The Papers of Eugene Meyer (mss52019)

117_06_001-	Subject File, Federal Reserve Board, General Correspondence, 1932

EUGENE MEYER

SUBJECT FILE

FEDERAL RESERVE BOARD
GENERAL CORRESPONDENCE
1932

Coffin, Howard E
Goldsborough, T. Alan

Phoned Goldsborough
& asked him
~~to put it off~~
until the following
meeting

3/7 [illegible] 32

T. ALAN GOLDSBOROUGH
FIRST DISTRICT OF MARYLAND

COMMITTEE ON
BANKING AND CURRENCY

HOUSE OF REPRESENTATIVES

WASHINGTON, D. C.

March 25, 1932.

Hon. Eugene Meyer, Governor
Federal Reserve Board
Treasury Department
Washington, D. C.

My dear Governor Meyer:

A Subcommittee of the House Committee on Banking and Currency, which is now considering H.R. 10517, copy of which I enclose herewith, is very anxious for you to appear before the Committee in a full discussion of the Bill.

We will of course be very happy to hear you at your convenience, but if you can come down on Monday morning next at 10:30, we would be very grateful to you.

Governor Harrison of the Federal Reserve Bank of New York was to have testified at that time, but has just called me over the telephone, and said that his brother is in a dying condition, and that it will be impossible for him to leave New York for a few days. Kindly let me know whether or not you can come down on Monday morning.

We will of course, be very happy for any member of the Federal Reserve Board to appear, who might so desire.

With kind regards, I am,

Very sincerely yours,

T. Alan Goldsborough

P

72D CONGRESS
1ST SESSION

H. R. 10517

IN THE HOUSE OF REPRESENTATIVES

MARCH 15, 1932

Mr. GOLDSBOROUGH introduced the following bill; which was referred to the Committee on Banking and Currency and ordered to be printed

A BILL

For increasing and stabilizing the price level of commodities, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal Reserve Act is amended by adding at the end thereof a new section to read as follows:

"SEC. 31. The Federal Reserve Board and the Federal reserve banks are hereby authorized and directed to take all available steps to raise the present deflated wholesale commodity level of prices as speedily as possible to the level existing before the present deflation, and afterwards to use all available means to maintain such wholesale commodity level of prices."

SEC. 2. If, in carrying out the purposes of the preceding section, the Federal Reserve Board and/or the Federal reserve banks, in selling securities, should exhaust the supply, the Federal Reserve Board is authorized and directed to issue new debentures.

SEC. 3. If, in carrying out the purposes of section 1, the gold reserve is deemed by the Federal Reserve Board to be too near to the prescribed minimum, the board is authorized to raise the official price of gold if the other methods already authorized appear inadequate; if, on the other hand, the gold-reserve ratio is deemed to be too high the Federal Reserve Board is authorized to lower the official price of gold if the other methods already authorized appear inadequate.

72D CONGRESS } 1ST SESSION } **H. R. 10517**

A BILL

For increasing and stabilizing the price level of commodities, and for other purposes.

By Mr. GOLDSBOROUGH

MARCH 15, 1932

Referred to the Committee on Banking and Currency and ordered to be printed

Washington, D. C.
April 13, 1932.

Honorable Walter F. George,
Senate Office Building,
Washington, D. C.

Dear Senator George:

Various uncoordinated volunteer efforts are cropping up in all directions having for their announced objective the prosecution of "The War Against Depression". A further confusion of the public mind and an increasing certainty that the Government has within itself no orderly program for studying, attacking and ameliorating the country's present critically harassing conditions is certain to result from these unofficial and doubtfully directed volunteer movements.

I believe that there is now the generally accepted view that our country is facing an emergency, the potentialities of which are far more complicated both as to causes, and dangers to the national security and welfare, that was that with which we were faced during the period 1916 - 1918.

I do not subscribe, in any sense whatever, to the fatalism that this great, powerful and practically self contained Nation is now suffering for past sins and that there is nothing of a comprehensive, constructive or effective nature that we ought to be doing about it. I have no sympathy with those who incline to folded hands, uplifted eyes and the "God's will be done" attitude of mind. I leave it to you gentlemen, upon whose shoulders rest the responsibilities of Government, to conclude for yourselves the kind of a hopeless mess we would have made of our World War emergency had we not early in 1917 set up under the August, 1916 statute the nation wide and confidence inspiring mechanism for coordinating and guiding the spiritual as well as the material activities of our people.

It may be urged that the conditions of the present differ from those of this earlier emergency. Admitting that conditions may differ, is this any reason that we should bury our heads like the ostrich in the sand and refuse to use an orderly, legalized method of study and solution of the problems and conditions which so sorely puzzle us all? Is there any valid reason that this Nation, which has so prospered through its amazing capabilities for organization and aggressive team work must now drift aimlessly along shuddering at bugaboos over seas, and casting aside as now having become useless those very principles of courageous self-help upon which this the most enlightened and the most prosperous country of the world has been built.

