism of your actions?

Mr. RANSOM. I do not. That is my own interpretation of it.

Does that answer your question, Mr. Crawford?

Mr. CRAWFORD. On that particular score, but I have one other question that I want to ask you, and I am just wondering if it should be brought in at this time. It deals with this subject somewhat.

In the President's message, he also makes this interesting observation:

> Let us unanimously recognize the fact that the Federal debt, whether it be 25 billion or 40 billion, can only be paid if the Nation obtains a vastly increased citizen income.

Now, when we go to the legal tender cases, and the treatment of this matter by your Dr. Currie—I believe he is still with the Board?

Mr. RANSOM. Yes.

Mr. CRAWFORD. In his presentation that was so criticized by Mr. Anderson, I got the impression that those two propositions make this statement of the President's questionable.

Now, orthodoxically speaking, I can understand why the President put that in there, but the reason I am putting stress on this is that this thing is so much before the country this very minute, the amount of our debts, monetary control, the increasing and decreasing of reserve requirements, the price situation, and the complicated functions of the Board by reason of all of these different relations, and I tie it into Dr. Currie's presentation and the legal tender cases, and I somewhat hesitate to bring those in at this particular time, but I get this on record so that we can be thinking about it.

Mr. GIFFORD. The idea is to fatten the cattle, is it not?

Mr. RANSOM. I do not believe——

Mr. GIFFORD. Those are the President's words.

Mr. RANSOM. I do not believe that that is quite a fair question to ask me what the entire administration's recovery program may be at this particular time. I think that we have a pretty wide field, as I have said before, but I would not like to get into a discussion of the details of a program which has been presented to Congress and which is now under consideration by Congress. I will repeat what the Chairman of the Board said—that any time there is any measure before any committee of Congress where they feel that any view of any member of the Board may be desirable, all of us stand ready to come before that committee and testify to the very best of our ability.

Mr. GIFFORD. You do not think you are influenced by the policy of the Treasury or the President's policy, do you?

Mr. RANSOM. I think it is utterly impossible to conceive of a central banking agency of any government functioning wholly without regard to what is the policy of the government in power at the time.

Mr. GIFFORD. I put a question in writing the other day as to whether you are precluded from following your own bent, because you must work in harmony with the Treasury.

Mr. RANSOM. I would say that my own thought about it is this—that the Federal Reserve Board, charged with the responsibilities which Congress has put upon it, should be left as independent as possible to reach its own conclusions on all of these questions which have a relationship to the work which we have to do; that, occupying that position of independence and freedom of thought, we must at all times consider the existing state of the Nation and the public interest and try to work with the other agencies of government in bringing about a coordinated and clear program in relation to those particular functions.

Mr. GIFFORD. I agree to that.

Mr. RANSOM. And I think that the more independent we are and the further we are removed from being a bureau of some department of the Government the more valuable our opinions will be.

Mr. GIFFORD. I agree with that; and that is why I have wondered why there have been these sudden changes of policy by the Federal Reserve Board, such as announcing a particular policy and abandoning it very quickly.

Mr. RANSOM. For instance, Mr. Gifford?

Mr. GIFFORD. There are several instances. There is the spending policy that Governor Eccles recommended here months ago of a billion dollars, which suddenly subsided, and for several long months we have heard nothing more from him; and so it looked, of course, like you were not so thoroughly independent. Of course, that was freely discussed, but he was shut off from any further discussion of that from some source.

I cannot recall other instances, but we have had from your Board what looked like trial balloons that were of a nature that we could agree with, and then they were abandoned.

I asked you in a general way if that is true, and you said that it necessarily must be true because you must work in harmony with other governmental policies; and I want to be convinced that this Board is really independent of other views. Someone else may get the ear of the head of the Nation and may appeal to him, and if he says to you that a certain thing ought to be done, are you going to abandon your opinions because of some new theory?

Mr. RANSOM. Perhaps, in the light in which you state your question, I should offer some interpretation of the words "work in harmony." By that I mean that we should at all times try to ascertain what is in the public interest, and where we think that the policy of the administration in power at the time is in that direction, we should work with them toward their objective.

Mr. GIFFORD. Are you working together? Did you listen to the radio address of Mr. Jones last night, or did you read it?

