

gone on record as being in favor of such development and has appropriated the taxpayers' money to help bring about such development: Now, therefore, be it

Resolved, That we, the Supervisors of the County of St. Lawrence, favor the development of the power of the St. Lawrence River and urge our Congressman and Senators to support any treaty or necessary appropriation of money and to use their influence to help bring about this development for the inestimable benefits which it will bring to this north country; and be it further

Resolved, That a copy of this resolution be sent to Congressman KILBURN, our United States Senator, the clerk of the Board of Supervisors of the County of Franklin, and the clerk of the Board of Supervisors of the County of Jefferson.

In His Annual Message to the New York State Legislature the Distinguished Governor of That State, the Honorable Herbert H. Lehman, Comes Out Unqualifiedly for the St. Lawrence River Development

EXTENSION OF REMARKS
OF

HON. FRANCIS D. CULKIN

OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES

Wednesday, January 22, 1941

Mr. CULKIN. Mr. Speaker, the socially minded and able Governor of New York, Hon. Herbert H. Lehman, in a special message to the legislature of that State, called for the enactment of a broad program designed to improve the industrial well-being and promote the social welfare of the people of the State.

Perhaps the most important of his recommendations was an unqualified and sweeping request to the legislature that the power resources of the St. Lawrence River be developed in collaboration with the Federal Government. The Governor in his message states that for many years he has been an ardent advocate of this development, and that he now believes that this development and utilization is an urgent national necessity. The Governor expresses the hope that favorable congressional action will be forthcoming as soon as the final agreement with Canada is reached, so that the low-cost power of the St. Lawrence can contribute at as early a date as possible in furthering the social well-being and economic welfare of the people of the State of New York. Incidentally, he refers to the future potentialities in the power that the State owns at Niagara Falls and voices the belief that further development should be had there in the interest of the Nation.

I trust my own party, now dominant in the State legislature, will not muff this great issue and let the Governor run away with the ball on it. They should back him unqualifiedly in his attempt to complete this great project. The Republican Party's history on this has been

unfortunate, and to my own knowledge we have lost three Governorships largely on this issue.

I am advised that the utilities are not opposing this development, but certain interests in New York City and Buffalo, in collaboration with the railroads, are setting afloat a great mass of half-baked propaganda not founded on fact and destructive of the real interests of the people of the entire State.

Governor Lehman is a man of large affairs, and his clarion call to duty on the part of the State rises high above the selfish demand of localities. In urging the inception and completion of this great project, Governor Lehman has joined a splendid company, living and dead. Woodrow Wilson, Calvin Coolidge, Herbert Hoover, and the present occupant of the White House repeatedly recommended this project as an economic necessity to the real development of America and an imperative phase of national defense.

Pursuant to the permission of the House, I append an extract from the message to the legislature in regard to the development of the St. Lawrence River:

THE STATE'S POWER PROGRAM

In the power resources of the St. Lawrence River the people of the State of New York possess a heritage of great value. I have long favored their development under a State self-supporting project. I have helped to safeguard and further such a project.

During the term of my predecessor the long-developing public-power policy of the State of New York finally was enunciated in the terms of the Power Authority Act. In 1933, during my first term as Governor, complete recognition was secured for the State project in an accord between Federal and State authorities, embodied in resolutions adopted by the United States House of Representatives upon recommendation of the President and the leaders of both parties. In 1934 the legislature adopted measures to permit municipalities of the State to distribute electric current, subject to local referendum elections. This legislation was enacted in response to my recommendation that it was in part needed to broaden the market and to increase the benefits accruing from the State's public project on the St. Lawrence.

I believe the development and utilization of St. Lawrence power is an urgent necessity. Because of this belief I conferred last summer with the trustees of the power authority and thereafter presented to the President proposals looking toward the immediate undertaking of the St. Lawrence development. I pointed out that, in my opinion, there was authority for initiating the project under the Boundary Waters Treaty of 1909 and recommended that preliminary engineering work be started at once.

On October 16 the President, by Executive order, appointed the St. Lawrence Advisory Committee, directing it to proceed with the preliminary work and allocated \$1,000,000 for the task.

In the selection of this committee the interests of the State of New York were again recognized by the appointment of a representative of the trustees of the power authority, serving with representatives from the Department of State, the Corps of Engineers, United States Army, and the Federal Power Commission. In Canada a similar committee has been established, composed of representatives from corresponding Dominion and provincial authorities. Thus, the four Governments directly concerned with the project in the international rapids

section are today working in harmony to make the development serve public needs on both sides of the border, through cooperative efforts of Federal agencies of the United States, Dominion agencies of Canada, the Power Authority of the State of New York, and the Hydro-Electric Power Commission of the Province of Ontario. I consider New York's continued active collaboration in this work of great importance.

