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Memorandum

On National Preparedness

By - R. L. Owen

Our national preparedness has been launched magnificently marshalling total resources of the men and materials available with unlimited credit.

A GRAVE OMISSION

The tremendous expansion of credit by selling bonds to individuals and privately owned banks necessarily will cause the dollar index to go down as it did under President Wilson. Under him it started at 145 in May 1913, and went down to 60 in 1920.

Then a violent reaction took place due to contraction of credit and currency. The dollar index was raised by the Federal Reserve Banks under the guidance of the Federal Reserve Board to 107 within one year. Then it was stabilized in 1926 for the years '22 to '27 inclusive. Then violent inflation took place in the security exchanges through indefensible expansion of credit. In 1930 to 1933, an indefensible contraction of credit ensued which raised the dollar index to 166 in February, 1933. The purchasing power of the dollar increased 600% in the security markets between September, 1929 and June, 1932. Hoover was defeated because of the depression of '32 and Roosevelt was elected to end the depression. He promised the country to restore the pre-depression price level, to put an end to the "indefensible expansion and contraction of credit for private profit at public expense." The Democratic Platform promised also a sound currency which Roosevelt correctly interpreted in his dispatch to the London Economic Conference when he said it was an objective of his administration to restore the price level and establish a dollar whose debt-paying purchasing power should remain the same from one generation to another.

Of course the Constitution charges Congress with the duty of creating and regulating the value of money, but Congress has never discharged this duty, although the House of Representatives in May, 1932, after thorough investigation taking 500 pages of testimony passed the Goldsborough Bill by 289 to 60. That Bill proposed to restore the pre-depression dollar index and to maintain it and directed the Federal Reserve Banks, the Federal Reserve Board and the Secretary of the Treasury to make effective that policy. It was successfully sidetracked in the United States Senate by substitute bills expanding the basis of national bank currency, which proved to be no remedy for the depression.

The declaration by Congress of a national monetary policy to restore the pre-depression price level of 1926 and to maintain it would give a basis of confidence to business men and enable them

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to make future business contracts of all sorts with dependable security by giving them a governmental guarantee of a dollar, whose debt-paying purchasing power should be stable and kept stable. Obviously business confidence in the value of property has no adequate basis when the dollar or the monetary unit is permitted to violently fluctuate. Obviously without stable money there can be no stability in the value of real estate or stocks or bonds, insurance policies, savings accounts, of commodities or services. This is a self-evident truth. Fortunately we know that we have the mechanism already provided by which to regulate the volume and value of money. The money which transacts 95% of the business of the country is check money based on demand bank deposits in circulation. These checks are convertible into legal tender currency on demand, The currency problem need give us no concern but regulating the volume of demand bank deposits in circulation is the medium through which to regulate the value of money because it furnishes the means for which the Federal Reserve System and the Federal Reserve Banks can expand the volume of demand bank deposits without limit by the purchase of government bonds or other sound bankable assets. The Federal Reserve Systems and the Federal Reserve Banks can in like manner contract the demand bank deposits in circulation under simple process of selling to the public securities previously acquired and thereby withdrawing from private use the demand bank deposits for which such securities would be exchanged. It has been demonstrated that as the dollar index goes down, or as the all-commodity index rises, which is the same thing, wages and employment increases. Only the Congress of the United States can give the business men of this country the dependable assurance of stable money and it can only be achieved and maintained in a dependable manner by the mechanism set up in the Federal Reserve System.

When the United States shall have established a dollar whose debt-paying purchasing power shall be made stable by government, our national income can be raised to exceeding 100 billion dollars per annum. The discussion of these questions will be found by you in Senate Document 23 of the 76th Congress. When this step shall have been taken, it will multiply the power of the people of the United States to create not only a superabundance of the munitions of war, but the comforts and conveniences of life.

In this document you will find many authorities, the attitude taken by political parties, by the farm organizations and charts prepared from records of the Federal Reserve Bureau of Research.

When this grave omission of regulating the value of money is corrected, America will have its industrial power very greatly increased not only for war purposes, but what is even more important for the safeguarding of the aftermath which would follow war and otherwise produce depression.

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By this system we will put a ceiling on the rise of commodity prices and a floor beneath which the dollar index shall not fall. By this system we will prevent indefensible expansion or indefensible contraction of money. By this system we will prevent harmful inflation and we will prevent the ruinous consequences of depression.

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