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How Money Is Created by Privately Owned Banking System

Remarks of

Hon. Wright Patman

of Texas

in the

House of Representatives

September 29, October 27, December 1, 1941

January 19, February 10 and 16, 1942

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War Debt Can Be Paid In 40 Years Without Unbearable Burden on Taxpayers by Congress Using the Government's Credit and Idle Gold Instead of Continuing to Farm It Out to Special Private Corporate Interests

SPEECH

OF

HON. WRIGHT PATMAN

OF TEXAS

IN THE HOUSE OF REPRESENTATIVES

September 29, October 27, December 11, 1941; January 19, February 10 and 16, 1942

Monday, January 19, 1942

Mr. PATMAN. Mr. Speaker, I am introducing today a bill, H. R. 6391, providing for the issuance of nonnegotiable United States bonds to Federal Reserve banks, which if enacted into law, will permit the financing of our war debt without the payment of interest.

TAXPAYERS CAN BE SAVED 50 PERCENT ON WAR DEBT

It is referred to the Committee on Ways and Means of the House since it involves the issuance of Government securities a subject over which this committee has exclusive jurisdiction. It is particularly appropriate that the same committee that will consider the new tax bill which is to raise billions of dollars annually should also consider a proposal that is intended to, and can, reduce our war expenditures by 50 percent at least.

A bill providing for the issuance of nonnegotiable United States bonds to Federal Reserve banks and terminating the authority of the Treasury to issue other interest-bearing obligations of the United States to commercial banks, and for other purposes

Be it enacted, etc., That the Secretary of the Treasury, with the approval of the President, is authorized to issue from time to time United States bonds, the proceeds of which shall be available to meet any public expenditures authorized by law and to retire any outstanding obligations of the United States bearing interest or issued on a discount or on a combination interest-bearing and discount basis. Such bonds shall be issued in such form or forms and in such denominations, and mature at such times (not in excess of 40 years from the date of issue) as the Secretary of the Treasury may prescribe. Such bonds shall not bear interest or be issued on a discount basis and shall not be negotiable or transferable.

SEC. 2. Bonds issued under the provisions of this act shall be issued solely to Federal Reserve banks and shall be subscribed for by the various Federal Reserve banks in such proportions of the entire issue as may be agreed upon by the Secretary of the Treasury and the Board of Governors of the Federal Reserve System. The Secretary of the Treasury shall pay, out of any funds hereafter appropriated for such purpose, to each Federal Reserve bank subscribing to bonds issued under this act, such amounts as he deems necessary to reimburse such bank for any expenses incurred by it in connection with such bonds.

SEC. 3. The authority of the Secretary of the Treasury to issue any interest-bearing obligations of the United States (including obligations issued on a discount basis or on a combination discount and interest-bearing basis) under any other provisions of law is hereby terminated insofar as the issuance of United States bonds to any bank receiving demand deposits is authorized thereby. Except in accordance with such regulations as the Secretary of the Treasury may prescribe in order to provide for the orderly disposition of United States bonds held by any bank receiving demand deposits on the date of the enactment of this act, no such bank shall at any time hold any amount of United States bonds in excess of the amount held by it on December 31, 1941.

SEC. 4. The first two paragraphs of section 7 of the Federal Reserve Act, as amended, are amended to read as follows:

"SEC. 7. After all necessary expenses of a Federal Reserve bank have been paid or provided for and a surplus equal to the paid-in capital stock of such bank accumulated, the annual net earnings of such bank shall be paid into the general fund of the Treasury.

"Should a Federal Reserve bank be dissolved or go into liquidation, any surplus remaining, after the payment of all debts and the par value of all stock, shall be paid to and become the property of the United States."

WILL STOP FARMING OUT GOVERNMENT CREDIT AND USE OF IDLE GOLD FREE TO BOND BUYERS

Section 1 of the bill will permit the Secretary of the Treasury, instead of selling Government interest-bearing bonds, to receive the money necessary to meet any public expenditure by issuing and depositing with the 12 Federal Reserve banks bonds that provide for no interest. These bonds will not be sold to the public, as the public generally would probably not be interested in buying them since they will not draw interest, but the Federal Reserve banks can keep them, and each year the Government can make a payment on the bonds to the Federal Reserve banks.

Under our present system the Treasury, when it needs money, sells bonds that provide for interest through the Federal Reserve banks, and in that way the Treasury receives credit at the Federal Reserve banks, which is checked upon in order to pay the debts of the Government. This proposal will permit the Treasury to receive the same amount of credit as on interest-bearing bonds and the Treasury may check upon this credit in the same manner that it is checked upon today when interest-bearing bonds are sold. In other words, when this proposal is enacted, the Treasury will give the same kind of checks to the same people for the same service, or in payment of the same debts. The people receiving these checks under the new proposal will deposit them or receive the money on them in the same way and manner that they now receive credit at the local banks, or receive the money in return for their checks.

This will not cause the distribution or circulation of one extra dollar of actual currency. Therefore, it cannot be considered a greenback or printing-press proposal. It is strictly an orthodox banking method, which will permit the Government to finance the war debt without paying tribute to a few people, who are using the Government's credit and idle gold absolutely free.

HOW NON-INTEREST-BEARING BONDS DISTRIBUTED

Section 2 of the bill provides the method by which the bonds, which will be noninterest bearing, will be distributed among the 12 Federal Reserve banks. The method that will be agreed upon will doubtless be according to the capital stock or resources of the particular bank. If the Treasury needs a million dollars, it will distribute the bonds among the 12 Federal Reserve banks, which will aggregate a million dollars. The largest Federal Reserve bank, of course, will take much more of the bonds than the smallest Federal Reserve bank.

The distribution will be made by the Treasury and the Board of Governors of the Federal Reserve System.

BANKS WILL BE PAID FOR SERVICE

This section also provides that the Federal Reserve banks will not lose any money by reason of servicing these loans to the Government without interest since the bill provides that each bank shal' be reimbursed for any expenses incurred in connection with the bonds. The expenses, of course, will be practically nothing (not as much as one-twentieth of 1 percent interest) compared with the huge amounts of bonds that will necessarily be issued to finance the war debt.

IF MONEY IS TO BE CREATED IT SHOULD BE CREATED BY THE GOVERNMENT AND NO INTEREST PAID ON IT

Section 3, the first sentence, provides that no more interest-bearing obligations of the United States shall be issued and sold to commercial banks, or banks receiving demand deposits. The reason for that is that such a bank does not have anything to give the Government in return for its bonds. It merely receives the bonds and gives the Government credit in bookkeeping transactions, or pencil-mark or fountain-pen money. Every informed person admits that under such circumstances, the commercial banks creat the money outright. If money is to be created outright it should be created by the Government and no interest paid on it.