Since the setting up of the United States Committee, President Roosevelt, on December 4, signified his intention of presenting to the newly elected Congress the question of immediate development of the St. Lawrence River. This decision I welcome as a means of advancing the State's project in the International Rapids section.

I hope that favorable congressional action will be forthcoming as soon as final agreement with Canada is reached, so that the low-cost power of the St. Lawrence can contribute at as early a date as possible in furthering the social well-being and economic betterment of all the people of the State of New York.

And this brings me to speak of another great power resource the State possesses in the Falls of the Niagara River. There the potentialities are comparable to those of the St. Lawrence. I hope to see a public development of the latent power resources of Niagara, so that the people of the State, whether in New York City, Buffalo, Binghamton, Albany, or on the farms, may participate in its benefits as well as those of the St. Lawrence.

Both of these great water powers belong to the people of the State and must be protected. I have on two former occasions recommended a constitutional amendment designed to write into the State constitution the safeguard that the water-power resources owned by the State shall forever remain inalienable for the use of the people and not of private utility companies. I again recommend the adoption of this amendment to the constitution.

Hon. Robert L. Owen Outlines Monetary Program To Meet America's Present Need

EXTENSION OF REMARKS
OF

JERRY VOORHIS

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

Wednesday, January 22, 1941

LETTER FROM FORMER SENATOR ROBERT L. OWEN, OF OKLAHOMA

Mr. VOORHIS of California. Mr. Speaker, former Senator Robert L. Owen, of Oklahoma, occupies a unique position in the field of monetary science in the United States. For years his has been a clear, strong voice outlining a road which America should long since have followed.

It is with deep sense of gratitude that I am able to have permission to have printed in the RECORD herewith a letter from Senator Owen expressing his general approval of my speech of January 13 analyzing the report of the Federal Reserve Board. But I appreciate still more the opportunity to include this letter in the RECORD for the reason that Senator Owen outlines in the letter his

own constructive program. It is eminently worth reading by every Member of Congress as well as by the people of the Nation generally.

The letter follows:

WASHINGTON, D. C., 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 predepression 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 \$3,000,000,000 and nullified the Thomas amendment, in which Congress proposed to expand credit \$6,000,000,000.

The Federal Reserve Board now commends the repeal of the Thomas amendment by which the \$6,000,000,000 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 (art. I, sec. 8, par. 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 95 percent of our national monetary business. They function through 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 through loans from the member banks? The answer is: The banks have over \$7,000,000,000 of capital which could be loaned. They have available for such purposes the savings accounts and time deposits amounting to about \$30,000,000,000 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 through 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 12 banks into 1 bank with the 12 branches and subbranches 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 \$32,000,000,000 of demand deposits, about \$4,000,000,000 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 \$28,000,000,000 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 10 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 10 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-percent 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-percent reserves.

The Federal Reserve banks should be further stabilized by eliminating Federal Reserve notes, and eliminating any requirement for 35-percent 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 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 predepression 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 80 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 F. D. I. C. 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 nonperformance 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.

much of it is being unwisely and inefficiently spent during the present emergency.

I feel that there is not a Member of this body who does not want our Government to receive a dollar for every dollar spent. I believe every Member feels that it is our duty to know. Without question, I feel that every Member will give this resolution full support.

EXTENSION OF REMARKS

Mr. SPRINGER. Mr. Speaker, I ask unanimous consent to extend my own remarks in the Appendix of the RECORD, and to include therein an editorial appearing in the Palladium-Item, of Richmond, Ind.

The SPEAKER. Is there objection? There was no objection.

[The matter referred to appears in the Appendix.]

AID TO BRITAIN

Mr. VORYS of Ohio. Mr. Speaker, H. R. 1776 is the most important bill this House has ever considered. It involves a complete change in the way of life of our Republic, both internally and in our foreign relations. Every one of us is in accord with the purpose of the bill as expressed in its title, "To promote the defense of the United States." Many of us feel that the methods now provided by the bill defeat its stated purpose. All of us should reserve final judgment until we vote on the final form of this bill, but, in the meantime, we should exchange freely our present views on this bill and the issues involved. In this spirit I wish to offer the following comments on this bill, after 3 days' preliminary analysis, before the hearings begin:

First. This is the first time "aid to Britain" has ever been considered by Congress or by the people as a legal measure of domestic and foreign policy. We are not now talking about sympathy for Britain, friendship for Britain, private aid to Britain, or permitting Britain to aid herself under our laws, but military, governmental, legislative aid to Britain.

