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January 18, 1941.

Hon. Jerry Voorhis,
House of Representatives.

My dear Mr. Voorhis:

Your speech on the report to Congress of the Federal Reserve authorities I thought an exposition of great value and fundamentally sound. A second reading confirmed my impressions that you had mastered the fundamentals of this problem and made yourself competent to advise the Congress and the Government agencies.

President Roosevelt was elected on a platform which attributed the depression to the "indefensible expansion and contraction of credit for private profit ...". By such means the panic of 1920-21 took place, the boom of 1926-29, and the collapse of that boom and the depression of 1932 resulted with 14,000,000 unemployed, and we have not yet recovered.

President Roosevelt, when nominated and elected, in his addresses in 1933 clearly set forth a sound policy which advocated the restoration of the pre-depression price level and the establishment of a dollar whose debt-paying, purchasing power should not change from one generation to another. The policy of President Roosevelt has not been carried out by his appointees on the Federal Reserve Board. The Federal Reserve banks under the leadership of the Board between March, 1933, and March, 1934, contracted credit over \$3-billion and nullified the Thomas Amendment, in which Congress proposed to expand credit \$6-billion.

The Federal Reserve Board now commends the repeal of the Thomas Amendment by which the \$6-billion expansion could take place; and commends also the repeal of the issuance of silver certificates against silver seigniorage. The Board has now endeavored to cooperate with the five presidents of the Federal Reserve banks on the Open Market Committee and with the Federal Advisory Council. The Open Market Committee now consists of eight bankers and three members not bankers. It consists of five private persons representing private interests and six members of the Federal Reserve Board.

May I be permitted to suggest to you what I think is fundamentally necessary?

What is Necessary in a Sound Monetary System

1. It is necessary to respect the Constitution of the United States, which vests in Congress the exclusive right to coin (create) and regulate the value of money (Article I, Section 8, Paragraph 5, Constitution).
2. To regulate the value of money it is essential to regulate the volume of money in circulation.
3. To regulate the volume of money in circulation requires a Federal Reserve Board exclusively representing the public interest, and exclusively representing the Congress, and exclusively subject to the direction of the Congress.

Congress should, by legislative mandate, give the power necessary to the Board to expand and contract the volume of money, both currency and demand deposits. Demand deposits transact over ninety-five per cent of our national monetary business. They function thru checks which circulate at par, and are convertible into legal tender money on demand. At present these demand deposits are created by the banks as a result of public and private loans. These demand deposits should be created by the Federal Reserve banks exclusively and not by the member banks.

The question arises: how could people who need money for constructive purposes obtain it except thru loans from the member banks? The answer is: the banks have over \$7-billion of capital which could be loaned. They have available for such purposes the savings accounts and time deposits amounting to about \$30-billion which could be loaned for constructive purposes with entire safety. When or if member banks need more money with which to make loans, they could get it by borrowing from the Reserve banks. But they should not be permitted to create money by converting private property into money thru loans, or by converting public bonds into money by the purchase of the public bonds from the Government or from states.

The money which is employed by the country should not be based on debt. The country should not be penalized in its productive, constructive labor by the compulsory requirement to pay an interest penalty to private persons for the manufacture of such money. Such a tax is a special privilege and deeply against the public interest in that it destabilizes the debt-paying, purchasing power of the dollar, and impairs the stability of our national monetary unit, and our national medium of exchange, and our national measure of value. It further imposes a heavy burden on the taxpayers for the unearned interest on such bonds.

Congress by legislative mandate should instruct the Board to liquidate the stock of the Federal Reserve banks, repay the member banks the amount invested, and convert the twelve banks into one bank with the twelve branches

and sub-branches now or hereafter established.

The member banks, moreover, could act for depositors who have idle money on deposit and arrange the loan of their money for a reasonable commission.