We may say that our political and financial leadership has, during the recent past, been deplorable, or that our ghastly attempts to legislate a fanatical control of our people's appetites has brought an era of hypocrisy and a weakening of our

Hon. Walter F. George,
4-13-32

moral fiber, but the fundamental danger facing us lies in the increasing loss of common, everyday confidence upon the part of the great mass of our one hundred and twenty five millions, in the wisdom and leadership of those to whom we of this great Nation have entrusted its destinies.

In meeting the expected confusions and uncertainties of the public mind at the beginning of the war emergency our first great effort, through the organization of the Council of National Defense with its Advisory Commission and its state subsidiaries extending all the way down into the smallest communities and units of our social life, was to everywhere guard and strengthen the public morale. We realized that the successful achievement of our great objective could be had only through active national team work of the highest order. From the desk of Walter Gifford, Director of the Bouncil of National Defense and Advisory Commission, there led orderly channels of influence into every state, city, village and community. As I remember it some one hundred and forty-four thousand units of social and civil life were made effective agencies in this world's greatest civilian organization for instilling public confidence and maintaining morale.

I am impressed with the view that the administration's efforts during this economic emergency - even more dangerous and complicated than was the emergency of war - have been almost exclusively directed in more or less fruitless attempts to cure the country's ills through an application of spectacular poultices at the top. Inadequately considered measures have had to be improvised to meet each one of a series of unforseen and unplanned for emergencies, which could most certainly have been far better met, even if not wholly prevented, through the confidence inspiring work of a responsible planning agency such as bridged the disturbing period during the several months following our break with Germany in January 1917. It is the little fellow, the butcher, the baker, the candlestick maker upon whose attitude of mind and steadfastness of purpose this Nation must depend for regaining and maintaining the soundness and prosperity of its economic life. Until we can bring to this little fellow confidence in the institutions and the leaders within the field of his immediate horizon to such an extent that he will again direct his attention to setting the wheels of his little business community in normal and profitable motion, there will be little hope of any national business recovery. Inch high headlines in the newspapers announcing new billion dollar panaceas for curing our as yet undiagnosed economic ailments are frightening our little fellows to death. We are shocking them into a belated realization of the seriousness of impending disaster, but we are doing nothing to organize and direct their usefulness as vitally necessary and effective units in the very foundation of our structure of business recovery.

Whether I am right, or whether I may be wrong, I am giving to you as I gave to President Hoover in my letters of July 2nd and July 3rd, conclusions based upon actual experience and the best of thought that is in me for meeting this present challenge to our American civilization.

With my sincere regards, I am,

Very truly yours,

Enc.
HEC:J

UNITED STATES SENATE

Committee on Finance

April 16, 1932

Honorable Howard E. Coffin,
Sea Island Beach, Georgia.

Dear Mr. Coffin:-

You will permit me to acknowledge your letter of the thirteenth instant.

I am very much impressed by your letter and shall be pleased to distribute copies of the correspondence passed between yourself and the President last July to influential members of the policy committee.

The present trend of events is disappointing and somewhat discouraging. I am more and more impressed that the President should have accepted your view in the Autumn of 1931. Vigorous action upon the part of the Executive at that time might have saved us much of the hardship and suffering of the present moment.

While I am up to my eyes with the revenue bill at the moment, I think I shall take the liberty of introducing the amendment to the National Defense Act which you have submitted. If I do so I shall make use of much of the material which you have furnished me in the effort to present the matter properly to the Congress and to the Committee.

With kind regards, I am

Sincerely yours,

WALTER F. GEORGE

7 Gawtry [illegible]

Cable Address
LEWMAY, NEW YORK

LEWIS H. MAY
MEMBER
NEW YORK REAL ESTATE
SECURITIES EXCHANGE, INC.

LONG ISLAND
OFFICES
FAR ROCKAWAY
CEDARHURST
EDGEMERE
LONG BEACH

REAL ESTATE BOARD OF NEW YORK   LONG ISLAND REAL ESTATE BOARD

LEWIS H. MAY COMPANY
(INCORPORATED 1904)
REAL ESTATE

FRASER BUILDING
18 W. 27TH STREET
BOGARDUS 4-6650
4-6651

NEW YORK CITY
APPRAISAL
SELLING
MORTGAGES
INSURANCE
MANAGEMENT
RENTING
BUSINESS-PRIVATE

Address Reply to New York,
Sept.19th,
1 9 3 2.

Mr. Lewis Gawtry, Chairman,
280 Fourth Ave.,
New York City.

Dear Sir:

BK Examiner

It was a privilege to be present at the meeting of the Real Estate Consulting Committee and receive the word of optimism from Hon. Owen D. Young and Hon. Eugene Meyer.

