

of the personnel constituting the controlling body to exercise this authority, whether it is done under the provisions of the present bill or under any other legislation, would, after all, drift into the usual processes under which the selection of personnel for boards of that kind goes on today and has gone on for years.

In other words, I do not see how, under either plan, we get away from this weakness of control by fallible human beings.

Mr. HEMPHILL. I think there is very much in what you say, although that is not the picture we have in mind. We do not propose to leave this monetary authority any discretion at all in that direction. In fact, I will be willing to tell you how much money you must have per capita in order to accomplish the results sought, and this specific figure could be a mandate objective.

The CHAIRMAN. If you did that, then what do you have for Congress to determine for itself, insofar as it can be determined?

Mr. HEMPHILL. Let us put the figures in the bill. We have enough knowledge today to determine the amount of money per capita that we need. If you will consult the available records, this committee can determine the amount.

Mr. HOLLISTER. How much would you need?

Mr. HEMPHILL. About \$250, to restore our highest former standard of living and property values. Two hundred and fifty dollars per capita in circulation will create an annual per capita income of \$750. You can set the mark anywhere you want to for the average per capita annual income, and take a third of that figure and you have the amount of money or substitute medium of exchange which must be in circulation.

The CHAIRMAN. I will say to you frankly, that so far as I am concerned, if somebody will show me a plan how Congress may do this job and accomplish the results you have in mind, which all of us would like to accomplish—

Mr. REILLY. It is results that we would like to have.

The CHAIRMAN. Yes. If somebody will show me how that can be done by Congress and take the matter out of the control of human beings, I would like to do it. We are all subject to the limitations of judgment and other weaknesses, but I would like to do something like that. But I confess I do not know how to do it, and I am not sure that anybody else does.

Mr. HEMPHILL. Let me say this, that it was not the intention, in making these recommendations, to present in detail the bill you refer to. I will say this, and I believe that the economists who are here and who have made a life study of this subject will agree with me, that it is possible to do it, within small limits which would not be important, to have Congress fix the total amount of money necessary to be put into operation and circulation to produce a certain definite standard of living in terms of money per capita income. I think that is possible to do, if that would be considered by this Congress, and that is what we are going to propose.

I had in mind, in connection with this proposed amendment here, a specific provision which was in Senator Cutting's bill last year, which was introduced in the Senate, and I believe was introduced in the House by Mr. Patman. Those bills contained a provision for issuing currency or credit to the total amount of \$250 per capita.



Mr. Sisson. Mr. Hemphill, if I understood you correctly, you said, in substance, that if what you advocate, if your prescription were followed by Congress, namely, that if the country had an adequate monetary system, an adequate supply of money, the United States would rule the world. Am I quoting you correctly?

Mr. HEMPHILL. Yes, sir; eventually.

Mr. Sisson. When you said the United States would rule the world, in what respect did you mean that, in trade?

Mr. HEMPHILL. In trade and commerce; yes, sir.

Mr. Sisson. Then would you advocate that the United States try to increase its foreign trade, as a policy, or would you have it try to isolate itself further from the world of trade in the future than it has in the past?

Mr. HEMPHILL. I think, as the result of what we advocate, our foreign trade will take care of itself. Foreign trade consists of manufacturing goods that the people in other countries want and that they can afford to buy.

Mr. Sisson. You cannot sell to the rest of the world indefinitely, in increasing quantities, unless we buy from them.

Mr. HEMPHILL. England did it for 100 years.

Mr. Sisson. I understand that is what Mr. Hearst is advocating.

Mr. HEMPHILL. Listen, I do not represent Mr. Hearst here. I want that distinctly understood. I do not know that Mr. Hearst agrees with the detail of what I am advocating. Early in this administration Mr. Hearst advocated replacing the bank credit withdrawn from circulation by issuing bonds or currency. That is precisely what we are advocating. I don't think Mr. Hearst is interested in technical methods of how this objective is accomplished.

Mr. REILLY. The matter of this banking system, in your mind, is a very simple question?

Mr. HEMPHILL. Yes, sir.

Mr. REILLY. Do you not think it would be possible for Mr. Eccles to create a committee of equal size as the committee proposed, of distinguished students of finance in this country, bankers and college professors, who would put thumbs down on your bill?