Mr. RANSOM. I read parts of it, but have not had time this morning to read all of it.

Mr. GIFFORD. What is the basis of his complaint that there is too much examination of banks by different groups, that there ought to be one only?

Mr. RANSOM. I would like to state with entire frankness that I think there is room for improvement along the lines of—he used the words which occur in the President's message to Congress, better coordination of the functions of bank supervision and examinations. I would be hopeful that if the present program spells itself out into a substantial extension of credit by banks, that we would see much of the burden of lending lifted from the Government agencies.

Now, if the banker is uncertain as to what may be the examining policies of the numerous agencies that I have shown you on this chart that do examine banks and do supervise them, then the banker is in a far more difficult position than I think he should be in, and I think that there is real room for improvement there.

Mr. GIFFORD. There is not very complete harmony, is there?

Mr. RANSOM. I would not say there is not harmony. There are differences of opinion, perhaps differences in concept and in statement of views.

Mr. GIFFORD. You realize that we as individuals are subjected constantly, when we go to our banks for money, to the statement that the examiner has critcized them?

Mr. RANSOM. I think it would be far simpler if the three agencies, and I will include the Reconstruction Finance Corporation and say four agencies of the Federal Government, presented a united front. I would not anticipate any more difficulty then in working out a very complete cooperation with the banking departments of the 48 States. There are some difficulties, of course, in dealing with 48 agencies, and there are some advantages in having 48 agencies.

Mr. GIFFORD. One more question. Do banks tell the borrowers, as a means of getting out of difficult situations, that the examiners have criticized them?

Mr. RANSOM. I think they sometimes do. I think they do it as an alibi.

Mr. GIFFORD. Do you recall that Mr. O'Connor made a statement when he appeared here one day that if we could furnish him with the name of an examiner who criticized a slow loan in a bank he would discharge him?

Mr. RANSOM. I do not recall that; no. I will say that I think the slow column should be omitted from bank examination reports.

Mr. GIFFORD. I am glad to have that in the record. The bankers will urge a man to reduce his slow loan because it has been criticized by the examiner.

Mr. RANSOM. I think that a banker is in a pretty bad fix if he has not the courage to run his own business without falling back on the criticism of an examiner. It is really a manifestation of human nature.

Mr. GIFFORD. They claim that it is not an alibi, but they do not dare give you the name of the examiner.

Mr. RANSOM. They would be in a much simpler position if there were no conflicting views among the three or four Federal agencies of the Government, and I would like to feel, as I do feel, that as a part of the program which the President announced, both in his message and in his radio address, that we are working toward that end, and I think it will be very helpful.

Mr. GIFFORD. I simply wish to say that we who borrow are in a position to know even better than perhaps you what the attitude of the banks is. Theoretical information may be all right, but the practical information and knowledge, to my mind, is vastly different, and some of us have that.

Mr. RANSOM. I am going to raise a question for the record, and not attempt to answer it:

Is it possible to conceive of a sound system of bank examination and supervision totally separated from the monetary and credit control machinery of the Federal Government?

Mr. PATMAN. Mr. Ransom, would you mind bringing this chart (No. 10, p. 495) up to date that you have placed in the record?

Mr. RANSOM. I should have done that, but we have not had much time.

Now, getting back to this chart on excess reserves, let us take, first, desterilization. This [pointing to chart] block is entirely excess reserves. Where will excess reserves go from this point [indicating chart No. 10, p. 495]?

Mr. PATMAN. Right there, I presume that desterilization will have this effect, that the money will be placed with the Federal Reserve banks and will be thrown out and placed in the channels of trade.

Dr. GOLDENWEISER. The reduction in the reserve requirements that the Board made effective on the 16th has increased excess reserves by $750,000,000, so it increased them to about 2½ billions.

Mr. PATMAN. Back to '34 or '35?

Dr. GOLDENWEISER. Yes; up to around here [indicating on chart], and when the additional $1,400,000,000 which the Treasury Department has now deposited with the Federal Reserve banks is spent, it will carry the figure up to around $3,900,000,000.

Mr. PATMAN. Higher than it has ever been?

Mr. RANSOM. An all-time record.

Mr. PATMAN. I wish we could get some money out of this.