The trend of this discussion dwelt on appraisals, and I concluded the majority of those present were directly interested in this phase of Real Estate.

Having specialized in the appraisal of Real Estate for the past thirty years, I have followed out the ideas of Mr. Young and Mr. Meyer in striking a middle road during these pressing times. However, I believe teeth could be put into these thoughts if this same Committee, consisting of Messrs. Young and Meyer, would address themselves to the Examiners of Banks, both Federal and State, who do not seem to receive the constructive information now being promulgated by your Committee.

It is my thought, if the determinations arrived at by your Committee are to be effective, they must receive co-ordination and co-operation from the Federal Banking Department and the various State Banking Departments, and with this thought in mind, instructions should be given to the Bank Examiners to recognize appraisals made by those fitted to make appraisals, and I might include in the qualifications of these appraisers, the years of their experience and their affiliations with the National, State or Local Real Estate Boards.

The constructive suggestions made at this meeting, with relation to real estate appraisals, will have been of no avail if they are not recognized by the Banking Departments of both Federal and State Institutions upon their examinations of Banks.

I am strongly convinced that Real Estate will again find its place in the sun if the seat of criticism, which is the Banking Departments, both Federal and State, is modified and conforms with the general purpose of the actions of the Reconstruction Finance Committee.

It is my experience, as Vice-President of one of the smaller National Banks, to be confronted with this condition in our examinations, and I, therefore, believe if this be true with us, that all other institutions are confronted with the same criticism in their examinations.

I take this opportunity of forwarding these thoughts for whatever value they may have, and again thank you for the invitation extended.

Sincerely yours,

Lewis H. May

LEWIS H. MAY.

LHM/JH

November 4, 1932.

Henry I. Harriman, Esq., President,
Chamber of Commerce of the United States,
Washington, D. C.

Dear Mr. Harriman:

In the absence of Governor Meyer, permit me to acknowledge the receipt of your letter of November 2 and to thank you for your courtesy in sending him a copy of the report of the special committee of the Chamber of Commerce on government competition with private business. I shall take pleasure in bringing the letter and the report to the Governor's attention upon his return to the office.

Very truly yours,

Secretary to the Governor.

FILE COPY

CHAMBER OF COMMERCE OF THE UNITED STATES
WASHINGTON

HENRY I. HARRIMAN
PRESIDENT

November 2, 1932.

Mr. Eugene Meyer, Governor,
Federal Reserve Board,
Treasury Building,
Washington, D. C.

Dear Governor Meyer:

Through resolutions in annual meeting and through referenda, the organizations in the membership of the Chamber of Commerce of the United States have many times recorded their opposition to government competition with private business. This year we have had a special committee, giving study to this subject. The report of the committee, setting forth recommendations as to principles that should be applied, was accepted at the last meeting of our Board of Directors, as interpreting the formal positions already given the Chamber by its membership. I take pleasure in enclosing for your consideration copy of the printed report.

I am likewise mailing copies to your colleagues on the Board.

Very truly yours,

H. I. Harriman
President.

RECEIVED
NOV 3 1932
OFFICE OF GOVERNOR
FEDERAL RESERVE BOARD

HIH/483
enclosure

M. K. Graham
Graham, Texas

Mr Morrill Cow
Mr Wyatt
Dr Goldenweiser

Frey

December 1, 1932

My dear Governor Meyer:

The enclosed insert is intended to be pasted in Continuous Prosperity.

Acting like children in looking one way and going another, we stumble. For example, the gold standard and central bank theory are inconsistent: the central bank relies upon a high bank rate to discourage credit issue whereas a high bank rate tends to attract gold and to make the member banks independent of the central banks. While the central bank's power is largely a negative one, a low rate tends to expand credit issue, yet a low rate also tends to expel gold and thus to decrease member banks' reserves and to contract credit.

Again, the gold standard and our protective tariff are inconsistent: other countries with depreciated money are enabled to undersell us here, tariff included, and greatly to undersell us elsewhere.

Also, the gold standard renders very difficult our position as chief creditor nation: we will not permit payment in goods or services (if we can prevent it) and the consequent increased demand for gold increases yet more its value.

While we may be only partly to blame for the swollen value of gold, I am convinced that our senseless support of this swollen value is now retarding recovery everywhere; and that we could lessen its value if we would.

Gold's devaluation does not mean its decreased use as our monetary base: it means simply that it shall no longer rule as the standard of value. Money, then as now, should be redeemable in gold.

Yours truly,

M K Graham

Governor Eugene Meyer
Federal Reserve Board
Washington, D. C.

DEC 1932

OCTOBER 12, 1932

. .
.