Second. "Aid to Britain" as a policy has never been approved by a vote of the country or by Congress. Since both candidates for President took the same stand, the people could express no choice in the election. In every bill that has come before Congress to date, "aid to Britain" has been officially disavowed as the purpose.

Third. In the present state of our national defense we will have nothing to spare for many months for "aid to Britain" which cannot be given under existing laws. The chances are that invasion of Britain will be postponed while we debate this bill. Most observers agree that Hitler will try a knockout invasion of Britain as soon as we finally decide upon all-out "aid to Britain," but before we are ready to do anything about it. Therefore deliberate consideration of this bill is in itself an incidental "aid to Britain" which all should approve.

Fourth. This bill gives the President power to give away anything to any other country, after seizing it in this country, without limit in law. It is not a blank check, for there are limits to what you can do with a blank check. It is more appropriate to say that this bill makes

the President executor of the will of a dead republic, for under it we surrender our democratic way of life now, for fear of a future threat to our democratic way of life. The oldest and the last constitutional republic surrenders its freedom in order to avoid war, with the probable result that the newest dictatorship will soon go to war.

Fifth. The lease-lending policy without the "silly dollar sign" means that we are adopting the barter system of the Nazis. If we are to adopt this system, then we should take over every possession in this hemisphere of those with whom we barter, until the end of the war, not as a mortgage or another "silly dollar sign" security but just to show that those we aid trust us as much as we trust them. [Applause.]

EXTENSION OF REMARKS

Mr. MUNDT. Mr. Speaker, I ask unanimous consent to extend my remarks and to include an editorial published in the best city in America, my home town.

The SPEAKER. Is there objection? There was no objection.

[The matter referred to appears in the Appendix.]

SWEARING IN OF A MEMBER

The SPEAKER laid before the House the following communication, which was read:

TUCSON, ARIZ., January 6, 1941.

Hon. SAM RAYBURN,

Speaker, House of Representatives,
United States, Washington, D. C.

SIR: In accordance with your designation of me, pursuant to House Resolution 13, Seventy-seventh Congress, adopted by the House of Representatives, to administer the oath of office to Representative-elect EDWIN M. SCHAEFER, of the Twenty-second District of Illinois, I have the honor to report that on the 6th day of January 1941, at the city of Tucson, State of Arizona, I administered the oath of office to Mr. SCHAEFER, form prescribed by section 1757 of the Revised Statutes of the United States, being the form of oath administered to Members of the House of Representatives, to which Mr. SCHAEFER subscribed.

I have the honor to be

Yours respectfully,

ALBERT M. SAMES,
Judge of the United States
District Court of Arizona.

IN THE UNITED STATES DISTRICT
COURT FOR THE DISTRICT OF ARIZONA.

UNITED STATES OF AMERICA,
District of Arizona, ss:

I do solemnly swear that I will support and defend the Constitution of the United States against all enemies, foreign and domestic; that I will bear true faith and allegiance to the same; that I take this obligation freely, without any mental reservation or purpose of evasion; and that I will well and faithfully discharge the duties of the office on which I am about to enter. So help me God.

EDWIN M. SCHAEFER.

Subscribed and sworn before me this 6th day of January 1941.

ALBERT M. SAMES,
United States District Judge.

Mr. McCORMACK. Mr. Speaker, I offer the following resolution, which I send to the desk.

The Clerk read as follows:
House Resolution 59

Whereas EDWIN M. SCHAEFER, a Representative from the State of Illinois, from the

Twenty-second District thereof, has been unable from sickness to appear in person to be sworn as a Member of this House, but has sworn to and subscribed the oath of office before Judge Albert M. Sames, authorized by resolution of this House to administer the oath, and the said oath of office has been presented in his behalf to the House, and there being no contest or question as to his election: Therefore

Resolved, That the said oath be accepted and received by the House as the oath of office of the said EDWIN M. SCHAEFER as a Member of this House.

ADJOURNMENT OVER

Mr. McCORMACK. Mr. Speaker, I ask unanimous consent that when the House adjourns today it adjourn to meet on Thursday next.