Mr. CRAWFORD. If we as a people accept the philosophy and adopt a program of issuing Government obligations and moving them through the banks with which to create check money to pay for public works, is not the desterilization of gold which takes place simultaneously deflationary in that it makes unnecessary that much more issuance of Government paper?

Mr. RANSOM. No, I never would have thought of it in terms of being deflationary.

Mr. CRAWFORD. That is exactly what it is, is it not?

Mr. RANSOM. Why, no.

Mr. CRAWFORD. Based on my question—I say, if we accept the philosophy of a public-works program financed by the creation of Government debt to be disposed of through the banks and create check money with which to pay for those projects, and we thus go part of the way, and then all at once we bring in the desterilization of gold, which increases excess reserves, creating a base or another type of credit to the extent of the desterilization, isn't that deflationary, as against the other side of the move?

Mr. RANSOM. My answer would be no, because both the sale by the Treasury of Government securities to banks and the use of desterilized gold, would create bank deposits.

Mr. CRAWFORD. They are dissimilar in character.

Mr. RANSOM. The impact would be the same.

Mr. CRAWFORD. So far as creating bank deposits is concerned?

Mr. RANSOM. Yes.

Mr. CRAWFORD. What has been the effect of desterilization on the market at this time?

Mr. RANSOM. The market for Govenrment bonds?

Mr. CRAWFORD. Yes.

Mr. RANSOM. It has run the price up considerably and the yield down, and it has created a sort of scarcity demand for the moment.

Mr. CRAWFORD. Is that tendency still continuing?

Mr. RANSOM. Well, it was slower yesterday than it was Saturday. I have no report on the market today. You see, the banks, faced with the idea that they were going to have considerable excess reserves, looked around for some investment, immediate investment.

Mr. CRAWFORD. And they put it in Government bonds?

Mr. RANSOM. They put it in Government bonds.

Mr. FORD. If they continue to do that, it won't contribute any to the increase of industry, commerce, and agriculture.

Mr. RANSOM. Only to the extent that the Government should spend it.

Mr. FORD. It is just simply a plain dollar-for-dollar move. It does not create any expansion.

Mr. RANSOM. Of course, the banks, faced with large excess reserves, may seek other avenues of investment, but it certainly is not what I would like to see develop from it, to have the banks invest the whole amount of the available excess reserves in Government bonds.

Mr. FORD. It will virtually defeat the movement?

Mr. RANSOM. Will you define "movement"?

Mr. FORD. The movement that we are trying to start, the upward cycle of commerce and industry, and the only way that that can be brought about is to bring out money to aid commerce and industry, and if the banks, instead of doing that, exercise their privilege to put their excess reserves in Government securities, it will tend to defeat the purpose that this recovery movement had in mind.

Mr. RANSOM. It is inconceivable to me that they would do that, because the yield on other loans would be so much more than the yield on Government bonds at present prices.

Mr. TRANSUE. Is there a demand for other loans?

Mr. RANSOM. That is an open question, in my mind. There is a demand for capital in a great many lines, large and small. To what extent there is an unsatisfied demand for bank loans is an open question with me.

Mr. FORD. I asked Governor Eccles, when he was leaving the other day, what effect the segregating of demand and time deposits would have and releasing the time deposits from the reserve requirements.

Mr. RANSOM. I do not know, of course, what Chairman Eccles' answer to that question might be. My own answer would be that I would not like to see that theory carried into practice, because I think it offers an inducement to the banks to shift from demand to time deposits, and I do not think that that is a desirable thing. In other words, if the bank has too low reserve requirements on time deposits, there would be a pressure on the banks to switch from the demand classification to the time, and, after all, a time deposit is nothing more than a demand deposit, because when a bank reaches the point where it puts the 30-day requirement on the money and prevents its withdrawal, the bank is usually in a difficult position.

Mr. FORD. There are two views on that. There is the philosophy that insists that time deposits are not money, as we understand it; that they are stored-up savings against long-time obligations, and their function should be only in connection with long-time obligations, and that none of the demand deposits should be commingled with them.

Mr. RANSOM. I think that that is merely a theory, but from a practical point of view, I do not think that the theory amounts to much.

Mr. GIFFORD. Mr. Ford, I want to suggest to you that only last week an adviser to some of the largest firms said that the only thing that looked good to him at the moment, in view of the downward spiral of all securities, was the Government bond, and that he had advised all of his clients to sell other things and buy more Government bonds, and when firms are being advised that way, rather than to put their money in other lines of business, you are defeating your own purpose.