ONE major political party declares for sound money, the other for the maintenance of the gold standard, and the writer proposes the abandonment of the gold standard, yet all three may be construed, without subterfuge, to mean much the same. Sound money and the maintenance of the gold standard both contemplate currency redeemable in gold, while it is proposed herein that the gold content of the dollar shall be reduced and that it shall then be stabilized, as nearly as can be, in terms of commodities. Thus the new dollar will also be a sound one on a gold base, equally as honest and unprincipled as the present one.

While credit expands, prosperity reigns; while credit contracts, depression. This is the cycle. There must be a rhythm, but its oscillations need not be catastrophic. *After too much credit, depression must continue until the excess credit has been retired. To issue more credit, merely retards the recovery.*

This excess credit during depression persistently endures as intolerable debt and fixed charges which can only be discharged in gold either by devaluation of the unit of payment or by long continued bankruptcies. We must choose one of these courses, remembering always that the pres-

ent gold standard has not saved us from depression or tempered it or shortened it and that inaction is a vote for this standard, entailing sacrifices and hardships for years and possible revolution; whereas all other major nations have, in recent years, depreciated their currency once or twice with slight damage to their reputation and with benefit to their financial health.

WESLEY L. JONES, WASH., CHAIRMAN
REED SMOOT, UTAH
FREDERICK HALE, ME.
HENRY W. KEYES, N. H.
HIRAM BINGHAM, CONN.
TASKER L. ODDIE, NEV.
GERALD P. NYE, N. DAK.
FREDERICK STEIWER, OREG.
PETER NORBECK, S. DAK.
PORTER H. DALE, VT.
JAMES J. DAVIS, PA.
L. J. DICKINSON, IOWA
CARTER GLASS, VA.
KENNETH MCKELLAR, TENN.
EDWIN S. BROUSSARD, LA.
JOHN B. KENDRICK, WYO.
ROYAL S. COPELAND, N. Y.
CARL HAYDEN, ARIZ.
SAM G. BRATTON, N. MEX.
CAMERON MORRISON, N. C.
ELMER THOMAS, OKLA.
JAMES F. BYRNES, S. C.
JOHN S. COHEN, GA.

KENNEDY F. REA, CLERK
JAMES H. DAVIS, ASST. CLERK

United States Senate

COMMITTEE ON APPROPRIATIONS

December 8, 1932

DEC

Hon. Eugene Meyer, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Sir:

I inclose herewith a letter I have received from Mr. S. C. Ganz, Phoenix, Arizona, who suggests that Congress enact legislation for the relief of Joint Stock Land Banks.

I am about convinced that these Banks should never have been created but I am frank to say that I do not know enough about their status to express a sound opinion. No doubt you have given some study to the subject and I shall appreciate hearing from you in order that I may make a better reply to Mr. Ganz.

Yours very sincerely,

Carl Hayden

U. S. S.

P. S. Please return enclosure together with carbon copy of your reply for my files.

December 13, 1932.

Hon. Carl Hayden,
United States Senate,
Washington, D. C.

Dear Senator Hayden:

I have your letter of December 8 enclosing a letter to you dated December 2 from Mr. S. C. Ganz, Executive Vice President, of the First National Bank, Phoenix, Arizona, with reference to joint stock land banks.

The joint stock land banks, as you know, function under the supervision of the Federal Farm Loan Board. I resigned as a member of the Board and as Federal Farm Loan Commissioner in May, 1929, and since then I have had no part in the administration of the Farm Loan System. In the circumstances, I do not feel that I can undertake to express any opinion concerning the question raised by Mr. Ganz. The present Farm Loan Commissioner is Mr. Paul Bestor, and you may wish, therefore, to communicate with him concerning the matter.

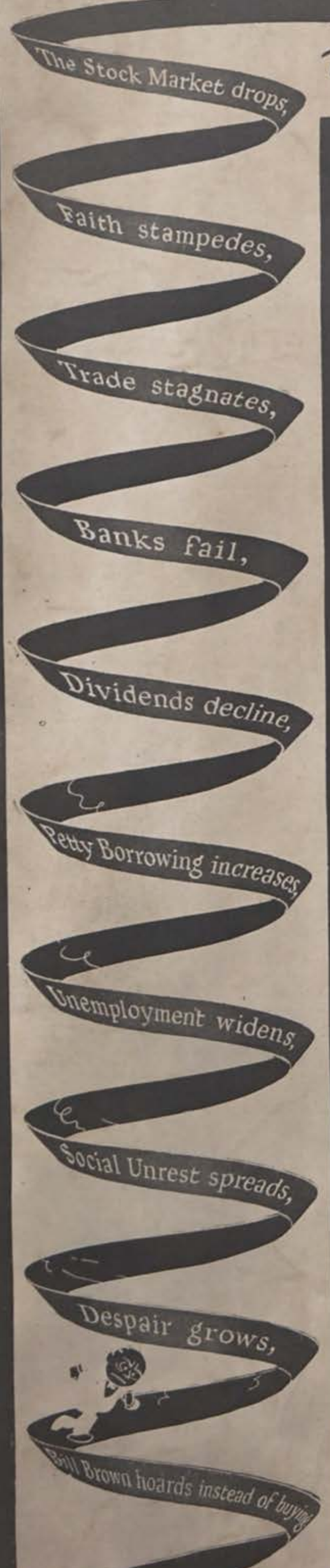
The letter from Mr. Ganz is returned herewith.