Mr. HEMPHILL. Yes; I think there are a great many very accomplished and competent students who are not free to express their opinion.

Mr. REILLY. Has there not always been a radical difference of opinion among men who think they know something about banking as to what is or is not a good banking system?

Mr. HEMPHILL. There has been no difference of opinion among the men who actually know this subject. There are a great many whose opinions are colored by some necessity, and a great many economists who have given monetary subjects only the most superficial study.

Mr. REILLY. You assume that the members of the committee who approved these suggestions know all about the system?

Mr. HEMPHILL. Yes. Most legislation, as you know, is a compromise of conflicting opinions. I do not mind saying this, and I think everybody knows it, that the United States Treasury has always been in control of a group of very few banks.

Mr. REILLY. That may be true.



Mr. HEMPHILL. And as a consequence, the financial legislation which has been effected in the United States is the result of the cumulative intelligence of a succession of bankers who have controlled this Congress of the United States so far as financial legislation is concerned. The people have never had a chance at it, and have never even been represented.

Mr. FORD. If I have correctly understood your original statement, you say that we should have a dollar in actual money in circulation for every dollar's worth of goods in existence now and what will be produced in the future—an actual dollar?

Mr. HEMPHILL. We have got to have a dollar for all goods in process of transfer that are finished and ready for transfer. There has to be money enough to buy those goods—that is self-evident—or else they have to go on the shelves.

Mr. FORD. Does not the present Federal Reserve System provide for that in this way? Say, for instance, I am a manufacturer and I need \$100,000 with which to buy my raw material and pay my labor during the process of manufacturing the goods and delivering them to the men who have to purchase them.

I go to a bank and borrow \$100,000, and after the purchasers have taken the goods and moved them off of their shelves they return to me the money I charge them at the manufacturer's price, and I in turn pay my note in the bank. In the interim, there has been \$100,000 issued to take care of that transaction in its various stages. When my note is paid that money goes out of existence. Under your plan that money would remain in existence?

Mr. HEMPHILL. The point is if you are to pay your loan somebody else has to borrow \$100,000 to take the goods off your hands. You create \$100,000 worth of goods that never existed before, and the money to buy them does not exist. The money that exists now is all in use in the exchange of other goods. You have to have new money and you have to continue to borrow to continue to create.

If you create \$100,000 worth of new goods to be transferred, you must at the same time create the purchasing power. If, instead of paying your loan, this money is permanently introduced into the system you have furnished society with the necessary new purchasing power to consume the newly created goods.

Mr. FORD. If that money remains in existence, according to your theory, other people would not have to borrow?

Mr. HEMPHILL. No.

Mr. FORD. Then you want a matched dollar; you want a dollar in existence, in actual money, for every dollar's worth of goods and services that are transferred in exchange, in the course of business?

Mr. HEMPHILL. Let me turn the proposition around. Let us look at it from the other angle.

You cannot exchange any more goods, regardless of what your creative capacity is, until there is money ready to pay you for the goods. That is the same thing from another angle.

Mr. FORD. Then there is a difference in opinion between your school and the present school. One school creates the money during the period when it is necessary in order to take care of the transaction, and then upon completion of the transaction the money goes out of existence.



The other school would have that money remain in existence so that for every building, for every railroad train, and for every transaction of any character or kind, and for every kind of goods purchased, there would be a dollar still in existence some place in the United States.

Mr. HEMPHILL. Only sufficient to buy goods and services.

Mr. FORD. Then we would be affecting our national production of wealth.

Mr. HEMPHILL. This has not anything to do with wealth.

Mr. FORD. This confines it to monetary circulation and actual goods in process of production?

Mr. HEMPHILL. Absolutely.

Mr. FORD. When they are consumed, there would still be that money in existence?

Mr. HEMPHILL. You have to have some more goods. Our production and consumption are continuous processes.

Mr. FORD. But those goods go out of existence. It seems to me you do the same thing in the other way.