Mr. RANSOM. I think that the banks have developed something of the liquidity complex that their depositors were accustomed to develop at times before 1933.

Mr. GIFFORD. But these are not bankers but advisers, who go to banks and advise them what they ought to do for defense purposes. I was told that, with railroad bonds today, if they offered them at a discount, there would be no buyers, and that all secondary and third bonds have to take the same degree of mark-off, and that you cannot even safely invest in a first mortgage today; and with that advice being handed around at the moment, it is defeating the purposes that some are attempting to accomplish. I was amazed, frankly, that that is the attitude of so many.

Mr. FORD. I only want to make this observation in that connection, that if there is a tendency in that direction, and they continue to do it, and the banking interests of the country under the present circumstances, being given an opportunity to get their funds profitably employed with private interests, for the sake of safety, or liquidity, or whatever you want to call it, persist in the policy of investing only in Government bonds, they will be primarily and fundamentally responsible for the lack of pick-up in the industrial, economic, and commercial situation of the country.

Mr. RANSOM. They will cease to be banks, and become investment trusts, specializing in only one form of investment.

Mr. FORD. Yes.

Mr. RANSOM. And they will lose the position that they have occupied as bankers.

Mr. TRANSUE. That will put the Government in the banking business?

Mr. RANSOM. I should think it inevitably would. Somebody has to be in the banking business.

Mr. GIFFORD. One firm has 66 percent in Government bonds. How is that making any money?

Mr. TRANSUE. As I say, that will force the Government to aid those who are legitimately entitled to credit.

Mr. GIFFORD. Some banks are living off of Government securities, and that is one reason that Mr. Patman has for arguing his position, but if we are actually driving the people, for defense purposes, to buy nothing but Government bonds, you are defeating your own purpose, and that is what we are doing now, of course.

Mr. RANSOM. With the excess reserve position which will be created, I think that we can stand by and watch the result and see what the bankers do about it.

Mr. CRAWFORD. Is it not true that the actual process of banking is powerless when it comes to directly bringing about or forcing the creation of or expansion of credit, and is it not also true with reference to the desterilization of gold that the banking process can make a move, and, if it makes the move, you have to wait until Mr. A comes up to the cashier's desk and says, "Listen! I want to borrow $10,000 for the purpose of engaging in commercial enterprise."

So, I repeat, isn't it true that the banking process is incapable of directly forcing the expansion of credit, coming back to Mr. Ford's question?

Mr. RANSOM. In a very broad and general sense, yes. In a more narrow sense, I would say from observation that there are banks that are able to go out and develop borrowers as easily as the average bank will develop a depositor, and perhaps there is some room for some new thinking on the bankers' part in that field.

Now, I agree with you, in a broad sense, that you cannot create a demand for credit by providing all the credit in the world. I would say that the excess reserve position before last week gave the banker a considerable leeway without the actions which took place last week, but again I want to say in that connection, as I said before, that I think the whole question of excess reserves has got to be constantly studied not only by the banking authorities but by you gentlemen of Congress. I think it is a wide field for exploration. I doubt myself if we have found the correct answer as yet, and I am also impressed with the fact that when you raise reserve requirements the bankers apparently create, for the lack of better words, a "psychological reserve" of their own. Apparently $1,000,000,000 above the required reserves is what the banker has recently felt to be necessary. If he feels that way, and you put it three billion above it, then there certainly is all the elbow room possible, but that does not get away from the question of what the Board should recommend at a time when there might develop on that credit base an inflationary situation which would require reconsideration of the whole problem.

Mr. GOLDSBOROUGH. Right in that connection, and I am not saying this as a criticism at all but what seems to me to be a practical observation, the Government, by its policy, raises these reserves to three billion, which is a complete reversal of the habits of the Federal Reserve Board during the last year and a half, and how does business know that that whole thing won't be changed in the next month? It seems to me that that is one of the great difficulties that confront us now, the uncertainty that business has as to what the monetary policy of the Government will be.

Mr. RANSOM. I think that the answer I made to the previous question is in part an answer to what you say. I do not think that we have entirely solved the problem by using reserve requirements as now provided for by statute as a mechanism of monetary and credit control. I think much remains to be studied on that subject.