With best wishes, I am

Very truly yours,

FILE COPY

Governor



Faith, Hope and

These three are needed for better prices. That's why powerful forces are trying to improve your credit

MOST of us think of the depression as a sort of tidal wave that has swept us all miserably before it. And in a way it is. But you and I are part of the force of the wave. Complicated as the financial world is, it all comes down to individuals—you and me and the other fellow.

In this article Mr. McMillen gives you his conception of just where you and I come into the picture, and how the government's relief measures are intended to help every one of us. We are sure that even those who question their effectiveness will find this article an exceptionally lucid explanation of a confusing situation. *The Editor.*

MR. BILL BROWN is the object these days of very grave and serious concern to the United States Government. The government is most anxious to know what Bill is going to think and do next. In fact, the governments of several foreign nations also are watching him.

Now, Bill Brown is not a gangster nor a racketeer. He never murdered anyone nor dodged his income tax. He may never even have parked by a fire plug. He is the quiet, everyday average citizen who works and lives like millions of others. In your neighborhood Bill Brown may be a farmer; in some other place he may be a laborer or a small merchant. He may be you.

Our government and a dozen or so other governments are concerned about Bill just because he *is* like millions of others. The reason for their solicitude is that when Bill Brown concludes that the depression is over then *it will be over*.

When confidence comes back to him, the men who head the nations of the world will heave a sigh of relief at least as deep as the one they drew in 1918, on November 11th.

Bill Brown as an individual is largely unconscious that his opinion of business prospects is so tremendously important. So let's look at an actual case, as related to me lately by an official of the government. The Bill Brown this official had in mind was a merchant in his home town, a small city just a little west of the Mississippi River.

Bill had been on the anxious seat for weeks. There were rumors that the town's principal bank, while solvent, was not able to renew loans. To run his store Bill carried a moderate line of credit at this bank. Collections were not good and business slow. If the bank called his loan when it was due, he would be in a bad fix.

My government friend, home for a day or so on personal affairs, met Bill on the street and inquired how things were.

"Fine," said Bill. "Everything's all right."

The official was a little surprised, for he was accustomed to hearing hard-times talk. "What do you mean—everything's all right?" he asked.

"Just renewed a little loan down at the bank," Bill explained. "Was afraid they were going to cut me off. Looks like things are getting better."

"Where are you headed now?"

Bill laughed. "To tell you the truth, I'm going over to get a new set of tires. I need 'em, but it did look for a while like the old ones'd have to do."

There is much more to this story—at both ends. Of course Bill's new tires meant a little employment all along the line up to the tire factory, and beyond to the sources of the raw materials. He helped the cotton market a little. Ramsay MacDonald, the prime minister of England, would have been pleased to know of the deal, for England is interested in the rubber trade and is fighting against further depreciation of the pound sterling.

And how did Bill happen to get the loan renewed? Because the Reconstruction Finance Corporation, down in Washington—little more than a name to him—had come to the rescue of his home-town bank by advancing it some money, taking as collateral some of its "frozen" but actually valuable securities.

WHY should the government do that? Because if the Bill Browns of this and a thousand other towns couldn't renew their notes they might all choose to make their old tires and their old suits do a little longer. More workers would lose their jobs, more people would become frightened about the future, more banks would get into trouble and more notes could not be renewed. Bank deposits would shrink further and prices fall lower for lack of demand for goods.

No one, we often hear, really understands all about money. I have never found anyone who could explain to me all I want to know about it, although I have asked questions of

Currency

by WHEELER McMILLEN

Illustrated by F. G. COOPER

high financial authorities and have read many long books about it. But a quiet little man who sat down at my lunch table in Washington one day—a man connected with the powerful Federal Reserve Board—summed up in a single sentence a simple fact, seldom understood, that explains why the governments of the world have been so deeply concerned in what the Bill Browns would decide to do next.

"In normal times," this man said, "we have in the United States about four billion dollars in gold, about five billion dollars in paper and silver currency, and about fifty billion dollars in bank deposits."

We have ten times as many dollars in bank deposits as there are currency dollars in existence!

Twelve and a half times as many bank deposit dollars as there is gold in the United States!

Now, let's think this over a minute. We all know, of course, that we seldom handle any gold money. Most of the metal is in bullion, not even coined. It is merely a base for our currency. The five billion dollars in paper, silver, nickel and copper is about all the actual money that passes around.