BANKS GET MONEY FOR 1 PERCENT ON BONDS DRAWING MUCH MORE

If a bank purchases bonds under existing rules, laws, and regulations that provide for 3 percent interest, and the banks should need money to pay its depositors or for any other purpose, it can deposit the same bonds with the Federal Reserve banks as collateral security and receive funds for 1 percent interest on the bonds. In other words, the bank will continue to receive 3 percent interest on the bonds, but will only be required to pay 1 percent from the local Federal Reserve banks on loans using the bonds as collateral.

During the first week in December, Gov. Marriner S. Eccles, Chairman of the Federal Reserve Board, stated in a letter to all banks:

> Continuing the policy which was announced following the outbreak of war in Europe, Federal Reserve banks stand ready to advance funds on United States Government securities at par to all banks.

All banks in the country are notified that they can buy all the Government bonds that they desire to buy, although they do not have the money to purchase them, and if they should need the money the Federal Reserve banks will furnish it and of course the discount rate is 1 percent.

BANKS CANNOT FURTHER INCREASE HOLDINGS OF GOVERNMENT BONDS

Section 3, in the second and last sentence, provides that no bank which receives deposits, in other words a bank that must create the money in order to buy bonds, shall at any time hold any amount of United States bonds in excess of the amount held by it on December 31, 1941. In other words, if a bank held $2,000,000 in Government securities on the date mentioned, it can sell any amount of those bonds that it desires to sell, and may in turn purchase other United States Government securities up to, but not in excess of the $2,000,000, which was the amount held December 31, 1941.

BANKS NOW LEND $10 TO EVERY $1 OWNED

The stockholders in all the banks in the United States have invested and would lose if the banks should be forced into bankruptcy or liquidation and there should be no recoveries, the total sum of $8,000,000,000. About three and one-half billion dollars of this is capital; about three and one-half billion dollars is surplus, and about $1,000,000,000 in undivided profits, making about $8,000,000,000. That is all the stockholders in banks in America have invested in these banks. Notwithstanding, only $8,000,000,000 are invested in all these institutions, they have purchased more than $21,000,000,000 in United States Government securities, and now hold these securities and receive interest on them annually. The total loans and investments of these banks aggregate, or may aggregate, about $80,000,000,000, or $10 for every $1 that they own. Without stating or discussing how much the banks should be allowed to expand, it is evident that orthodox banking methods, safe banking methods, and logical banking methods should prohibit any bank from expanding more than $10 for every one that it owns. Let us presume, for the sake of discussion, that it is right for a bank to be allowed to lend $10 for every one it has, and thereby receive interest on $10 for every $1 invested by the stockholders and still we cannot escape the conclusion that no bank should be allowed to expand more than $10 for every one.

CONGRESS SHOULD NOT SIT IDLY BY

This being true, why should Congress sit idly by and allow the banks to expand $20 to every one, or $50 to every one, in order to finance the war and the other expenditures of our Government when it is nothing more nor less than Congress permitting the credit of this Nation to be farmed out for the selfish benefit of private banking corporations.

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GOVERNMENT CREDIT FARMED OUT

The Government of the United States, under the Constitution, has the power, and it is the duty of the Government, to create all money. The Treasury Department issues both money and bonds. Under the present system it sells the bonds to a bank that creates the money, and then if the bank needs the actual money, the actual printed greenbacks to pay the depositors, the Treasury will furnish that money to the banks to pay the depositors. In that way, the Government farms out the use of its own credit absolutely free.

BACKING FOR NON-INTEREST-BEARING BONDS

If the Federal Reserve banks provides the credit to finance the war, as proposed in the bill, inserted herewith, these bonds will be backed by the credit of the Nation, which includes the taxing power of the Nation, and also the $23,000,000,000 in gold that is now idle and unused, except that portion that is used free by the private banking system of this country.

BONDS BACKED BY TAXING POWER, TOO

A bond issued by the Government carries with it an obligation that Congress will pass laws levying taxes which will be sufficient to cause the taxpayers to pay money in taxes to pay the interest on the bonds, and to eventually retire them when due. The history of the issuance of long-term bonds by our Government is conclusive that the Government invariably pays $2 to every $1 that it borrows. In other words, it pays $1 in interest and $1 in principal.

GOVERNMENT TO PAY DOUBLE

A $100,000,000,000 debt means, under the present system, that the taxpayers will eventually have to pay $200,000,000,000. With a huge debt of $150,000,000,000, which is estimated by many Government authorities as being the amount that the public debt will reach before the war is over, it will probably be impossible for the taxpayers to pay enough money each year to liquidate any part of the principal of the bonds. Therefore they will remain in bondage for centuries because they will be unable to pay any more each year than is sufficient to provide for the interest on the bonds.

ONE DOLLAR PAID MONEY CHANGERS FOR EVERY $1 PAID A SOLDIER

Viewing the situation from the most optimistic viewpoint, the taxpayers will be compelled to pay at least $2 for every $1 borrowed. For every $1 that is paid to a soldier, the money changers have nothing to offer except the Government's credit, which has been given to them free, will also receive $1. For every $1 that is paid to every person for materials furnished, the money changers will receive $1 in interest for no service whatsoever in the form of interest for furnishing the Government's credit, which has been furnished to the money lender free. For every $1 that is paid out for any purpose, in this war or for peacetime pursuit, the interest will amount to at least $1, and the result will be that the taxpayer must pay $2 in order to liquidate every $1 debt.

I cannot understand why anyone should insist that the credit of this Nation and the use of the Government's gold should be farmed out absolutely free to the private banking corporations of this country, and require the taxpayers to pay $2 in order to obtain $1 in our war preparation.

REPAIR HOPELESSNESS OF PEOPLE

Let us repair the hopelessness that is now being felt by the people on account of what they think will probably happen after the war with a $150,000,000,000 public debt by changing the system so that the Government can use its own credit and its own gold and not pay $2 for every $1 that is borrowed.

WAR DEBT CAN BE PAID IN 40 YEARS

If our national debt for the war is $100,000,000,000, it can be paid over a period of 40 years without an unbearable burden on the taxpayers by the Government borrowing money from the Federal Reserve banks and paying it back 2½ percent each year. This 2½ percent will be no more than interest that is being charged today, and the amount will be sufficient to entirely pay off the bonds in 40 years. Whereas if we continue the present system of paying interest on these bonds, at the end of 40 years, after paying 2½ percent each year, we will still owe the principal amount of the bonds, and the debt will be just as large at the end of 40 years as it is today or when the debt is the largest.

WILL REDUCE CHANCES OF INFLATION

If we borrow $100,000,000,000 to finance the war from the Federal Reserve banks and it is paid 2½ percent each year and entirely paid off and liquidated in 40 years, there will be no likelihood of inflation during that time. Whereas, if we continue paying tribute to a few for the use of the Government's own credit, we will in all probability have inflation unless it is possible to prevent it by price control and other methods.