Mr. HEMPHILL. It is doing the same thing, creating money, but I call your attention to the fact that at certain recurrent periods under our present system this synthetic money, bank-credit money, disappears from circulation and is not reproduced. That is what we are suffering from now. You cannot borrow the \$100,000 that you are talking about from any bank today. I will show you on my desk application after application of men who have sound industries, and who could have borrowed at any time previously \$100,000 or more and who have asked me to help them. I have been trying to get money for some of them from the R. F. C. and from the Federal Reserve System, for men who could have borrowed many times the amount they require, whose notes would have been instantly rediscounted at any Federal Reserve bank.

Mr. FORD. But if that money had been in existence, and it was still in the hands of some people who did not feel that they wanted to loan it, you could not get it.

Mr. HEMPHILL. I understand that.

Mr. FORD. Then the presence of the money in existence makes no difference?

Mr. HEMPHILL. You are assuming a situation which does not normally exist.

Mr. FORD. If the banks had all this money in their vaults instead of credit, in their present mood of refusing to loan, they would not loan.

Mr. HEMPHILL. Why would they have that mood? They have now the depression mood. They are afraid to loan. I agree with the banker. I agree with him if he cannot make a loan safely he should not make it. He is very properly unwilling to loan and thereby weaken his relative reserve. In 1916 when we were considering the question of the amount of reserves of banks, I fought to have the bank reserves increased instead of diminished and a great many conservative bankers felt the same way. I thought reserves should be progressively increased until every bank could pay any part of its checking accounts—demand deposits—at any time. Until this was done I considered banking a gamble with the public always loser.



Mr. FORD. We are arguing about different things, I think. I am arguing whether it is necessary to have a dollar in actual money in existence for every dollar's worth of goods produced, or in the process of production, and have the money available all the time, or whether it is just as feasible to have that money created through a transaction such as I have described.

Mr. HEMPHILL. It would be perfectly feasible if our banking system functioned all the time only for sound loans. If they were on a sound basis so they have no recurring necessity to refuse what you have here pictured in your mind, I would be for the banking system.

Mr. FORD. You are trying to make that situation impossible. But here we say, instead of restricting the character of the security that the bank can use at the Federal Reserve bank to get money, we are saying all sound assets. That is asset money. If you are lucky and have \$1,000 you put it in the bank, and when you put it in there it is money.

Then the bank turns that into an asset and it loans to somebody and then the security it takes becomes an asset of the bank. If that bank can then take that asset to some source and turn it back into money in an emergency, the currency it secures is asset money, and with the plan you are suggesting you would have everything in this bill.

Mr. HEMPHILL. But you do not guarantee it in this bill.

Mr. FORD. Yes, we do.

Mr. HEMPHILL. No, you do not. It is discretionary with the Federal Reserve Board.

Mr. FORD. It is guaranteeable.

Mr. HEMPHILL. I agree that it is guaranteeable and am asking you to guarantee it by adding some amendments which is in effect precisely a guaranty. You say that three or four men here are going to have the right to do these things if they want, but if they do not want to they will not do it. What we advocate is that this Congress compel their action.

Mr. FORD. But we are going to say, to some extent, what a sound asset is.

Mr. HEMPHILL. They are going to say whether your banks can loan on it or not.

Mr. FORD. You cannot pass any law forcing a bank or anybody else to loan money if they do not want to.

Mr. HEMPHILL. Certainly not. That is precisely the difficulty with this Nation. We have to borrow all the money we have in circulation. If the banker is optimistic we are prosperous; if pessimistic, we starve.

Mr. FORD. We are creating facilities in this bill to cope with any emergency that comes along, and if we had had it in 1929 the present situation would not be so bad.

The Federal Reserve Act, as stated today, was probably the most ideal vehicle ever created to handle business in banks, but they left out one thing; they did not make facilities under the bill capable of taking care of a depression, which is the thing we are trying to do, which is calculated exactly to cure that condition.

Mr. HEMPHILL. I agree with you to the extent that the Federal Reserve Act was an ideal vehicle to expand the possibilities and extend the life of a banking system which showed unmistakable signs



of approaching collapse because of its inherent defects, and the fact that it has preserved this fundamentally unsound mechanism for more than 15 years is sufficient tribute to its potency.