Mr. GOLDSBOROUGH. If business knew that those reserves were going to remain on that basis, it would be one thing, but not knowing whether they are going to be taken away and further reduced, business does not know what to do.

Mr. RANSOM. Would it not present serious difficulty if you created a wholly inflexible figure there?

Mr. GOLDSBOROUGH. Of course——

Mr. RANSOM. Are you not compelled to have some flexibility somewhere?

Mr. GOLDSBOROUGH. Of course, but when the central banking system undertakes to control not the speculation which is evident on the stock exchange, and which it could control actually and certainly psychologically by raising marginal requirements, but it undertakes to say that business is accumulating too much on its shelves, that it is producing more than can be consumed, that that must be controlled and the other business must be controlled by the central bank, it just seems to me that you are putting business in such a situation that it does not know what to do.

Mr. RANSOM. I do not like the word "control." I would much prefer the word "influence," because it is more descriptive.

Mr. PATMAN. Is it not pretty well understood, Mr. Chairman, that the members of this Board want a higher price level, and I think it is understood that the administration and the President want a higher price level, and I think that we have enough evidence to justify us in concluding, and the country in concluding, that at least the 1926 price level——

Mr. GOLDSBOROUGH. I attempted to say——

Mr. PATMAN. Is what we have in mind? I have an idea that they have reasonable assurance that nothing will be done that will stop us until we get there.

Mr. GOLDSBOROUGH. I prefaced my remarks by saying that that was not criticism. I am just looking for light, because if anybody were to ask me what I thought would be done with this money, this gold that has been desterilized, I could not tell them to save my life. Numerous newspapers called me up yesterday afternoon, and all that I could say was that I was very sorry, that I was unable to be of any service. No member of this committee now knows what is going to be done.

Mr. PATMAN. I thought that that was generally understood. I thought that each Federal Reserve bank taking part of this gold would be given credit for it, that it would go into the general fund, and that as we have to pay the rural carriers, the W. P. A. workers, and so forth, this fund will be drawn on.

Isn't that the way you understand it?

Mr. RANSOM. The question as to how it will be used is a matter of Treasury decision.

Mr. PATMAN. In other words——

Mr. GOLDSBOROUGH. Just let him answer. He says that the question as to how it will be used is a matter of Treasury decision.

Mr. PATMAN. I thought that it had already been decided.

Mr. GOLDSBOROUGH. Oh, no.

Mr. PATMAN. It goes into the general fund?

Mr. RANSOM. It goes into the general fund, and it might be used either for the retirement of public debt or for public expenditures.

Mr. PATMAN. Or for any purpose that the general fund is used for?

Mr. RANSOM. That is correct.

Mr. PATMAN. We know what the general fund is used for.

Mr. GOLDSBOROUGH. You may think you do, but if you do you know more than I do.

Mr. GIFFORD. This gold is to be turned over to the banks, and there will be issued gold certificates for it?

Mr. RANSOM. That is right.

Mr. GIFFORD. What good is a contract of that kind?

Mr. RANSOM. You have opened up a big question there.

Mr. GOLDSBOROUGH. I thought the Supreme Court had settled it.

Mr. GIFFORD. Do you think the people would believe that they could get the gold when they wanted it? Can't they make them give up those gold certificates at any time for any lawful money which may be presented to them?

Mr. RANSOM. I might say that the final answer to that rests on Congress.

Mr. GIFFORD. Does it?

Mr. RANSOM. Doesn't it? Can't you gentlemen do what you please?

Mr. GIFFORD. It has delegated its power.

Mr. RANSOM. Under the present law.

Mr. GIFFORD. No; under the present law.

Mr. GOLDSBOROUGH. The Supreme Court said that it was a joke.

Mr. PATMAN. The Government has the title and the Federal Reserve the claim, but the claim does not amount to anything.

Mr. RANSOM. We have a warehouse receipt.

Mr. GIFFORD. I want to make one more suggestion. Having come in from the field recently and having seen bankers and other people, and asked them why they won't take mortgages, I was told that if as a result of these inflationary schemes, the dollar was deflated, they did not want to be paid off in cheaper dollars.

Mr. PATMAN. Do you mean that a banking association adopted that policy?