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DUTY OF CONGRESS TO MAKE CHANGE

It occurs to me that the duty of making this change is on Congress. It is not on the executive, the judiciary, or any department of our Government. It rests solely and alone upon the Congress of the United States to change the system that causes our credit to be farmed out and enormous interest burden paid unnecessarily and uselessly on its credit.

ABUSE OF POWER TO TAX

If Congress continues to require the people to pay billions of dollars a year unnecessarily as interest on Government bonds it occurs to me that it is an abuse on the part of Congress of the power to tax. Congress has the power to tax and is exercising that power to the limit, but certainly Congress should not abuse the power by levying taxes to pay a debt that is extravagant, wasteful, and unnecessary in every way.

NOW TIME TO MAKE THE CHANGE

One of these days, the American people are going to wake up and realize the situation, and they will blame this very Congress for not making the change at this time, when we are entering upon a $100,000,000,000 war program. Now is the time to make the change. It is not a change that will involve unorthodox banking methods. It is a change that will save the Government interest on the public debt hereafter contracted, but will not be in any way dangerous to the general welfare of the country. On the other hand, it will be greatly in the interest of the general welfare of the country because the war debt will cost the taxpayers only 50 percent, at least, of what it will cost under the present system.

BOND SALES TO PUBLIC SHOULD CONTINUE

I am not proposing that bond sales to the public be stopped or impeded in any way. It is my belief that bond sales to the public should be encouraged because they are calculated to prevent or stop inflation to a certain extent. At the same time we know that the bonds that the public are buying at this time, will, when this emergency is over, be in the market one way or another and, that being true, the money changers will be in a position to purchase them by using the Government's credit free and the idle gold free, and receive interest from the Government for no service whatsoever.

$447 INTEREST PER CAPITA TO BE PAID ON THIS YEAR'S BUDGET

The budget for the next year is $59,000,000,000. This means that it will cost the American taxpayers by the time the $59,000,000,000 debt is paid, under our present system of farming out our credit free, twice that amount, or $118,000,000,000. This means that every man, woman, and child in America, on this $59,000,000,000 debt, will have to pay at least $447 in interest and $447 on the principal, presuming that the debt can be paid in 40 or 50 years. It is not right for Congress to make the people pay that $447 for every man, woman, and child in America as interest for the use of the Government's own credit and for the use of the Government's own idle gold by farming out the Government's great privilege and right to create money to private banking interests of the Nation.

PERPETUAL DEBT

The current estimate of what the war, whole war, is going to cost us is $150,000,000,000. If we spend $150,000,000,000 on this war, it will cost about four or five billion dollars a year to pay the interest on the $150,000,000,000. In all probability, that is all the taxpayers of this country will be able to pay, and will, therefore, be unable to make any payment on the principal of the debt each year. That being true, all the money that will be raised in taxes to pay on the national debt will go to the people who are using the credit of the Nation absolutely free, and who have had farmed out to them the use of the idle gold free, and the people will thereby be caused to pay a debt that is useless, wasteful, extravagant, and unnecessary.

It Is Wrong for the Government of the United States That Is Sovereign To Pay Private Corporations To Create Money on the Government's Credit

SPEECH

OF

HON. WRIGHT PATMAN

OF TEXAS

IN THE HOUSE OF REPRESENTATIVES

Tuesday, February 10, 1942

Mr. PATMAN. Mr. Speaker, to sell bonds to individuals and to corporations that do not create the money by a bookkeeping transaction to buy them is perfectly justified for the purpose of preventing or retarding inflation. But if more bonds will have to be sold than such individuals and corporations will or can buy, then the Government of the United States, which is sovereign, should create the credit to pay its bills without obligating the people to pay interest on it.

All informed persons on the subject will agree upon certain fundamental truths. They are:

First. It is the duty of Congress to issue—create—money and regulate its value under the Constitution.

Second. This great privilege has been farmed out free to the privately owned banks by Congress.

Third. This great privilege is worth billions of dollars a year to those exercising it under laws passed by Congress.

Fourth. The same United States Treasury that prints and issues the interest-bearing bonds also issues and prints the money, which is another form of Government obligation, not interest-bearing.

Fifth. Under our present system that Congress has allowed to be built up gradually over a century of getting a little change in law here and a little change there which appeared harmless at the time, the Treasury, when it wants money, sells United States Government bonds which obligates the Government to pay a stipulated rate of interest, around 3 percent per annum.

Sixth. A commercial bank in Dallas, Tex., buys a United States Government bond—we will say a million dollars' worth—and gives the United States Treasury credit for $1,000,000 on its books. The bank does not have the money to pay on demand and does not need it for that purpose, as it is so seldom that people who receive Government checks or any other kind of checks want the actual money.

Seventh. The United States Treasury gives checks to the Government employees residing in Dallas and to persons and corporations in payment of any debt owed by the Government in that area to the amount of $1,000,000.

MONEY CREATED WITH A FOUNTAIN PEN

Eighth. It is almost inconceivable that the people receiving these checks will want the money as they will only want credit at the bank or in the banking system upon which they can draw checks, and in that event the Dallas bank will continue to receive annually $30,000 interest on the million dollars in bonds which was bought by creating the money with a fountain pen. In other words, the bank has bought the bond on a promise to pay money if called upon but it is not called upon to pay the actual money.

Ninth. If the people receiving these checks drawn on the Dallas bank aggregating a million dollars should do the unusual and demand the actual spot cash from the Dallas bank, actual coin and currency, the Dallas bank will take its million dollars' worth of United States Government bonds upon which it is promised 3 percent interest annually across the street to one of the 12 Federal Reserve banks that is located in Dallas and get a million dollars in actual printed money. In order to get the money the commercial bank will deposit with the Federal Reserve bank at Dallas the $1,000,000 in bonds as collateral security and promise to pay 1 percent interest annually so long as the money is needed.

BANK MAKES $20,000 A YEAR PROFIT ON TRANSACTION

Tenth. The net result is that the Dallas Commercial Bank has bought a Government obligation upon which it will receive $30,000 per annum and has used that same Government bond or obligation as collateral security to obtain a million dollars in money, issued by our same Government and our own United States Treasury and carrying the same mortgage upon all the property and profits of the people until paid. For this money the bank will pay at the most $10,000 per annum thereby netting a profit of $20,000 per anum on this million-dollar transaction.

Eleventh. The Government will not get the $10,000 that the Dallas bank pays to the Dallas Federal Reserve Bank for the use of a million dollars in money as the Dallas Federal Reserve Bank will get it. The Dallas Federal Reserve Bank is owned by the private banks in that area, including the bank that bought the million dollars in bonds. The Federal Reserve banks are Federal in name only; they are owned lock, stock, and barrel by the private banks, which have invested, incidentally, a very small sum of money upon which they receive 6 percent per annum, but sufficient to enable them to be the sole owners of that Federal Reserve bank.