I think, however, that if we had been operating in 1929 under the bill you are considering, with the same Federal Reserve Board we had then, some of our \$10 stocks would have sold for \$5,000 per share instead of the \$500 they did sell at. Some of our skyscrapers and big hotels would have been mortgaged for five or six times their cost of reproduction instead of the two or three times they were. The crash of 1929 would have brought on an immediate and permanent bank holiday instead of the temporary suspension of 1933 and the frozen situation which has since continued, and we would likely have had a communistic government instead of the socialistic dictatorship we now have. Did you ever run a bank?

Mr. FORD. I worked in a bank; yes.

Mr. HEMPHILL. A country bank?

Mr. FORD. Yes.

Mr. HEMPHILL. You must agree then that this bill introduces nothing new in the banking system except to enlarge its scope and to admit a wider latitude in discount and rediscount.

Mr. FORD. It gives a reverse action that you did not have before.

Mr. HEMPHILL. It gives a broadened action, similar to the action that the creation of the Federal Reserve Bank System gave. The Federal Reserve System simply expanded our then credit system.

Mr. FORD. It has terminal facilities both ways.

Mr. HEMPHILL. I know that. It creates a central body which has important discretionary power. I will say this to you—this bill, if you have the right men and can guarantee to the people of America that you are going to have the right men all the time, men of great understanding and courage who will not be influenced by politics or the selfish interests of anyone—this bill will do the trick, but it should have discretionary mandates.

Mr. FORD. And if we also have the right President and Government and Congress, you would not have any need of this bill.

Mr. HEMPHILL. The President and Congress do not operate our banking system. We could have the best President and Congress possible, and still have all our present distress. You have here a measure which preserves and enlarges a situation which is essentially unsound.

Mr. FORD. I disagree with you. How do you cure it by legislation? All progress is a thing that is just as the Governor said the other day, a matter of evolution, and in order to cure the evils of our banking system we must do it not by revolutionary processes but evolutionary processes, and we are intelligently trying in this particular measure to bring about a situation in the United States that is in my judgment the only possible way we can function under the capitalistic system, unless you want to go to some other system. As long as we are in this capitalistic system, 75 percent of the people seem to desire it to be preserved, we have to create facilities or machinery within that system that will give us the very best results obtainable thereunder. I think that this measure, I am not assuming all knowledge, will help immeasurably. I am just one individual who has made a study of this bill and compared it with what other bills have done.



I have tried to apply such experience as I have had to it. I was 35 years in the same game you are in, the newspaper game—I think this bill will give us results that everyone is hoping for. That is my view of it.

Mr. HEMPHILL. I have already stated my opinion of this bill, and I am not disposed to argue with you. The capitalistic system is not involved in this question. You spoke of me as a newspaper man. I know nothing about publishing. I have been a financial writer for only 2 or 3 years. I have been in active business almost all my life. I have in the past owned and operated railroads; I organized the Mississippi Power & Light Co. I have operated harbors, operated a great many industrial enterprises, have been in banking and finance since I began to vote, and I was credit manager of the Federal Reserve Bank of Atlanta, because some of my good friends perhaps mistakenly presumed that I knew something about the practical side of money and banking, as well as monetary science.

Mr. BROWN of Michigan. Did you agree with them or not?

Mr. HEMPHILL. Yes; I did. There is nothing difficult about the subject. Let me say this about this bill: In my opinion, whatever faults or whatever virtues you have had previously in the banking system, this bill exaggerates them. I do not think it cures anything. I think that you do nothing in this bill which is curative or constructive. The only thing you do is to create a central body here which will exercise some control which has not before been had. I think that is true. I will say this, and it is the reason I asked you if you were a country banker: I have been a country banker, and when things are going good there is nobody under this bill who will or can stop a country banker from going out on a limb; no device that we have ever found except a law which defines the limit of his loans; and some of the big city banks are just as bad.

Mr. FORD. I realize that.

Mr. HEMPHILL. That is what creates the trouble with our banks all over the country. In 1929 some of the banks of New York who ought to know better would lend on anything you could bring in the front door. Today they will lend almost nothing. That is the essence of our trouble. The oscillating psychology of the banker. I am with their present views. Do not think I am criticizing the banker, because, as I said a while ago, nobody but a gambler would run a bank according to our present laws. There is no business man who would run a bank on a basis of 10-percent reserve. It is a straight gamble. It is not a business. What we propose here is to convert it into a sound business.