The SPEAKER. Is there objection?

Mr. MARTIN of Massachusetts. Mr. Speaker, I reserve the right to object. I shall not object, because I understand this is an arrangement which is perfectly satisfactory to the chairman of the Committee on Foreign Affairs. It is the purpose of our Committee on Committees to meet tomorrow to fill vacancies on the Republican side on the Committee on Foreign Affairs. I understand from the chairman that if that election does take place he is willing to have the Members sit in the hearings on Wednesday and Thursday.

Mr. McCORMACK. Mr. Speaker, I can see no objection to that. As a matter of fact that is the proper procedure to employ.

My friend from Massachusetts has talked with the chairman of the Committee on Foreign Affairs. I assure the gentleman that I will see that that understanding is carried out, as far as I can do so.

Mr. FISH. And I assume that those Members will have a right to vote in the committee if anything is considered?

Mr. McCORMACK. I would like to have the gentleman from Massachusetts obtain that promise from the chairman of the committee.

Mr. MARTIN of Massachusetts. The request is for an adjournment until Thursday. I said that our Committee on Committees might have a meeting tomorrow morning to fill the three vacancies which exist on the Committee on Foreign Affairs. I understand it is perfectly all right for those three people, who will not formally become members of the committee until the House elects them on Thursday, to sit in at the hearings in the meantime?

Mr. BLOOM. That is perfectly satisfactory.

The SPEAKER. Is there objection to the request of the gentleman from Massachusetts [Mr. McCORMACK]?

There was no objection.

THE REPORT TO CONGRESS BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, PRESIDENTS OF THE FEDERAL RESERVE BANKS, AND THE FEDERAL ADVISORY COUNCIL

The SPEAKER. Under previous order of the House, the gentleman from California [Mr. Voorhis] is recognized for 25 minutes.

Mr. VOORHIS of California. Mr. Speaker, it is my purpose this afternoon to discuss the recent report of the Federal Reserve Board to the Congress; and since

I have rather carefully prepared my statement on the subject, I would like to request that I be permitted to complete it before I am interrupted, at which time I will be very glad to answer any questions that anyone wants to direct to me.

The report has opened up the whole question of the monetary and credit system of the United States and the matter of mobilizing the monetary resources of the Nation for the national-defense effort as well as for that critical future period when expenditures for armament will inevitably have to be reduced and when the future of democratic government itself will depend upon whether or not the Congress has a workable and reasonable answer to the problems of debt and the supplying of an adequate flow of active buying power for the Nation. At the outset it should be noted that this report comes to the Congress, not from a governmental or public body but from a group of essentially private bankers. The advisory council and the presidents of the Federal Reserve banks can certainly not be held to be in any real sense public officers at all; and so far as the Board of Governors is concerned, while it is appointed by the President, its job consists primarily of the administration of affairs of the 12 central Federal Reserve banks, the entire capital stock of which is owned by the private member banks of the System. In short, when this report asks Congress to curtail the monetary powers of the President and the Treasury and to increase the monetary powers of the group making the report, what is really being asked is an increase in the power of the private banking system itself over the monetary and credit resources of the United States.

WERE 12 CENTRAL BANKS PUBLIC BANKS,
SITUATION WOULD BE DIFFERENT

Were the 12 central Federal Reserve banks national institutions, as they could be made by the purchase of their capital stock by the Congress, the situation would be an entirely different one, and a report from the Board of Governors could then be viewed in an entirely different light from the one in which it must under present circumstances be viewed. Even such Members of Congress as are strongly inclined to agree with the Board's contention that there are too many monetary powers in the hands of too many Government agencies at present will find it difficult, if not impossible, to feel that the Board of Governors and its open-market committee are the proper agencies from a truly national viewpoint in which to lodge increased powers.

GREAT WORRY OVER INFLATION—NONE OVER
DEFLATION

We should have learned by this time to expect the Board and the banking group making this report to be profoundly concerned about any possible tendency in the economic conditions of the country to reduce the purchasing power of interest, or, in other words, to increase the value of real wealth relative to money; and we should have learned to correspondingly expect very little concern on the part of this group over an increase in the purchasing power of interest, or, in other words, a deflation in

the value of real wealth relative to money. And yet it is periods of declining dollar value and increasing value for real wealth that have almost always been the periods of prosperity. I believe the reason for this is that we have probably never had sufficient really honest money to carry on the business of the Nation properly. The fact of the matter is that there are still in this country at least 8,000,000 people out of work, that the general price level for basic agricultural commodities is hardly 60 percent of the predepression price level, and that the general all-commodities price index stands at approximately 79.6 percent of that predepression price level.