Twelfth. Remember in this case, which is typical, the United States Treasury has caused the Bureau of Engraving and Printing here in Washington, which is under the jurisdiction of the Treasury, to print and deliver to the Federal Reserve bank at Dallas a million dollars in United States Government bonds, interest bearing, and a million dollars in United States currency. Each is a Government obligation. The Federal Reserve bank at Dallas delivers the million dollars in bonds to the local commercial bank and obtains for the Government the million dollars in credit which the Government checked on to pay its debts. Then the Federal Reserve bank at Dallas delivers to the local commercial bank the million dollars in actual paper money—currency, greenbacks, or whatever one prefers to call them.

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GOVERNMENT COLLECTS 30 CENTS FOR EVERY $1,000 PRINTED FOR BANKS

Thirteenth. On the transaction the taxpayers will pay the cost of printing the bonds. The taxpayers will pay the $30,000 a year interest to the Dallas Commercial Bank. The Dallas Federal Reserve Bank will get $10,000 per annum and the Government will get $300, or 30 cents per $1 000, which was the actual cost of printing the money.

THE GREATEST BACKING BEHIND OUR MONEY AND BONDS IS THE TAXING POWER OF CONGRESS; THE DUTY OF CONGRESS TO TAX THE PEOPLE TO PAY ALL THE OBLIGATIONS OF OUR GOVERNMENT—HOW SUCH A SYSTEM BUILT UP

Who created such a system that is costing the taxpayers $1,750,000,000 this year and will cost the taxpayers $4,500,000,000 a year when our anticipated expenditures for war purposes are made?

The answer is that such a system was built up over a long period of time. Congress passed monetary laws without giving a great deal of attention to them, being told that money was a mystery and very few people understood it and those understanding it were the ones wanting the monetary laws. It was smart for a Member of Congress to say "all I know about money is that I do not have enough of it," or some similar crack that invariably drew laughter and applause and the bill was passed. If some person who had given the subject thought and consideration attempted to show how the credit of the Nation was being farmed out free to privately owned commercial banks he could very quickly be silenced by a whispering campaign that he was a monetary nut, a crackpot, or a greenbacker, who wanted to flood the country with worthless printing-press money. Then with a few references to continental currency, fiat money, and German inflation the bill was sent on its way. All such bills were referred to as a bill to further strengthen our sound monetary system.

LOGICAL REASONS WERE PRESENTED

In the beginning of our country there were logical reasons why the Government should issue interest-bearing bonds to pay its expenditures instead of obtaining the use of its own credit without interest.

At that time gold and silver represented practically all of our medium of exchange. When a miner went out into the mountains and by laboring with his hands through the hardest kind of manual labor produced some gold or silver it was right that the Government pay him interest for its use if the Government desired to borrow it.

Further, if money were borrowed from a foreign country it was right that our Government pay interest for its use.

EXTRAVAGANT CONGRESS RETARDED

In addition, if the Government paid interest for the money or credit it used it would have a retarding effect on an extravagant Congress. For the reason that if Congress appropriated too much money no one would buy the bonds. In other words, as more bonds were sold they would be worth less and less, and Congress would either have to cause bonds to be sold at a great discount or not be able to sell them at all, or quit appropriating so much money. This had a retarding influence on Congress.

NEITHER REASON GOOD NOW

Neither of these three reasons justify the Government in paying interest on its own credit now. Silver in our exchange represents an infinitesimal part of our money. Gold is not used as money. Our Government does not borrow from a foreign country. United States Government bonds are no longer permitted to be sold for less than par since the banks can always put up their Government bonds as collateral and obtain money for them dollar for dollar—no discount.

The interest paid by our Government amounted to such a small sum each year for the first 125 years of our country's existence it presented no problem. Now it presents one of our most serious problems.

MONEY NOW CREATED ON GOVERNMENT CREDIT

Our money now is created upon the Government's credit as all money is guaranteed by the United States Government. Although Federal Reserve banks have had the great privilege of issuing and paying out money it is the Government's money that is paid out. Every bill, note, or piece of currency bears the obligating clause of our Government in the language "The United States Government promises to pay on demand — dollars." This is printed on every piece of paper currency.

POWER OF CONGRESS TO TAX BACKING BEHIND BONDS AND MONEY; ALSO GOLD BACKING

We have an additional backing which is not absolutely needed and a commodity that is used by other countries only to a very limited extent, and that is $23,000,000,000 in gold that is idle and unused. Every dollar of it belongs to the United States Government. There are those who contend that this gold is mortgaged to the 12 Federal Reserve banks or that these banks have some kind of claim against it notwithstanding the law that places all right, title, and interest in and to the gold in the United States. This contention can be eliminated by the Government reimbursing the private banks for the $140,000,000 they have invested in stock in these 12 Federal Reserve banks. It is this comparatively small investment that permits the owners of the stock of the Federal Reserve banks to place a cloud on the title to this gold.

If something is not done to prevent it the money changers will make as much out of this war, and more, as the entire cost of the war. By money changers I mean those who use our Government credit free and not the patriotic citizen who buys bonds with money he has worked for to prevent inflation.

GOVERNMENT PAYS $2 TO EVERY $1 BORROWED

Experience proves that the taxpayers are forced to pay at least $2 for every one the Government borrows on long-term bonds. The war is costing so much that the people will never be able to pay more than the interest on the public debt and the necessary running expenses of the Government if our present policies are pursued of paying private banking corporations for the privilege of using our own Government's credit.

MONEY BASED ON DEBT—NO DEBT, NO MONEY

Our present policies have forced our people into the position of going into debt and paying interest or not have enough money to do business on. In other words, if all debts were paid our money would be extinguished. So our money is based

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on debt. When Leon Henderson was testifying before our Committee on Banking and Currency in favor of the price-control bill I reminded him of his statement that the people could retard inflation by paying their debts, and asked him what the people would do for money if all debts were paid. He admitted—so did Marriner S. Eccles, Governor of the Federal Reserve Board—that our monetary system is based on debt, and said the people should pay their debts and then go into debt again, so as to have enough money to do business.

GOVERNMENT CAN SAVE INTEREST

Instead of the Government issuing and delivering to the Federal Reserve banks Government interest-bearing bonds for sale to the private banks in order to get the money or credit to pay the cost of the war, the Government should issue and deliver to the Federal Reserve banks non-interest-bearing bonds to be held by the Federal Reserve banks to obtain the money or credit to pay the cost of the war.