Mr. FORD. Do they not have a pretty substantial kitty?

Mr. HEMPHILL. You see what happens to them. We have lost 15,000 of them in the last 20 years and almost wrecked this Nation. In fact, we are not yet out of the political woods by a "long" shot.

Mr. REILLY. Have not thousands of banks gone on doing banking that are absolutely sound?

Mr. HEMPHILL. But they busted everybody else doing it.

Mr. REILLY. No.

Mr. HEMPHILL. Have you forgotten the drastic foreclosures in 1929, and 1930, and 1931, and 1932, that forced thousands of our finest creative and constructive men into bankruptcy and some of them into



insane asylums and suicide? You cannot have forgotten that mad period of ruthless destruction; it was the most drastic period of contraction ever forced on any country.

Mr. REILLY. Mortgage companies, stock exchanges, and other things have brought about that.

Mr. HEMPHILL. I understand. But I am discussing this one feature. There is nothing right about our banking system. It is a rotten, unsound system. You all know this as well as I do. We can have a better one. If you are all going to be tied, if you are bound, indebted to some interests here so that you cannot use your independent judgment, you will not do anything constructive. This bill is not anything. It is not even an advance. It opens the whole banking system wide open, and we will have as an absolute certainty—no question about it—we will have another period of inflation which will be a wilder thing than we have ever had, and a worse collapse, and I want to tell you gentlemen that our democracy will not survive it.

Mr. SPENCE. You stated that the money per capita should be \$250.

Mr. HEMPHILL. Yes.

Mr. SPENCE. What do you mean by that? What do you mean by \$250—in money or cash?

Mr. HEMPHILL. In bank deposits. Something that you can transfer, any kind of money; we can use soap wrappers.

Mr. SPENCE. That is more money than we have ever had.

Mr. HEMPHILL. No; it is about what we had in 1928-29. It is a little more in total because we have more people; but it is not substantially more per capita.

Mr. SPENCE. In 1926 there were \$24,000,000,000 in banks.

Mr. HEMPHILL. In bank deposits, yes; but in money of all kinds there was \$27,000,000,000, about \$230 per capita.

The CHAIRMAN. That was not entirely in demand deposits.

Mr. HEMPHILL. In demand deposits, and cash, outside of banks, \$27,000,000,000.

Mr. CAVICCHIA. I would like to know if this \$250 per capita is based on any relation to the time deposits in the bank.

Mr. HEMPHILL. No. Time deposits are not in circulation. Time deposits are just investments like bonds or United States Steel stock; you do not draw checks on them or use them as money.

Mr. CAVICCHIA. You do not have deposits in there when you make up that figure of \$250 per capita?

Mr. HEMPHILL. Yes; demand bank deposits and cash.

Mr. CAVICCHIA. You did not have that relation in mind, then?

Mr. HEMPHILL. Yes. Twenty-seven billion dollars in demand deposits and cash is about what we had in 1928-29. Now we have more people, which would make it necessary to have about \$32,000,000,000.

Mr. SPENCE. Do you think business conditions govern the amount of bank deposits?

Mr. HEMPHILL. No; I know about that. It is the banker who says "Yes" or "No." I could talk all afternoon about that. Business psychology does not change. Business conditions change because we vary the volume of synthetic money. We try to create just as much business tomorrow as today. We do not shift our ideas about business. The business man will attempt to transact business



with a persistence second only to the persistence with which he tries to preserve his life, all the time. There is no such thing as business scares. It is only expanding and withdrawing credit that creates the fluctuation in business. That is true.

The business man does not even know whether expansion or contraction is coming. We try harder to buy and sell in depression than any other time but we have insufficient money in circulation. It is a mysterious thing to the business man. His business begins falling off and he doubles his efforts to again expand it. He does not know that money is going out of circulation because the banker has over-expanded and is getting cold feet.

Mr. CROSS. We have learned from the night schools that the question of velocity and backbone money was to be figured in considering the amount of money in circulation.

Mr. HEMPHILL. Velocity.