BUT there are ordinarily fifty billion dollars—ten times as many—in bank deposits. What kind of dollars, then, are these?

Why, they are faith dollars. Confidence! They do not exist as cash or as greenbacks, yet they are so real that the prosperity of the nation, the savings of the people and the stability of the government itself depend upon them absolutely.

And they do circulate—as bank checks, as drafts and in such forms of paper faith. It is with them that the vast majority of all business transactions are carried on.

These fifty billion dollars of bank deposits are simply the promises of men to pay. When you go to the bank to borrow $500 you go feeling assured that the bank is able to hand over $500 if your account is credited with that amount. You then have to convince the banker that in time you can and will pay back the $500. You have to believe it yourself. You make him believe it, either by your record of integrity and business ability, by showing him your books, or by putting up security.

Then he lends you $500; that is, he enters in your bank account a credit of $500 to you. You write checks on your account to pay bills, to pay wages, to buy goods, to operate your business. People who get your checks deposit them to their accounts in other banks or cash them for currency. You yourself may never draw even $10 of it in currency, although you, and everyone who takes your checks, must believe that the currency, or even gold, is to be had if asked for.

That is confidence! Faith! The belief in ourselves, in each other, in the future, on which the transactions of the world are conducted. Without it, prices fall, jobs are lost, banks close, profits disappear. With it, prosperity rolls along as usual. We had it a few years ago. Then we lost it, or at least enough to deal the world a terrific blow.

HOW did we lose it? And what are we doing to get it back?

There is no space here to try to tell the whole story of how we lost this precious, intangible confidence—even if all authorities agreed on the causes of the depression. Let it be enough to say that about three years ago people suddenly began to lose faith in the future of the ways we were traveling. In some countries, as the result of the World War, the burdens of debts and taxation were overwhelming and discouraging. Some industries had extended themselves until it seemed doubtful whether the world could keep on consuming their output at a profit to them. Producers of raw materials, as farmers are, found their markets declining. The stock-market boom suddenly collapsed, spreading wide alarm. The world suddenly seemed to be full of things for sale that no one wanted to buy. Thus the downward spiral began. Prices fell, and fell some more. With falling prices, profits shrank, so even fewer goods were bought. With this diminishing demand, prices fell still further. Taxes and interest became even harder to pay, since it took more goods to get a dollar.

Even so the world was plugging along and might shortly have begun to start the spiral back upward had not confidence received an unexpectedly violent blow in a very tender spot. One day in April, 1931, a director of the Credit-Anstalt, the big central bank of Austria, called for a new balance sheet to be drawn. This was a natural and proper act for a responsible bank director to take. But its consequences spread around the world, knocking down values, destroying jobs, creating damage all out of proportion to its ordinary importance. The spiral slide was awfully accelerated.

For the new balance sheet revealed that, with prices fallen as they had, the Credit-Anstalt was insolvent. This was of such tremendous importance to Austria, where every large industry was indebted to the bank, that the government had to dash to the rescue with short-term loans to the bank. That threw the Austrian budget out of balance and caused grave doubt of Austria's ability to pay her public debts.

So Germany, having large stakes in Austria, had to hasten over with loans to protect Austria's government from bankruptcy.

Then other countries lost confidence in Germany's credit and called in large short-term loans they had made to Germany; England, for instance. Other nations, fearing that England couldn't collect from the Germans, began pulling their money out of England, so that in September England slid off the gold standard. A dozen other nations followed by discarding their promises to pay in gold.

The United States, which since the war has become the greatest lender in the world, found itself doubting whether its loans abroad were going to be paid. So the great New York banks, to protect their positions, began calling in loans from smaller banks, and the smaller banks had to call in loans from their borrowers, and to sell bonds. Borrowers had to sell bonds and stocks to pay off their loans, or were sold out by the banks. Business was further injured, more confidence lost.

Thus what was a business depression up until the middle of 1931 quickly became a world-wide financial panic.

Then came a situation that called for the government to resort to extraordinary emergency measures—the war to restore confidence was started in full earnest. I just spoke of banks and borrowers having to sell bonds. When so many wanted to sell and so few wanted to buy, bond prices kept sagging. And that was indeed serious.

Why, you may ask, was it so serious?

Because the great fiduciary institutions of the nation, the really gilt-edged custodians of everybody's money, invest vast funds entrusted to them in bonds and mortgages, the safest forms of paper securities.

Sixty million life insurance policies are in force, for instance, representing more than a hundred billions of insurance. When a man dies or his policy matures, the money is immediately available. When he is in trouble he can borrow on his policy, as hundreds of thousands of people have been doing. This must always be. And the life insurance companies, handling these billions of dollars of the people's money, have it invested in bonds and mortgages.