In that way we would not pay tribute to a few people to use the Government's own credit; the bonds would have the same backing and security behind them; the bonds would be easier paid, since a 3-percent payment each year on the principal of the bonds, instead of as interest, would entirely pay them off in 33⅓ years; bonds would not be sold to the public, except a sufficient amount to retard inflation, and they, of course, would be interest bearing; money would then be paid into circulation and not necessarily borrowed into circulation; inflation would be hindered because a part of the bonds would be paid each year instead of freezing, an inflationary condition caused by the issuance of so many bonds and no part of the principal being retired each year; the people receiving checks from the Treasury in payment of salaries or debts of any kind would continue to receive the same kinds of checks, issued and delivered by the same people, and upon these checks they would receive the same kind of money or credit as they now receive, and there will not be any more actual printed money in circulation than at present.

The big difference will be that the Government will not pay interest for the use of its own credit.

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No Debts—No Money—Our Monetary System Based Entirely Upon Debt—Someone Must Go Into Debt and Pay Interest in Order for Country To Have Sufficient Circulating Medium

EXTENSION OF REMARKS

OF

HON. WRIGHT PATMAN

OF TEXAS

IN THE HOUSE OF REPRESENTATIVES

Monday, December 1, 1941

Mr. PATMAN. Mr. Speaker, the American Bankers Association at its recent annual convention adopted a resolution in which it was stated:

> This is a time when in their own interest people generally should be paying their debts instead of borrowing more.

This resolution was strongly in favor of debts being paid.

The fact is that the only money in circulation today that is not based upon debt is a very small part of our circulating medium, which has been paid into circulation by the National Government. I refer particularly to United States notes, some silver certificates, and minor coins. Practically all of our money, including paper money and deposits in banks, is based upon debt. In other words, some person or corporation signed an obligation agreeing to pay a certain amount at a certain time with a stipulated rate of interest in order to create the money that is now used in our daily transactions. Without someone going into debt and paying interest we would not have sufficient money to do business on.

The United States Treasury will soon sell $1,000,000,000 in United States Government bonds, which will obligate the Government to pay 2½ percent per annum interest. The money that the Government will receive for these bonds will be created by the commercial banks out of thin air. The banks will obligate themselves to pay the Government some of its own money. It is true that very little of the money will be called for, since most depositors only want the credit to their account. Therefore, very little money will be needed to finance the billion dollars in bonds on the same theory that all of the people insured in a life-insurance company do not die at the same time, and therefore only a comparatively small amount of money is needed to keep a life-insurance company solvent.

If Secretary of the Treasury Morgenthau issued the billion dollars in Government bonds, providing for no interest, and deposited them with the 12 Federal Reserve banks and received credit, then the Government could retire the entire billion-dollar debt in 40 years by paying 2½ percent each year. Under our present system, we will pay $25,000,000 a year interest on the billion dollars, and at the end of 40 years still owe the billion dollars in bonds. This is much more inflationary than issuing a billion dollars in non-interest-bearing bonds and retiring 2½ percent each year.

If the non-interest-bearing bonds were placed with the Federal Reserve banks, as proposed, then the Secretary of the Treasury would have his 2,274 assistants, who write checks on the Treasury's account, issue the same kind of checks to the same people to whom the Government is indebted and these people will deposit them in the same way and manner and receive the same credit or currency as if the Government had sold interest-bearing bonds.

The difference would be that the Government would not have to pay $2 for every $1 it borrows. In other words, the taxpayers would not have to pay the debt twice.

No one can contend that the proposal is unsound, since the non-interest-bearing bonds would be backed by the same gold, silver, and other assets as the interest-bearing bonds would be backed.

One of these days the people of this country are going to rise up in their wrath and compel the change of such an idiotic system that causes the taxpayers of this country to pay tribute to a few who have nothing invested and run no risk in order to conduct the affairs of our Government and especially our national-defense program.

LEON HENDERSON'S TESTIMONY ON NO DEBTS, NO MONEY

In the hearings before the House Banking and Currency Committee on the price-control bill, the following questions were asked by me and the following answers given by Mr. Leon Henderson (pp. 981-982):

Mr. PATMAN. * * * You stated yesterday that everybody should take advantage of this period of rising prices to pay their debts. You really don't believe everybody should pay their debts, do you? If you mean that, what would we do for money, since our money is based on debt?

Mr. HENDERSON. I have been through that, the same as you have, and I don't believe our economy would come to a halt if people paid their debts.

Mr. PATMAN. If everybody paid their debts?

Mr. HENDERSON. If you are going to say that I have discounted the trade acceptances which the Federal Reserve has created by a couple of bookkeepers, that is not the connotation debt has for me.

Mr. PATMAN. You had in mind individual debts, personal debts?

Mr. HENDERSON. Yes.

Mr. PATMAN. And if the policy is good for individuals, why isn't it good for corporations?

Mr. HENDERSON. I think it is.

Mr. PATMAN. All right. If everybody paid their debts, where would you get money to carry on business?

Mr. HENDERSON. You would get into debt and come out again. I assume the healthy process of credit is that you do liquidate debt as you do the trade acceptances.

Mr. Speaker, Mr. Henderson's very clever reply was, in effect, that it is all right to pay the debts, but you should get right back into debt again in order for the country to have this circulating medium.

CHAIRMAN MARRINER S. ECCLES' TESTIMONY ON NO DEBTS, NO MONEY, IN HIS TESTIMONY ON THE PRICE-CONTROL BILL BEFORE THE BANKING AND CURRENCY COMMITTEE

Chairman Eccles, of the Federal Reserve Board, testified as follows, page 1338 of the hearings, September 30, 1941:

Mr. PATMAN. * * * You made the statement that people should get out of debt instead of spending their money. You recall that statement, I presume?

Mr. ECCLES. That was in connection with installment credit.

Mr. PATMAN. Do you believe that people should pay their debts generally when they can?

Mr. ECCLES. I think that depends a good deal upon the individual; but, of course, if there were no debt in our money system——

Mr. PATMAN. That is the point I wanted to ask you about.

Mr. ECCLES. There wouldn't be any money.

Mr. PATMAN. Suppose everybody paid their debts, would we have any money to do business on?

Mr. ECCLES. That is correct.

Mr. PATMAN. In other words, our system is based entirely on debt.

Mr. Speaker, there can be no dispute about the statement that our system is based entirely upon debt, and if a person and corporation paid their debts, we would not have sufficient money to do business on.

If we were to change that system, the Government would pay its own money into circulation, and the people would be saved billions of dollars a year in interest.

Everlasting Bondage or Debt Repudiation if Government Bond Racket Not Ended

EXTENSION OF REMARKS

OF

HON. WRIGHT PATMAN

OF TEXAS

IN THE HOUSE OF REPRESENTATIVES

Monday, February 16, 1942

Mr. PATMAN. Mr. Speaker, to those who receive the information contained in my remarks concerning the Government obtaining money without interest, I humbly suggest that you give it serious consideration. It is based upon a quarter of a century of study and investigation. Now the time has arrived when its use can prevent our people from being sentenced to everlasting bondage or suffer the humiliation of national debt repudiation, which can be caused by a Government bond racket that is about to engulf us.