Mr. CROSS. In other words, that when they have many advantages, this backbone money and pocket money continues to circulate with the same velocity all the time.

Mr. HEMPHILL. Yes.

Mr. CROSS. What do you think about the velocity of money cutting any figure?

Mr. HEMPHILL. I do not think there is any great difference in the velocity of money in good times or bad. Everyone does not agree with me but everybody agrees when we get the same figures before us. I will show you gentlemen something in the Literary Digest, a graph in the back of the book which shows, among other things, the checks charged to individual accounts in all banks outside of New York City and the carloadings. Those are the two lines right there. That one is the checks charged to individual accounts outside of New York City which more or less eliminates the major part of our checks employed in speculation. These carloadings represent the goods we are shipping to each other and those checks are what we are paying for them.

I think these are the two most important indices of what is going on in this country that can be constructed, because the minute we trade more it means that we ship more goods immediately. We have to do this, and we pay more money for them, so a graph showing those checks outside of New York City and those carloadings, I consider, if properly constructed, gives a perfect picture of what is going on in the United States, and you will notice that they have not changed substantially since June 1933; the graph shows clearly that there is no substantial increase or decrease.

Mr. CAVICCHIA. Carloadings and checks.

Mr. HEMPHILL. Yes; all checks charged to individual accounts outside of New York City. You cannot laugh those figures off. There it is, the picture of what we are actually doing.

Mr. CAVICCHIA. I take it that you would not have the country put on a gold basis as far as the monetary system is concerned?

Mr. HEMPHILL. What difference does it make? We have now behind our money, our fiat money, all the wealth of the Nation—all the gold and silver, and diamonds and everything else we own. Why tie it to gold alone? If you limit our money on a gold basis you are restricting it to a very small part of our wealth. I believe in the gold standard for international payments if anyone wants



it at the value of the gold today—on the date of payment. And if you want to make payment with gold, all right, give it to our foreign cousins—that is the way I feel about it—at whatever the price is, \$30 or \$40 per ounce, that is all right. He understands gold and what is the use of arguing with him; we have the gold—avoid argument.

Mr. CAVICCHIA. The issuing of 25 or 26 billions of currency—would that in any way restrict the banks from lending; lending money on mortgages?

Mr. HEMPHILL. The banks would have more to loan and could give longer credits. You gentlemen know what the present credit condition is.

Mr. REILLY. Credits?

Mr. HEMPHILL. Yes.

Mr. REILLY. What would this new money be issued against?

Mr. HEMPHILL. The wealth of the United States, which at the peak was \$480,000,000,000.

Mr. REILLY. That is purely an inflationary measure?

Mr. HEMPHILL. No; these proposed amendments are initially deflationary, tremendously so, and if it were not for the fact that we have included provision for a monetary authority, operating under a definite mandate to restore the currency, it would be drastically deflationary as these amendments eliminate our present imaginary money and replace it with a permanent currency, controlled by Congress.

Mr. REILLY. It is your idea to use money based on the credit of the United States to take up the present indebtedness?

Mr. HEMPHILL. Bonds; yes. What is the difference?

Mr. REILLY. Not \$28,000,000,000.

Mr. HEMPHILL. Yes. What is the difference between bonds and money? They are identical obligations of the Nation. One states on its face that it is legal tender, the other does not.

Mr. REILLY. Do you believe that if we adopted these amendments this movement would pull us out of the depression?

Mr. HEMPHILL. Yes; we reversed a disastrous depression in 1929 in 6 months. We did it by credit expansion, what we are asking you to do today, and stopped a depression as bad as this one.

Mr. REILLY. Would you use the \$4,800,000,000 work-relief measure in financing our recovery; what would you suggest about that?

Mr. HEMPHILL. Throw it out the window.

Mr. BROWN of Michigan. You do not favor the Government spending for the purpose of increasing employment at the present time.

Mr. HEMPHILL. No; I do not.

Mr. BROWN of Michigan. What would you do during the interim it would take to put your system into effect with millions of men unemployed?

Mr. HEMPHILL. Do just what we have been doing since 1929. We have to support our unemployed. That question is not open to argument.

Mr. BROWN of Michigan. I have read for a good many years the Hearst newspapers for which I understand you are working and they have advocated, although they have not stressed it very much in the past few months a 5 billion dollars public-works program.