Then the building and loan companies, custodians of thrift accounts like the savings banks, and trust companies administering accumulated savings, are investors in high-grade bonds and mortgages.

At this very serious juncture the prices of such things as these bonds, representing the very fundamental values of the country itself, were falling much below their actual, intrinsic worth. Falling solely because fear had gripped the world and was squeezing confidence out!

The average man doesn't buy bonds. But he buys goods and services. When he is afraid to buy much of anything, when business the world around stagnates for a long period, those who do buy bonds and mortgages either lose their ability to buy or their belief in such securities. These were the consequences in 1931.

UP TO this time, except for the moratorium in June, the United States Government had taken none of the far-reaching emergency measures that were to follow. Since then have come the Reconstruction Finance Corporation, the Glass-Steagall Act, the anti-hoarding campaign, the "open market" policy of the Federal Reserve and the Home Loan Bank Act. With each of these Bill Brown has been the man in mind, the man who has to have confidence again before the wheels of industry resume their hum, with jobs for people and prices rising again to profitable levels.

EAT AS YOU VOTE

and you're bound to win!

THE presidential campaign is on. The issues are drawn. But The Country Home Cooking Department has raised one issue which the prosaic politicians overlooked. "Where do President Hoover and Governor Roosevelt stand on the dessert issue?" we demanded. And from the contending camps came the answers.

The White House gave us the recipe for a very tempting and delicate dessert that is favored by President Hoover, and from the governor's mansion at Albany came the recipe of Governor Roosevelt's favorite dessert.

We aren't going to tell you what these favorites are, for we want you to eat as you vote, but we will say that you will like them both. They are simple and economical.

Write us which candidate you prefer in this presidential election and we'll send you his special dessert recipe. Then we suggest that on election night you have your candidate's favorite dessert or, better still, have a real election party and serve it to your guests as the returns come in.

Just write to the Cooking Department, The Country Home, 250 Park Avenue, New York City, and specify whether you want President Hoover's dessert or Governor Roosevelt's. Enclose a self-addressed stamped envelope.

Bill Brown may not even have noticed in his newspaper, back in 1931, that the Credit-Anstalt had been found insolvent. If he had, probably he would have turned to the sports page anyway—unaware that the failure of a bank in Vienna was to set in motion a chain of circumstances that might lose him his job, shut the doors of his bank, cause further fall in the prices of his products, or even—if not stopped in time—shake the solidity of his insurance policy. Fortunately, whatever else did happen, the United States Government began making the most powerful medicines it could prepare.

LET'S see how some of these things worked out for him.

The famous moratorium, which suspended for a year the payment of war loan debts to the United States on condition that Germany be relieved of reparation payments for a year, was for the purpose of preventing an absolute financial collapse in Germany. If that had happened the consequences of the financial panic already started by the mere *danger* of its occurring would have been far more serious. More banks would have closed in little American towns, more savings would have been tied up, more people would have reduced their buying, more workers would have lost jobs, prices would have fallen further.

Then, in midwinter, came the Reconstruction Finance Corporation, with resources of two billion dollars, later enlarged to three billion eight hundred millions. It was empowered to make loans to banks, life insurance companies, railroads, land banks, agricultural credit corporations and other agencies. All of these sound as though they were of little importance to Bill Brown. But you have read one instance, a few moments ago, of how the R. F. C. enabled his bank to renew Bill's note. Here is another story that one of my friends encountered in a southern state. This friend was making inquiries in a small-town bank on personal matters. Concluding those, he casually asked the banker if he thought the government's efforts were doing any good.

"You're just the man I need," the banker said as his care-lined face lighted up. "You know, a banker doesn't talk about his troubles and I can't tell this to my friends here. But I just feel like unloading on someone, and I like your looks and you said you were taking the next train north.

"This little bank here, like every other small bank in our section, has had to owe quite a bit to our correspondent bank over at the state capital. While I run a conservative business, this community has had its troubles, with farm prices so low, so my paper was pretty slow. People who are absolutely good can't pay on the dot. The bank at the capital was pushing me hard.

"Well, sir, a couple of weeks ago they let up and told me not to worry. In fact, they let me have a little more money. Through a good friend down there I learned that they had been in the same fix I was, maybe worse. But the Reconstruction Finance Corporation gave them a long loan on their perfectly good though frozen paper. Mine was part of it.

"Now I tell you, I was too close for comfort to having to close the doors. That would have been tough on me—living here all my life—but nothing compared to the fix it would have left this whole neighborhood in.

"For instance, Sunday I was at the (*Continued on page 34*)

FAITH & CURRENCY

(Continued from page 16)

wedding of a fine young couple. It would have been postponed if the bank had closed with their savings. Two old ladies, with nothing else in the world nor any near relatives, have every dollar they own on deposit right here. Why, they might have had to go to the poor farm! Two merchants have been saved from making assignments. I don't know how many people would have lost their tax money—money saved for insurance and all that sort of thing.