Mr. GIFFORD. I asked one party outright that I am thinking of, an adviser, "Why don't you advise them to take mortgages?" I was told, "They do not want to be paid off in cheap dollars, in inflated dollars, for, if inflation comes, we would want to actually own something, and we are advising them to buy outright certain necessities, or stock in companies which deal in necessities only," and that that is the only defense they feel they can rely on.

Mr. RANSOM. They think they have discovered a hedge against inflation.

Mr. GIFFORD. You say you think they have?

Mr. RANSOM. No; I do not think so. You said that they were telling them what to invest in. I did not say I thought so.

Mr. GIFFORD. You think that if they bought necessities, or stocks that cover only necessities——

Mr. RANSOM (interposing). Isn't that a hedge against inflation? I may not understand your question. I understood you to say that these people who were advising banks and investors advised them to put their funds in certain types of investment, and I remarked that apparently they thought they had discovered a hedge against inflation.

Mr. GIFFORD. But you do not think they have?

Mr. RANSOM. I certainly do not know that they have.

Mr. GIFFORD. When inflation comes, and if everything goes to smash, somebody will own these necessities.

Mr. RANSOM. We are a long ways from going to smash.

Mr. GIFFORD. Other countries have, and when they emerged was the wealth of the country pretty well divided up, or did a few control it?

Mr. RANSOM. I do not know that I can answer that question.

Mr. GOLDSBOROUGH. You know, Mr. Bernard Baruch had an article in the Saturday Evening Post about a year and a half ago, in which were shown the printing presses in Germany, but is it not a fact that no runaway inflation ever took place under a stable government?

Mr. RANSOM. I would lots rather ask an economist that, rather than answer it.

Mr. GOLDSBOROUGH. I will answer that, and say "no."

Mr. RANSOM. All right; thank you.

Mr. GOLDSBOROUGH. Is it not a fact, also, that runaway inflation has only taken place in a country which was not producing? At the time of the German runaway inflation, production had practically stopped in Germany. They had no production to match the money which was being issued. Another thing that happened in Germany, which is used as an illustration to try to scare us, is this, that Germany wanted to eliminate her internal debt, and did that by depreciating the value of her currency, but it has emerged financially in good shape. So that any talk about a runaway inflation and about money which has no value, in a country which can produce as much as this country can produce, is purely and visionarily speculative, don't you think?

Mr. RANSOM. I will say that I am not at the moment in a state of alarm, and when I am I hope to come back to you gentlemen and ask what you can do about it.

Mr. SPENCE. Will there not be a natural tendency for the banks later to reverse their present policy with respect to the buying of bonds? Will there not come a time when the banks will want to get out from under, and will want to sell their bonds, when they think they can make a profit?

Mr. RANSOM. I regret to say that in some banks they handle their bond portfolio as a speculative account, and that is unfortunate. If they handled it as a purely investment account, with the idea that they were riding the investment to maturity, it would be safer to proceed, granted that there should be some fluctuation in the account from time to time, due to changing conditions, but if the bank is handling its Government bond account as a speculative medium, on which it can speculate in the interest rate, I think sooner or later it will run into trouble.

Mr. SPENCE. If the banker sees the market is about to break, would it not be natural for him to sell?

Mr. RANSOM. Perhaps the natural forces will somewhat check that rise. It reaches the point after a while where perhaps every one thinks it is too high, and then they reverse themselves.

Mr. SPENCE. What effect would that have, generally?

Mr. RANSOM. Well, it does not have, as I see it, much effect on the interest rate, because the interest rate is low and will remain low for a long time on the basis of the existing excess reserve position, even on the excess reserve position as it was before there was any desterilization or other action. I think that we are in a period of easy money. That is obvious.

Mr. PATMAN. May I suggest two ways that these bonds can be taken from the banks? One is through the Social Security reserve fund for a period of years, and the other way, if it becomes necessary, is that the Federal Reserve banks could acquire these bonds, and then by the Government owning the Federal Reserve banks they would own the bonds and save the interest on the bonds. Either way could be used, and over a period of many years the Social Security reserve fund would acquire them.

Mr. GOLDSBOROUGH. The House is in session——

Mr. RANSOM. Mr. Chairman, may I ask if there is anything else that you want from us?