OUR FIRST JOB—FULL PRODUCTION

The first main point that I want to make about the report of the Board, therefore, is to say with all the emphasis at my command that the primary effort of every single person charged with responsibility today in the United States should be to bring about as speedily as possible full production of wealth, full employment of our people, and the fullest possible use of all the natural, industrial, and human resources of the United States. When such a condition has been achieved it will be time to talk of measures to check possible inflation, and I should like to point out that in the Board's recommendations regarding taxation, contained in the fifth point of its report, the Board itself states that—

Whenever the country approaches a condition of full utilization of its economic capacity with the appropriate consideration of both employment and production the Budget should be balanced.

With this statement, as, indeed, with all the recommendations of the Board regarding taxation, I am in full accord, but it only goes to reemphasize the importance of our pursuing a course in which nothing whatsoever will be done to prevent the speediest possible realization of the condition of full utilization of our economic capacity, to which the Board itself makes reference. For the objective of a balanced budget, to which every conscientious person must look forward and for which every conscientious person must work, is entirely dependent upon an increase in tax revenues to be achieved not by increasingly heavy governmental levies against an inadequate national income, but by a vastly increased national income, from which even on present tax rates a very large amount of revenue would be derived.

LET US NOT FORGET MISTAKES OF 1937

Surely the gentlemen making this report have not forgotten what happened to us in the year 1937 when the country was on the point of achieving a real recovery, but when the precipitous inauguration of a deflationary program by the Board and the Congress simultaneously brought about the sharpest drop in production and in employment in the whole history of this country. Nor is the excuse frequently advanced that a few monopoly administered prices had risen too fast by any strain of imagination a valid one for having taken measures which penalized the whole economy in place of dealing specifically with those monopoly

conditions which required special treatment. It is to be hoped that these same mistakes are not to be made again and that if specific prices rise too fast or too far specific and not general measures will be taken to meet the situation.

FRACTIONAL RESERVE SYSTEM ITSELF CAUSE OF
TROUBLE

The Board quite properly points to the excess reserves existing in the commercial banks as the main source of its concern over the possibility of an inflationary condition arising at some future time. But instead of advancing a clear-cut and ultimately effective program for dealing with this problem of excess reserves, with its accompanying possibility of a tremendous multiple expansion of bank credit, the group making this report proposes only halfway measures in its own particular field of bank-credit control and lays great emphasis on the curtailment of the monetary powers of the President and the Treasury, in whose case, whatever may be said of the inadvisability of scattering monetary powers all over the governmental structure of the country, we are at least dealing with governmental officials responsible to the people of the country. It would have come with far better grace had the Board asked for sufficient power in its own proper field, namely, that of the control of reserves and consequently of the multiple expansion of bank credit instead of asking that the powers of other agencies of our Government be extinguished or curtailed.

This brings me to another of the central points I wish to make, namely, that we should at this time consider the central question as to whether this Nation or any other nation can ever have a sound and dependable monetary and credit structure so long as a system of fractional reserves is in effect in its banking system. For such a system gives to the banking system the power to create money for the purpose of making loans, thus circumventing an explicit provision of the American Constitution, which vests in Congress the sole power to "coin money and regulate the value thereof." The Board proposes that the Federal Open Market Committee be empowered to increase reserve requirements to twice the present statutory requirements and that this power be extended so as to cover all banks in the country, and not merely member banks of the Federal Reserve System. The Open Market Committee consists largely of a group of private bankers who are the presidents of certain Federal Reserve banks. What is therefore proposed here is a thing which seems to me strikingly like the power exercised over the credit resources of the country by the Bank of the United States against which President Andrew Jackson conducted his historical battle. There can be no doubt of the disturbing effect which the power to change reserve requirements within wide limits will have upon most of the small banks of the country, particularly in rural areas. Indeed, it is precisely those banks, most of whom are not now parts of the Federal Reserve System, which would suffer most severely and be forced to deflate most sharply as a result of a bald order to sharply increase their cash reserves.

The most important thing to any conscientious banker is to know precisely where he stands, and it is my considered opinion that even from the standpoint of the majority of the banks in the country, let alone for the moment the interest of industry, agriculture, and the people generally, it would be far preferable to introduce in a fair and equitable manner a 100-percent reserve system for demand deposits at this time and to put our entire bank system on a 100-percent safe, 100-percent dependable, and 100-percent constitutional basis. I shall return to this consideration in a moment.