Mr. HEMPHILL. I do not know.

Mr. BROWN of Michigan. You must know that.

Mr. HEMPHILL. I do not know that.

Mr. BROWN of Michigan. You know as a matter of fact they have for many years advocated that to get us out of the depression.

Mr. HEMPHILL. I think Mr. Hearst, whom I have a very great respect for, takes about the same position on this general subject as I do.

Mr. BROWN of Michigan. You know that he advocated a 5-billion-dollar public-works spending program?

Mr. HEMPHILL. I do not know that. Mr. Hearst has long advocated that the Government have constantly on hand uncompleted desirable projects all ready to go into action and the necessary authority and appropriations complete, so that they could be put into action whenever general business showed signs of slowing up. That is a far different picture from the hasty and wasteful and doubtful emergency program now being considered. Mr. Hearst's idea is to prevent unemployment—prevent emergencies by a sane, well-considered, thoroughly digested, and prepared program. As he recently wrote me—provide knee action for our economic machine, to compensate minor bumps. I will say this. Most of the things Mr. Hearst has advocated in the past have been adopted 10 years later, as I have no doubt this suggestion will be. However, I want to repeat that here, I am not representing Mr. Hearst and have no authority to speak for him. He may have some respect for my views on money and banking because of my long experience. He has given profound study to many questions of great importance and on these questions I think he is the soundest philosopher of our times. I do not know that he has recently advocated a 5-billion-dollar spending program.

Mr. BROWN of Michigan. I will supply that knowledge to you. I know that he has. How would you take care of the people of the country at the present time? You say that we should take care of them as we have in the past. The only way we can do it is through a spending program.

Mr. HEMPHILL. No; the emergency spending program is new. We have heretofore been paying for relief, certain definite relief.

Mr. BROWN of Michigan. Would you confine Government activities to straight relief?

Mr. HEMPHILL. Yes.

Mr. BROWN of Michigan. Instead of a public works program?

Mr. HEMPHILL. Yes.

Mr. BROWN of Michigan. In other words, you think it would be better to give them the money rather than enable them to work for the money.

Mr. HEMPHILL. I do not think that question would be a question more than 6 months. This depression is a monetary phenomenon; that is all. I think almost everyone knows just what our trouble is. Why do not you gentlemen get to the guts of this thing and cure the thing that is wrong? It is a monetary phenomenon. The contraction of our synthetic money—bank credit. That is all that has ever been the matter with us—the direct cause of every depression.



All these other things are simply the visible evidences of the maladjustment caused by taking \$8,000,000,000 out of circulation.

Everybody in the world knows this except us.

Now, gentlemen, I want to summarize our situation and the reforms advocated.

I want to define this proposal so clearly that you cannot pass the buck.

I want in all kindness and consideration to put you in a corner from which there is no escape.

You have here a simple and certain method by which you may end this depression, by which you may recover your constitutional right to issue and control the money of this Nation; by which you may restore prosperity to your stricken constituents; by which you may confer on the people the independence which an omnipotent Creator intended all men should have and which the patriots who founded this Nation believed they were securing for their posterity.

There is no theory whatever involved in this proposal.

You have all the facts before you. The authentic data which you may verify from our public records, if you have not already done so.

You know now that the national income is invariably three times the individual demand deposits in our commercial banks.

[In billions of dollars]

	Demand deposits	National income	Ratio		Demand deposits	National income	Ratio
1929-----	24.3	81.0	3.3	1932-----	16.4	48.9	3
1930-----	24	75.4	3.1	1933-----	15.2	46.8	3
1931-----	21.3	63.3	3	1934-----	17.6	52.8	3

<sup>1</sup> Estimated.

No 2 years in a century could subject this rule to a severer test than 1929 and 1932. The peak of the wildest inflation and the bottom of the most severe depression this Nation has ever known. The variation is only 10 percent.

This ratio has been established beyond question in this country, in England, and in France, as far back as reliable records are obtainable.

You know that to restore the income of our predepression days you must put into circulation additional money until you have expanded individual demand deposits to one-third of that predepression national income.