MEMBERS APPREHENSIVE PEOPLE WILL NOT SUPPORT

Members of Congress are afraid to embrace a sound and economically desirable plan that will prevent the people from being required to pay double, treble, and many times more for every dollar that is borrowed to prosecute the war for fear they will be doing something the people will not understand and will not approve.

PUBLIC PRESS CARRIES LITTLE OF THIS IMPORTANT SUBJECT

At my own personal expense this information is printed and distributed over the 48 States. Obviously, a limited number of copies will be sent out. The newspapers and magazines have been unable to allot very much space for the dissemination of information on this highly important subject.

GIVE MEMBERS COURAGE TO SPEAK OUT

I beg you, in the interest of our children and our children's children, who are being asked to assume an unbearable interest burden that can now be prevented, to let your lawmakers in Washington know—Representatives and Senators—that their approval of this method will meet with your approbation. Give them courage to speak out. Many of them have not had the time to give consideration to it.

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BENEFICIARIES OF RACKET OPPOSED TO DISCUSSION

Those who will benefit from this racket are opposed to any discussion of the subject in the public press or over the radio. They refrain from any controversy, knowing their position is untenable and realizing that public knowledge of the subject will certainly harm them.

PASS IT ON

If you will reward my efforts by causing this information to be published and distributed, I shall never cease to be grateful. Pass it on to another.

REAL AND INTANGIBLE PROPERTY PAY NO DEFENSE TAX

The cost of the war will necessarily be borne by the people, a majority of whom will be the least able to pay it. Our Federal Government, including war costs, is supported by taxes on incomes, sales, and other specific forms of taxation. The $300,000,000,000 worth of tangible real property in this country pays no tax whatsoever into any fund that is used specificaly to defend our country, neither does the $400,000,000,000 worth of intangible property. It is true that if the owner of tangible or intangible property makes a net profit on it sufficient to be required to pay an income tax, he will be required to pay it, but no tax specifically upon the property itself for the defense of the country is now required by law.

Let us not require our taxpayers to pay as much in unnecessary interest as the cost of the war.

BANKS THAT CREATE MONEY WILL EVENTUALLY BE CALLED UPON TO BUY THE BONDS THAT ARE NOW BEING SOLD TO THE PUBLIC

During our war effort the people will generously buy bonds to enable the Government to properly prosecute the war. They are to be commended for their patriotism. When the war is over they will want their money for the many different purposes that they could not use it for during the war.

NO MORE GOVERNMENT BOND SALES AT 75 CENTS AND 80 CENTS ON THE DOLLAR

Our Government cannot afford to permit the bonds to be sold for 75 cents and 80 cents on the dollar. This was done after the other war, which permitted a few people who used the Government's credit free to buy them and make millions in profits. The Government, through the Secretary of the Treasury, Mr. Morgenthau, has promised that it will not happen again.

BANKS WILL EVENTUALLY OWN NATIONAL DEBT

Therefore, when the people want their money after the war, it will be necessary for more Government bonds to be sold to redeem them. The banks that create the money will be the only purchasers. The result will be that practically all the bonds that are now being sold to the people will find their way after the war into the portfolios of the commercial banks. The banks now hold $21,000,000,000 of these bonds. They will then hold most of the national debt. This will enable these banks to collect billions of dollars a year in interest on their comparatively small investment. Congress will be called upon to levy and cause to be collected the taxes to pay this interest. The people who will have made every sacrifice to win the war will pay the taxes into the United States Treasury. The United States Treasury will pay it to the banks that created the money to buy the bonds upon the Government's own credit.

How Money Is Created by Privately Owned Banking System on Government's Credit and the Government Charged Interest Thereon—Federal Reserve Bank Building Ordered Sold for Taxes, Although Board Can Create Money to Pay Them

REMARKS

OF

HON. WRIGHT PATMAN

OF TEXAS

IN THE HOUSE OF REPRESENTATIVES

Monday, December 1, 1941

Mr. PATMAN. Mr. Speaker, much is being said in the newspapers about the District of Columbia tax authorities levying on the Federal Reserve Bank Building here in Washington for taxes and ordering the building sold soon to satisfy a tax debt incurred over a period of years. It is claimed by the Federal Reserve officials that it is exempt from taxes, the same as public buildings.

The Federal Reserve Banking System is privately owned. Not $1 of the stock is owned by the Government or by the people; it is owned by private banking corporations. It is a corporation owned by corporations. Many people believe that the Federal Reserve Banking System is owned by the Government because it is named Federal, but of course this is not true.

CREATE MONEY, BUY BONDS, AND COLLECT INTEREST

When the Honorable Marriner S. Eccles, Chairman of the Federal Reserve Board, was before the Banking and Currency Committee of the House, of which I am a member, on Tuesday, September 30, 1941, I interrogated him about how he obtained for the 12 Federal Reserve banks the $2,000,000,000 in Government bonds, which the system is now holding and charging the Government interest thereon. The questions and answers appear in the printed testimony, volume 2, page 1342, and is as follows:

Mr. PATMAN. * * * How did you get the money to buy those $2,000,000,000 of Government securities?

Mr. ECCLES. We created it.

Mr. PATMAN. Out of what?

Mr. ECCLES. Out of the right to issue credit, money.

Mr. PATMAN. And there is nothing behind it, is there, except the Government's credit?

Mr. ECCLES. We have the Government bonds.

Mr. PATMAN. That's right; the Government's credit.

Mr. Speaker, the Government is now paying between forty and fifty million dollars a year to the Federal Reserve Banking System as interest on these bonds. The expenses, dividends, and profits of the System are paid in that way. It would be just as reasonable for each department of our Government to be allowed to purchase enough Government bonds to pay their expenses the same way. It would be just as reasonable for the Government to set aside enough interest-bearing bonds to each Federal employee to pay the Federal employee interest sufficient to pay his salary as it is for the Federal Reserve Banking System to get their expenses paid in that way.

Under our present system the Federal Reserve banks can purchase twenty-five or fifty billion, a hundred billion, or an unlimited amount of Government bonds the same way they purchased and now hold the $2,000,000,000.

If the Federal Reserve banks desire to pay the taxes on their building here in Washington, D. C., it will be a very simple matter for a sufficient amount of interest-bearing bonds to be bought, which will provide sufficient income to pay the taxes. I am not passing on the question whether the taxes should be paid or should not be paid, as that question will be passed on by the courts.