WHY BOARD ASKS END TO MONETARY POWERS OF GOVERNMENT AGENCIES

But in order to understand thoroughly its importance it is necessary to consider one or two other proposals of the Board and the bankers who join with the Board in the recommendations. The report suggests that the power of the President to issue \$3,000,000,000 of Government money, which was granted to him in the Thomas amendment, should be taken away. It also proposes that the power of the Treasury to issue silver certificates against some billion and a half dollars of silver seigniorage should be revoked, and in the third place it proposes that if bonds are to be sold by the Treasury that they be sold to private individuals and nonfinancial corporations rather than to banks, for the reason that if they are sold the banks will buy them with newly created deposits on their books, thus increasing by the amount of the face of the bond issue the amount of credit in existence in the country. One of the most important questions which America must face as she confronts this vast program of defense expenditures is the extent to which these expenditures are going to add to an interest-bearing debt and lead eventually to a possible insupportable debt structure in this country. And it is important for us to understand thoroughly the fact that whether we finance the defense program by interest-bearing bonds or by a noninterest-bearing use of Government credit, future tax revenues must be expected to retire either of these at some future time. It is therefore primarily and purely a question as to whether we desire to saddle our people with the necessity of paying interest upon and eventually retiring out of future tax revenues a huge interest-bearing debt or whether we will be sensible and patriotic enough to use the sovereign power of the Nation to create its own credit directly in the form of non-interest-bearing notes or other credit instruments and provide an appropriate tax mechanism to satisfactorily retire these credit issues when and if necessary to prevent inflation from resulting. I might remark aside that this very question is being discussed at this very time in the British Parliament. And since so much has been said regarding the disastrous German inflation of the post-war period, I think it is important to point out that the cause of this inflation was not the fact that the Government issued money but rather the fact that the German nation had, during the World War period, accumulated such a staggering burden of interest-bearing debt that the easy way out of the situa-

tion was an inflation of the currency up to the point where that debt would be wiped out. It is, I think, of the most tremendous importance to the United States that we be clear in our thinking on this matter and govern our action accordingly.

The point of my discussion immediately foregoing is this: The reason the Board wants the President's power to issue the \$3,000,000,000 and the Treasury's power to issue certificates against silver seigniorage extinguished is because it knows, as does everybody else, that the exercise of these powers would not only, under present circumstances, put into circulation the amount of money that might be issued under either of these powers but would also add still further to reserves in the banks and make possible, through the fractional reserve system, a multiple expansion of bank credit on the basis of those reserves.

Hence, in the last analysis, what the Board is trying to accomplish by asking for the taking away of these powers is for the protection of the power of the private banks to expand on the basis of fractional reserves, and thus to create the medium of exchange which American business uses. It is probably true that the very existence of this power in the private banks, coupled with the large volume of issues of tax-exempt securities by the Treasury, has been one of the primary reasons why the banks of the country have not made more commercial loans or active investments in recent years. They have had too considerable a business creating money for the Government on the basis of gilt-edged securities to care to engage in venture business. I do not believe we can blame the banks.

An interpretation, therefore, of the Board's recommendation would be this: That so long as the fractional reserve system exists, the financial powers of the country will possess an argument which they will present against every proposal that the Government in the name of the people exercise its fundamental right of sovereignty through an issue of money or through use of its own basic credit. That argument will be that if any Government agency does this, it will increase excess reserves.

PROBLEM OF GOLD

As a further means of protecting the existing unsatisfactory system, the Board proposes a sterilization of gold which may be acquired in the future. In simple words, what this means is that the people of America are to purchase gold from abroad by issuing interest-bearing bonds with which to buy it and are then to bury the gold and make no further use of it, in any way whatsoever. Such a program not only means an increase in the interest-bearing public debt but is about as economically indefensible a procedure from every reasonable standpoint as I can conceive. I should be the last person to advocate a return to the gold standard; but if gold is to be purchased at all, certainly it is that the purchase should be accomplished by means of non-interest-bearing national money or credit secured by the gold itself. We have gone quite far enough, in my opinion, with this method of basing the monetary system of

America on an interest-bearing public debt.