"Let me tell you! Those fellows there in Washington are dealing in hundreds of thousands, millions. I reckon all they see is rows of figures, ciphers and dollar marks. But I want to tell you that when the government's help trickles down to a little place like mine here I don't see dollar marks! No, sir! I see my neighbors—and human hearts!"

My friend added:

"I happen to know that the bank at the state capital, the one this fellow mentioned, has a hundred and forty country correspondent banks. I wonder if it might not be safe to multiply his case by a hundred and forty?"

As a matter of fact, bank failures, which numbered 2,298 in 1931, in January this year 342, fell to 46 in March, when the R. F. C. was well under way, and 77 in May.

BESIDES the banks the big medicine of federal credit has been poured into other channels. Railroads that received funds were enabled to pay interest on their bonds, thereby making certain that if Bill Brown had to borrow on his life insurance policy the money would be ready for him as usual; since insurance companies are big investors in railroad bonds a land bank in his section or an agricultural credit corporation may have been aided. The land bank system was allotted $125,000,000.

Much of the largest percentage of the R. F. C. money, in fact, has gone directly into small communities and, therefore, straight to the Bill Browns of America. As this is written, some weeks before publication, seventy per cent of the loans to banks have been to banks in towns of less than five thousand people, and eighty-four per cent to banks in towns of less than twenty-five thousand, while only four and a half per cent of the money lent has gone to cities of more than a million population.

The operations of the R. F. C. are founded on the knowledge that a depression always ends. Prosperity always comes back. The government does not expect to lose money—it is merely interposing its powerful hands in an attempt to stay the tides of fear and panic until confidence again rules.

Underlying the R. F. C. and the other emergency measures was one more far-reaching than any other. That was balancing the federal budget.

We who now live in the United States have had no experience to give us understanding of what would happen if the credit of our national government should be impaired. It has always stood above suspicion. In brief, if the federal credit became worthless, nothing else would have real value except in terms of barter. The currency would be no good, private credit would vanish, banks and insurance companies would sink with the savings of the people and business would be done with greatest difficulty.

The government can incur several deficits, even very large ones, without much difference being felt. But if it should go on borrowing, higher and higher interest rates would have to be paid, until eventually fear would arise that its bonds could not be repaid. Then one day would come a crash beside which nothing we have yet experienced would seem worth mentioning.

So, by a balanced budget, the whole world is notified, and every citizen of the United States is given to know, that the government of this republic can and will meet every obligation promptly on the dot. This knowledge is the absolute foundation of all private credit and is inextricably a basic part of all our vast business system.

THE story of the Glass-Steagall Act and the Federal Reserve open market operations is not unlike that of the R. F. C. so far as ultimate intent is concerned. They were aimed to encourage confidence and to make possible the improvement of business. The Glass-Steagall Act made it legal for government securities, as well as gold, to be used to back up currency. Large amounts of gold must always be held in readiness for the demands of international exchanges. This law freed several hundred additional millions of gold for home use. That done, the Federal Reserve banks were able, without danger to our gold position, to buy up enormous quantities of government securities.

This action of course improved the bond market, for one thing, but that was not the important result being sought. The real purpose was to make the banks loosen up and lend money more freely—thereby to create more confidence and stir business to activity. When the Federal Reserve banks bought government securities in the open market the money paid out went into the banks as deposits. First the banks paid off their debts to the Federal Reserve with the money, but as open market buying proceeded deposits began to increase.

The design was to force the banks to lend. Bankers are notoriously cautious, and in difficult times not in a hurry to put out loans. Influential committees in the Reserve districts have been working to bring sound borrowers to put the money into active use.

IN WARS between nations the forces of men and armaments and munitions are called for to the uttermost limits. In the present war, with panic and fear as the great enemies—as dangerous to the peace and happiness of men as a foreign foe—the heaviest weapons of public credit are being brought to bear. The most powerful stimulants known to economic science are being poured into the heart spots of trade—the banks, insurance companies, railroads, land banks, and so on. These heart spots have been chosen, says the Secretary of the Treasury, "not because the government is interested in the officers or stockholders of these banks, but because they are the instrumentalities through which the business and commercial fabric obtains the necessary credit upon which it lives, and because they hold the deposits and savings of millions of our countrymen, to whom a bank failure brings disaster and misery."

The government has sought, in other words, to preserve and rebuild confidence in the minds of the countless Bill Browns whose decisions make the collective mind of the nation. Confidence makes business, business makes jobs, jobs make purchasing power, purchasing power makes demand, demand improves prices, rising prices make profits possible. Confidence, then, in Bill Brown's and everybody's minds, is the big object of the government's herculean efforts to reverse the spiral, to start the upward climb.