FINANCING WAR BY INTEREST-BEARING BONDS

It is now proposed that we permit the banks to buy United States Government bonds, interest-bearing, in the same way that the Federal Reserve banking system is buying bonds, in order to provide the funds to finance the war. The stockholders of the entire private banking system in our country have only $8,000,000,000 invested in banking institutions. On that capitalization they have already loaned the Government $20,000,000,000 by purchasing interest-bearing securities. In addition, the banks, upon the $8,000,000,000 capitalization and investment, have made loans and investments amounting to $34,496,000,000, not including the Government securities. They can now make loans aggregating $28,000,000,000 on the $8,000,000,000 capitalization, in addition to the present total loans and investments of $54,496,000,000. These figures can be verified by an examination of the testimony before the Banking and Currency Committee in answer to questions I propounded to Secretary Morgenthau, as reported on page 1134 of the hearings.

The present banking system, through the use of the Government's credit, as now proposed to finance the war, can issue more than $240,000,000,000 in money, and every bit of it will be issued on the $8,000,000,000 capitalization and the Government's credit. Of course, it will be the Government's credit that will secure it, as the $8,000,000,000 capitalization will be insufficient for that purpose.

IDLE GOLD IN HILLS OF KENTUCKY SHOULD BE USED TO FINANCE WAR DEBT

Why should the people be forced to pay $2 for every $1 the Government uses, when it has approximately $23,000,000,000 in idle gold that can be used to finance a debt in the orthodox way that would be equal to more than $240,000,000,000?

$150,000,000,000 DEBT MEANS A DEBT TWICE THAT LARGE

When the Government issues interest-bearing bonds, it finally pays as much in interest as it pays on the principal by the time the bonds are paid in full. Therefore, a $150,000,000,000 debt means a debt of $300,000,000,000 by the time it is paid, or even more.

Congress can and should require the Secretary of the Treasury to deliver non-interest-bearing bonds to the Federal Reserve banks and require the Federal Reserve banks to give the Government credit therefor instead of paying $25,000,000 a year interest on every $1,000,000,000 borrowed. The $25,000,000 will be paid each year on the principal of the $1,000,000,000 in bonds. In that way the entire amount of the bonds can be paid over a period of years at a cost to the taxpayers of less than 50 percent of what they would have to pay under the present system, which would be less inflationary than interest-bearing bonds because they would be retired earlier.

This proposal is sound. It was thoroughly discussed in the testimony before the Banking and Currency Committee when the price-control bill was under consideration.

It is a simple question of the Government using its own gold to save interest, or permitting the banks to use it free of charge, along with the Government's credit free, and collect interest from the Government.

The Members of Congress will do the people a great disservice for the next 100 years unless this Government bond racket is stopped.

February 3, 1942

CREATED MONEY TO PAY COST OF WAR

Mr. PATMAN. Mr. Chairman, I move to strike out the last word.

Mr. Chairman, the gentleman from Michigan [Mr. CRAWFORD] brought to our attention a very interesting question, that is, the extent that the Government expects to go in this emergency in having the private commercial banks create money for the purpose of paying the cost of the war.

BANKS CREATE MONEY

No informed person can dispute the fact that commercial banks, that accept deposits, when they buy Government bonds, create out of thin air the money with which to buy those bonds. No informed person will dispute that fact.

Everyone who has ever studied the question admits it and acknowledges it.

IF MONEY TO BE CREATED, GOVERNMENT SHOULD CREATE IT WITHOUT INTEREST

So the point is, if money is to be created for the purpose of paying the cost of this war, should the people and the taxpayers and the Government pay private commercial banks to create the Government's own money, when that privilege is exclusively the Government's under the Constitution of the United States, and the duty rests upon the Congress to see that it is complied with?

BILL PROPOSED TO STOP SOME INTEREST PAYMENTS

May I humbly invite your attention to a discussion of that subject which is in the RECORD of February 2, 1942, which came out this morning, on page A358? It contains a discussion of a bill which I introduced some time ago providing for the Federal Reserve banks to advance the money on Government non-interest-bearing bonds for the purpose of paying the cost of this war. Every person who has given this question thought, I believe, will say that this national debt, at the end of the emergency, if it continues as long as we expect it to continue, will certainly be around $150,000,000,000, including our present debt, if not more than that. If we pay 4 percent interest on that enormous debt, as many prominent people in official positions are advocating today, that means $6,000,000,000 a year interest, and it will be impossible for the people to pay that much interest and the running expenses of this Government; which will mean that the people of this Nation will be in perpetual bondage or there will be repudiation of the national debt.

MAKE PAYMENTS ON PRINCIPAL OF BONDS INSTEAD OF ON THE INTEREST

Now, there is a way to escape that situation, and an orthodox way to escape it, by paying a certain amount each year on the principal of the bonds, instead of paying it as interest. The proposal that has been brought forward is that if the Government needs a billion dollars in money, the Government, through the Secretary of the Treasury, issues a billion dollars of non-interest-bearing notes, and distributes those notes among the 12 Federal Reserve banks in proportion of their resources, of course, and receives credit for the United States Treasury to the amount of $1,000,000,000. Then every year instead of paying 4-percent or 3-percent interest, as we are doing today, pay 3 percent on the face of the bonds, on the principal. In that way you will reduce the bonds every year, and the inflation becomes less severe, every year less inflationary, and in 33⅓ years the entire public debt will be liquidated. If you do not do that and pay 3-percent interest—and we will never be able to pay more than just the interest—at the end of 33⅓ years we will still owe the billion dollars, just like at the end of 33⅓ years we will still owe the $150,000,000,000—perpetual bondage for the people.

USE GOVERNMENT CREDIT INSTEAD OF FARMING IT OUT TO BANKS FREE

In order to do what I suggest you will use the credit of the Nation instead of farming it out absolutely free to the private commercial banks of this country. If you desire to use the $23,000,000,000 in gold that we have that is now idle and unused as backing for those bonds, you can do that.

* * * * *

May I suggest to you that if the Government issues non-interest-bearing bonds and places them with the Federal Reserve banks, as has been suggested, the backing behind those bonds will be exactly the same as if the Government had issued a billion dollars of 3-percent bonds and placed them with the 12 Federal Reserve banks.

If there is any person within the sound of my voice who can say that the security will be less, I will yield to him now for that purpose. But no one can say it. There is exactly the same security behind each.

So why should this Congress sit idly by and place our people in perpetual bondage just because some person might say that the best way to get money is to have it created by the commercial banks and pay them an interest rate for its creation?

PEOPLE WILL EVENTUALLY BLAME US

May I suggest to you that the people of this country one of these days will blame you. They will blame me. They will blame the entire Congress and the administration for sitting idly by and letting these 50-year bonds, providing for 2 and 3 percent interest and more be issued and sold to the American people.