The gold certificates so far issued have in effect been similar to non-interest-bearing bonds, and while they have had the bad effect of preventing governmental use of the gold, they have at least had the virtue of not adding to the public debt. The Board's objection to them, of course, and its suggestion that gold be sterilized instead arises from the fact once again that the gold certificates have added to bank reserves and contributed therefore to the possibility of future bank credit inflation. So far as the President's power to further devalue the dollar in terms of gold is concerned, it may well be that in the present state of foreign trade it is far less important than it was earlier when there existed every possibility of foreign nations devaluing their own currency, and thus in effect raising the cost of American products in terms of their currency. Nevertheless, it seems to me that the Board's proposal really constitutes a suggestion that the relationship of our dollar to gold be frozen at \$35 per ounce and it is certainly conceivable that at some future time we might under these circumstances see a revival of the old practice of speculation by the international banking fraternity in the currencies of various countries without any power in the hands of any governmental agent in America to forestall this.

There is much to be said for the proposal that our dollar be completely divorced from gold, so that international shipments of the yellow metal would have no effect on the dollar's value, but if a fixed relationship is to be maintained it seems to me extremely unwise to make it an absolute rigid one, and while I frankly believe that the power in this respect should be lodged in an agency of the Congress rather than in the President, I, nevertheless, believe that the power to change the relationship of our dollar to gold should be present somewhere in some governmental body so long as a fixed relationship is maintained. Of course, we know that the main purpose of gold purchases today is in order to give to the British Empire additional buying power in the United States. Assuming that this is a good reason, it still seems to me true that either we should make some national monetary use of the gold purchased instead of bonds or else we should cut our dollar completely loose from gold and purchase it at whatever its current market price might be. This whole gold question is one of the most difficult ones of all and I certainly do not want to represent myself as prepared to give a final answer to it.

As a means of preventing further expansion of our money supply, the Board has suggested that Treasury bonds be sold only to private individuals or corporations but not to banks. The reason, of course, is that banks make purchases of such bonds with new deposits created for that purpose, whereas private individuals and nonfinancial corporations do not enjoy this essentially governmental economic privilege. I should like to point out, however, that just as long as the fractional reserve system is in effect, particularly as long as it is possible for

banks to utilize Government bonds as collateral for Federal Reserve note issues, it will be altogether possible for private individuals to purchase the bonds from the Treasury and then to present them at banks as security for loans, whereupon the banks will be in a position to create deposits in an amount equal to the loans to be made, so that we come back once again to the fact that the real key to this whole situation is the fractional reserve system itself and that until that is fundamentally corrected we can hardly hope for a really dependable and controllable monetary and credit system.

ONE HUNDRED-PERCENT RESERVE SYSTEM COULD BE EASILY AND HARMLESSLY PUT INTO EFFECT OVER PERIOD OF TIME

Since I have spoken so much of the 100-percent system, I should like to point out a few facts regarding it. To require its establishment by the banks of the country at the present time would, of course, make it necessary and certainly not more than fair to see to it that the banks were able to establish dollar-for-dollar reserves for demand deposits without deflationary or harmful consequences. That this is altogether possible from the standpoint of our banking system as a whole will be clear from the following figures—the total of demand deposits in all banks, using December figures for Federal Reserve member banks and June figures for all other banks amounts to \$31,960,000,000. Against these deposits, however, the banks have the following cash resources and Government bonds:

Cash reserves with Federal Reserves.....	\$13,751,000,000
Cash in vault.....	1,105,000,000
Direct Government obligations.....	15,691,000,000
Fully guaranteed obligations.....	3,975,000,000
Total.....	34,522,000,000

Thus it will be plain that, taking the banking system as a whole and leaving out of account completely cash balances held by one bank with another bank, the available coverage for demand deposits exceeds the sum total of the demand deposits by approximately two and one-half billion dollars. This, of course, does not mean that all the individual banks in the country have sufficient cash plus Government bonds to cover their demand deposits. In such cases, if it was desired by the banks, loans at no interest of sufficient cash to make possible 100-percent coverage of demand deposits could be made to individual banks by the Federal Reserve, and in spite of the fact that this would be in effect giving the banks that amount of cash, nevertheless it seems to me that this would not be too heavy a price to pay to get our monetary system onto a sound and workable basis.

I have, of course, assumed that banks will be permitted to count direct and fully guaranteed obligations of the United States as a portion of the cash reserves. I should like to point out that this procedure would logically imply that when such bonds reached maturity they would be retired by the simple process of replacing them with new cash created for that purpose. Thus that portion of the public debt now held by banks would be

easily extinguished as an accompanying advantage to the establishment of a 100-percent reserve.