Mr. TRANSUE. There is one question that I would like to ask, and that is what effect the taxing of Government securities would have.

Mr. RANSOM. I have not had a chance in the last few days to give any thought to that at all, and I would not give an answer to it, both because I do not know the answer, and, secondly, because it is a Treasury matter.

May I ask one other thing?

If this closes the hearings, at least temporarily, Mr. Eccles would like to have an opportunity, at some future time, when he is less busy than he is at the moment, to answer orally the questions which Mr. Patman and others asked him. He thinks that method of answering is more effective, and he would prefer it, so I would like to ask——

Mr. PATMAN. What about tomorrow morning?

Mr. RANSOM. Mr. Patman, I am afraid he would be a little pressed for time. We have a good deal to do, and if it could be left open——

Mr. PATMAN. But that leaves it rather uncertain. So far as I am concerned, I would like to see the hearings closed on this bill.

Mr. RANSOM. May I ask, if Mr. Eccles lets you know tomorrow what day he would be available, whether that would answer your purpose, assuming that it is within this week?

Mr. PATMAN. Is that all right with the chairman?

Mr. GOLDSBOROUGH. Yes, sir.

Mr. CRAWFORD. May I ask this question with reference to these charts? I understand that the charts or duplicates are to go into the record?

Mr. RANSOM. Yes.

Mr. CRAWFORD. In view of the fact that it may be some time before the record is printed, would it be possible for us to get proofsheets of these charts some time in the near future?

Mr. RANSOM. I had in mind having them reproduced in sufficient quantity to give each member of the committee an advance copy before we prepared them for the record.

(Thereupon, at 12:15 p. m., the committee adjourned, subject to call of the chairman.)

STATEMENT OF HON. ALFRED F. BEITER BEFORE BANKING AND CURRENCY COMMITTEE ON H. R. 7230

Mr. Chairman, I am glad of this opportunity to speak in behalf of the bill, H. R. 7230, to provide for Government ownership of the 12 Federal Reserve banks. As one of the cosponsors of the bill and one of the members of the steering committee for Government ownership of the Federal Reserve banks I am anxious, of course, to see the bill favorably reported by your committee.

As my colleague Mr. Patman has stated during this hearing, amendments have been drawn up which are expected to be offered when the bill is read in the House under the 5-minute rule. These amendments are designed to meet the objections of some members of your committee.

There are many persons in my district who have written me in behalf of this bill. In fact, I might say it has wide support in my section.

Approximately 150 members of the House are members of the steering committee on this bill and are actively sponsoring its enactment. I hope that this committee will take into consideration the fact that these 150 members represent a large portion of the electorate of this country and will at least report the bill to the floor for consideratiton and debate.

STATEMENT OF HON. EDWARD V. IZAC, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

APRIL 7, 1938.

Hon. HENRY B. STEAGALL,
Chairman, Banking and Currency Committee,
House of Representatives.

DEAR MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE: I believe I can safely say that an overwhelming majority of the people of my district are in favor of H. R. 7230, introduced by Mr. Patman at the behest of nearly half the membership of the House of Representatives, including myself.

If there is any one question on which I find unanimity of opinion, it is on that of monetary reform. Surely the committee must agree that it is unwise and unjust to permit the private bankers of America to control the volume of money (credit) circulating through the trade channels of our Nation. This they do by the contraction or expansion of credit, and in so doing they utterly nullify that power of Congress which has been granted by the Constitution to coin money and regulate the value thereof.

I realize it is the policy of your committee to proceed with caution on this most important question and therefore I should like to point out that the present bill does not alter the fundamental purpose of the Federal Reserve System but, rather, perpetuates the System and brings it within the scope of our Constitution—reconciling what has been, in many minds, a most unconstitutional delegation of power by Congress.

Permit me to draw the committee's attention to the fact that, with the adoption of this bill the assets of the Federal Reserve banks become the property of the United States, thereby making a truly national system owned and regulated by the United States instead of by private bankers. Surely there can be no valid objection to such a course.

And if the committee will favorably report this bill, I feel their action will receive the commendation of not only the people of my district, but of the great majority of people in all walks of life throughout the Nation.

I appeal to the committee for a favorable report of H. R. 7230.

Respectfully,

ED. V. IZAC, M. C.,
Twentieth District, California.