I am in favor of selling defense bonds to individuals and corporations that do not create the money with which to buy them. I favor that very much, because it has a tendency to retard or cut down or stop inflation. But I am very much opposed to the sale of interest-bearing bonds to money-creating corporations. To date the commercial banks have done an excellent job. I am not trying to destroy commercial banks. They are very necessary and highly desirable institutions. The stockholders of all the banks in the Nation have invested $8,000,000,000 only. That is all they would lose if every bank were to close its doors. Upon that investment they have already loaned the Government $21,000,000,000, upon which they are receiving interest annually. In addition to that, they have made loans and investments aggregating about $10 to every $1 that they have.

I am not objecting to that, let them do it, it is in the interest of the country, especially certain sections of the country, at times to have a bank expansion; but why permit them to lend 20-to-1, or 30-to-1, or 40-to-1, or 50-to-1 when the loan is made upon the credit of this Nation? I express the hope that this Congress will stop the use of our Government's credit free and the forcing of this Government to pay an anual tribute of billions of dollars upon this war debt and place our people in perpetual bondage.

September 29, 1941

WILL COST GOVERNMENT $100,000,000,000 TO PAY DEBT OF $50,000,000,000

Mr. PATMAN. Mr. Speaker, our Government debt at this time is approximately $50,000,000,000. By the time that is paid it will aggregate $100,000,000,000. When we talk about a debt of a certain size we should double the amount if we want to keep in mind what will actually have to be paid before the debt is liquidated. This amount of 100 percent is due to the interest charges. I am not opposed to individuals and corporations paying interest. They should pay interest for the use of money that they hire from other people, but when our Federal Government, that has the exclusive power to create money, creates that money and then goes into the open market and borrows it and pays interest for the use of its own money, it occurs to me that that is going too far. I have never yet had anyone who could, through the use of logic and reason, justify the Federal Government borrowing the use of its own money.

For the first 125 years of our country's existence the national debt was small. It was only about $3,000,000 a year—very small. The interest charges amounted to a very insignificant sum, excepting during the War between the States, when the national debt ran up to twenty-five or thirty million dollars. But that was only for 2 or 3 years, and it was small in comparison. However, since the World War in 1917–18, our national debt has been large, and today we are paying at the rate of $1,300,000,000 a year interest on our Government obligations.

GOVERNMENT SHOULD NOT ISSUE INTEREST-BEARING BONDS

It is true that if we contract a debt we should pay it. If the Government sells bonds, the Government should pay those bonds. If the Government promises to pay interest at a certain rate on those bonds, the Government should carry out its obligation. But I am saying to you in all sincerity and with all the earnestness that I possess, it is absolutely wrong for the Government to issue interest-bearing obligations. It is not only wrong; it is extravagant. It is not only extravagant, it is wasteful. It is absolutely unnecessary.

Two days ago Mr. Henry Morgenthau, Secretary of the Treasury, was on the witness stand before the Committee on Banking and Currency on the price control bill. I asked him questions about this. It is in the hearings, commencing at page 1005. Mr. Morgenthau admitted in this testimony that if the Government were to issue $1,000,000 in bonds and sell those bonds which are non-interest-bearing and delivered those bonds to the 12 Federal Reserve banks and received credit for them, that he, as Secretary of the Treasury, could then issue the same kind of checks against that money, and the people receiving the checks would receive the same kind of money as if he had issued a million dollars in bonds and sold them to the commercial banks of the country and agreed to pay the commercial banks a certain rate of interest. It would not increase the money supply one penny. Anyone who argues that it is inflationary does not know what he is talking about. It is not inflationary. It is not nearly as inflationary as our present system of selling bonds and paying interest as much as you pay principal.

I have in my possession a letter from the Secretary of the Treasury, Mr. Morgenthau, in reply to a letter I had written to him. I asked him how much the Government would pay in interest charges on the $758,900,000 4¼-percent Treasury bonds that are payable in 1947 to 1952.

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His reply was that the amount would be about $967,700,000. Now, mind you, that is where we issued those bonds during the World War, amounting to $758,000,000, and we are paying in interest on those bonds, in addition to the principal, $967,700,000.

Now, take the Panama Canal bonds. They amounted to a little less than $50,000,000—$49,800,000. By the time they are paid the Government will have paid $75,000,000 in interest on bonds of less than $50,000,000. So the Government is paying out $125,000,000 to obtain the use of $49,800,000. That is the way it has worked all along. That is our policy. That is our system. The question is, Should that policy be continued? Is it sane? Is it reasonable? Is it right or is it wrong? If it is wrong, it should be changed.

* * * * *

FEDERAL RESERVE PRIVATELY OWNED

We have what is known as the Federal Reserve Bank System. That system is not owned by the Government. Many people think that it is, because it says "Federal Reserve."

It belongs to the private banks private corporations. So we have farmed out to the Federal Reserve Banking System that is owned exclusively, wholly, 100 percent by the private banks—we have farmed out to them the privilege of issuing the Government's money. If we were to take this privilege back from them we could save the amount of money that I have indicated in enormous interest charges.

We have today about $23,000,000,000 in gold. This gold is, of course, owned by the Government—title to it is in the Government. Many people say the Federal Reserve banks own it, but they do not own it. Congress passed a law saying that the right, title, and interest in and to that gold is in the Government, but for convenience and in order to carry out this present monetary policy, the Treasury has issued what is known as gold certificates and has turned over to the Federal Reserve banks these gold certificates. So today we hold about $23,000,000,000 in gold. Under the old system of issuing $2.50 in currency to every $1 of gold on the theory that a 40-percent gold base would always be safe, you could take that $23,000,000,000 of gold and issue two and one-half times that much money under our present system. This would amount to fifty-seven or fifty-eight billions of dollars that could be issued on that gold; and then the banks receiving the money could issue all the way from 7 to 10 to 1. You can thus see what a great potential threat of inflation is there if it were exercised, but it will not be exercised, because the people who have charge of the monetary system will not permit it to be exercised.

The point I want to try to make is that the 12 Federal Reserve banks have in their custody these gold certificates which are used the same as gold, which are sufficient to more than pay off the entire national debt. I am not advocating that this be done quickly or suddenly. I am not advocating that any change like this be made quickly, for it would probably be disturbing to the country; but if the Government owned these 12 Federal Reserve banks, as it should—they should be just as much a part of this Government as the Treasury itself—then eventually the national debt could be absorbed by them and this interest burden could be taken off our shoulders.

October 27, 1941

* * * * *

UNITED STATES SOVEREIGN

No city is sovereign because it has superiors, the State and the National Government. A State is not sovereign because it has a superior in the National Government. The National Government is sovereign because it has no superior in the form of a government, and the National Government has the power to create its own credit upon which no interest should be paid instead of farming out that great privilege to the private banks of the country.

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