The question will inevitably be asked where the banks will secure money for the purpose of making loans with a 100-percent reserve system in effect. The answer to this is severalfold. In the first place, they would have their own money—that is, their capital and surplus. In the second place, they would have money deposited with them under circumstances where the depositor was deliberately and intentionally placing his money in the bank for investment purposes. This is what really happens in the case of savings and time deposits. In contradistinction to demand deposits, where the depositor—at present erroneously—thinks his money will be kept for him by the bank until he asks for it. In the third place, the 100-percent reserve system need not mean the end of the rediscount privilege which banks now exercise in connection with the Federal Reserve banks. Such a procedure is, I agree, a compromise with sound monetary principles, but would probably not be harmful as a means of transition until a system of interbank loans is perfected to take care of any need for credit in particular banks. In other words, it would be quite as possible then as now for expansion to take place on the basis of legitimate commercial demand, although I am frank to say that I believe the ideal monetary system would be one in which no money whatsoever was ever created for the purpose of making a loan but where all loans were made by preexisting money.

ADVANTAGE FROM CREATION OF MONEY OR CREDIT SHOULD ALWAYS BE PUBLIC ADVANTAGE

This brings me back to where I started from, namely, to the point that the 12 central Federal Reserve banks should be made the central banks of the American Nation instead of private banks as they now are. For if this change were effected, and if then the rediscounting privilege were still continued in effect, the advantage from an expansion of the monetary supply of the country on the basis of an increase in its business activity and production would be derived not by the private banking system as now but rather by the Nation as a whole. That this would be of tremendous consequence from the standpoint of a balancing of a budget without ruinously heavy taxation is, I think, very clear. Of course, what ought to happen in the case of expanding demand for money is that the additional money needed should be created by the duly authorized agent of Congress.

WE NEED ONE MONETARY AGENT OF CONGRESS ACTING UNDER EXPLICIT INSTRUCTIONS

The Board is, of course, entirely right that if further borrowing is to be resorted to by the Treasury it should be accomplished on the basis of taxable rather than tax-exempt securities, and I think the Board is also right in its contention that if Congress is to expect an orderly control of our money and credit system it has got to give some agency the power to accomplish this, and it must not at the same time lodge powers in other agencies which can nullify the action of the body

supposed to be responsible for the main results. If we are to take seriously this justifiable contention on the part of the Board, then certainly the time has come for us to consider this whole matter in fundamental fashion, to set up an agency—one agency directly responsible to the Congress of the United States—which will be charged with the responsibility of giving to the United States of America, both now and in the future, a dollar of stable and dependable purchasing and debt-paying power. Such an agency would have to exercise the sole and exclusive right of the original creation of money or any substitute therefor in the United States, and it would certainly have to have the cooperation of the Congress in devising such tax laws as could operate effectively to check real inflationary tendencies when they appear. This could probably be best accomplished by means of some rather general tax whose rate could be varied from time to time, depending upon whether or not it was desirable to withdraw from circulation a certain amount of money or to expand the circulating medium.

WHAT THE FUTURE OUGHT TO HOLD

In many respects the Board of Governors, the presidents of the banks, and the Advisory Council have performed a real service, for they have brought to the attention of the Congress the central and fundamental nature of one of the greatest problems connected with our defense program and with the future of our Nation's economic order. But I profoundly wish that the Board had strengthened its own position by suggesting, first, that it be made a bona fide public body free to act solely in the public interest through the purchase of the capital stock of the 12 central Reserve banks by the Congress. And I also wish that they had asked in more fundamental fashion for a correction of what seems to me the central difficulty of our present system—namely, the fractional-reserve system itself. I dare hope that the time may come in the United States when by means of vesting in an agency of Congress the sole power to originally create money and credit in America and by providing specifically that such power will be used for the sole purpose of maintaining a stable value in the dollar and facilitating a continuous expansion of our commerce and industry; I dare hope that when we have done these things we can then proceed to bring to an end the encroachment upon the legitimate field of private banking—namely, the field of making loans, by innumerable Government agencies. When government creates money but never loans it, and when private banks loan money but never create it, we shall have approached as nearly to an ideal monetary system as in my judgment it is possible for us to do. The first step toward bringing about such a system is, as I have already said several times in this speech, the purchase by Congress of the 12 central Federal Reserve banks. [Applause.]

[Here the gavel fell.]

Mr. MURDOCK. Mr. Speaker, I ask unanimous consent that the gentleman's time may be extended 5 minutes.