The vital effect of this system would be that the money of the country could have its volume established and maintained at a point which would give complete stability to the purchasing-debt-paying power of the money in circulation. At present of the approximately \$32-billion of demand deposits, about \$4-billion are held inactive as deposits of the United States and various subdivisions thereof, representing tax money in the slow process of collection and disbursement. At least half of the remaining \$28-billion are inactive, not in circulation, held by corporations, trust companies, insurance companies, and individuals as idle money; causing what the officials of the Treasury and Federal Reserve Board loosely call an "easy money market", meaning that the United States can obtain the loan of this idle money at an extremely low interest rate. Of course member banks prefer to lend money to the Government at a low rate rather than to lend it to the public even for constructive purposes at a higher rate. The banks have a terrifying memory of what happened to them in the last ten years, in which 10,000 banks failed because of the violent convulsion which took place in the value of property when the contraction of credit took place. The average of the value of stocks listed on the New York Stock Exchange fell to one-sixth of the predepression price, which meant that the dollar was buying six times as much in this form of property as in the predepression days. Millions of borrowers of the banks were made insolvent and 10,000 banks failed in consequence.

It has been said with truth that the tragic depressed condition of the last ten years has been due to lack of confidence. But the lack of confidence is well founded when the United States is operating on a financial system that has no stability. Yet complete stability is easily obtainable now. There is no longer any danger of a runaway stock market. There is no longer any reason to fear a sudden and violent expansion of credit by the banks; but the law should be modified so as to prevent the possibility of such a contingency as an inflation of credit by the banks. This can be done by requiring 100 per cent reserves against demand deposits, where United States bonds and other sound bankable assets, if necessary, can be classified as equivalent to the cash required for 100 per cent reserves.

The Federal Reserve banks should be further stabilized by eliminating Federal Reserve notes, and eliminating any requirement for thirty-five per cent gold or lawful money against deposits. All forms of paper money should be abolished except a United States currency issued by the Federal Reserve Board to take the place of our other outstanding forms of paper money. This paper money should replace the gold certificates in the Federal Reserve banks, which cannot be used as a domestic medium of exchange. The gold against which these certificates have been issued should belong exclusively to the United States, available to the Federal Reserve banks to the extent of international

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requirements; and available for the United States to employ when normal conditions are restored internationally following this war.

The powers of the Open Market Committee should be exclusively vested in the Federal Reserve Board.

The members of the Board should be required by Congress to take a special oath pledging themselves to carry out faithfully the instructions of the Congress in its legislative mandate requiring the Board to restore the pre-depression price level and maintain it at approximate par, subject to future orders of the Congress.

The Congress should beware of permitting the opposition to the public control of the volume and value of money by Congress from diverting the attention of Congress from the main point by piling up a colossal record of matter which is not material to the solution of this question. The questionnaire framed by the experts of the Treasury, the Federal Reserve Board and others would probably take some thousands of pages if fully answered in detail. The questionnaire itself takes over eighty pages.

Certainly, the agencies now dealing with this question should be concentrated and simplified. The Comptroller of the Currency should be transferred to the Federal Deposit Insurance Corporation. The FDIC should be made a subdivision of the Board subject to its control. The Secretary of the Treasury should be required to cooperate in his fiscal operations with the Board with a view to maintaining the stability of the debt-paying purchasing power of money.

The responsibility should be put upon the Federal Reserve Board and they should be held responsible to the Congress, subject to a vote of no confidence in case they fail to carry out the reasonable expectation of the Congress. Let it be remembered that the Congress in this vital matter represents the people of the United States. The Congress can be depended upon to be absolutely just and fair in its appraisal of the performance or non-performance in an acceptable manner of the members of the Board.

The control and creation and regulation of the value of money under the Constitution of the United States is a solemn, serious, and imperative duty of the Congress, not to be transferred to the Federal Reserve Board except as an agency, much less to a Board that has shown itself to be an agency of privately controlled banks functioning according to the policy and folklore of those under whom we have had the tragedy of the last two great depressions within two decades.

Yours respectfully,

Robert L. Owen.

RLG/ag