That means that to have an average annual per capita income of \$750 there must be in circulation in individual demand deposits in our commercial banks \$250 per capita, approximately \$32,000,000,000.

To accomplish and control this result you must eliminate from the private banks the power to expand or contract the money Congress puts in circulation.

That is a very simple matter.

The banks now hold cash and Government bonds equal to their individual demand deposits, but they have the potential capacity to inflate or deflate their demand deposits and nullify and destroy any program you devise.



You know that Congress can never control the volume of money in circulation and therefore its value as long as private banks retain this power.

We propose to you that you require that hereafter all banks maintain their demand deposits in cash or Government bonds.

They can then no longer inflate or deflate. They are profitable on their present basis and will share hereafter with everyone in the general prosperity, but Congress alone will hereafter have the power to increase or decrease our medium of exchange—to create prosperity or depression.

The welfare of the Nation will then be in your hands.

We propose that you then command the Federal Reserve Board to buy from individuals and corporations, as rapidly as possible, the 15 billions of United States bonds they hold, putting into circulation that amount of new money which will go immediately into action.

(If it is considered desirable to encourage the banks to increase their demand deposits by purchase of bonds, there is no objection, provided that they are not permitted later to sell, except to the United States Treasury.)

Each billion increase in demand deposits will increase the national income \$3,000,000,000.

There is no doubt of this whatever. It is a demonstrated fact. It is no one's theory.

You have it in your power to do this.

If you do this you will confer upon the Nation the priceless gift of liberty and continued prosperity. If you fail, you have failed miserably and ignominiously in your duty to the Nation.

The Constitution endowed you with the power to issue the money of this Nation, and by that act prohibited all others from exercising such a power.

It is a sacred trust because it controls the welfare of each individual.

Your predecessors have signally failed or have been influenced or intimidated into neglecting to exercise this power, and have permitted private selfish interests unlawfully to exercise this function for their private profit, and by this monopoly to have an unholy power over the people of this Nation, through which they have exploited them, have in effect made them a subject people, reduced them to economic slavery.

Your predecessors may plead ignorance. They may plead that too little was known of monetary science, that no clear definite plan was available, that the data upon which such a plan might be determined was not available.

You cannot plead such ignorance.

This committee, which has studied monetary matters for so long, is now well informed.

There is no confusion in your minds.

You know that you do not now issue and control the money of this Nation, as the Constitution empowered and directed you to do.

You know that private interests have seized and created for themselves and their favored circle, a monopoly of this vital public function; that today they are more powerful than this Government.

You know that they control the economic welfare of this Nation, and that Congress is powerless.



That they maintain their sinister control of this public function and of this Nation by subterfuge and intrigue and intimidation.

You know that to a large extent the private banks of this Nation are little more than private rackets.

That only to a limited extent do they serve the public welfare.

That in the majority of instances they are operated to promote the interests of a small group which has an unfair advantage over the remainder of the community.

That through their power to create a synthetic money at their pleasure the "inside groups" in financial circles can and do constantly buy the results of the genius and labor of their fellows at bankrupt prices.

You know that the banking system is controlled by the policies of a few big speculative banks, principally located in Wall Street, who dominate the whole system and the banking organizations.

You know that the men who have of late years come largely into control of these speculative banks are parasites. That they control our great securities and commodities markets and the machinery of foreign exchange.

That by manipulating the powerful machine they operate they obtain an unfair and unearned share of the wealth created by our commerce and industry to which they contribute nothing.

You cannot plead ignorance of these facts.

You know all about them, and millions of your constituents know all about them, and know that you know all about them, and know where your duty lies in this crucial situation.

The question before you, gentlemen, is fundamental.

Are your constituents and posterity of more moment to you than the small group of parasites who own and manipulate this synthetic substitute which we are forced to use for money because of the failure of Congress to exercise its constitutional function, to issue and control the money of this Nation?

That is the fundamental question here involved.

You cannot escape a clear position in this matter.

Are you going to do your duty, or are you going to decline to do it?

That is the question.

Are you going to recapture your constitutional prerogative to control the money of this Nation, and control its material welfare, or are you going to permit a private monopoly to continue to exploit you and your fellow citizens, and to constantly concentrate in the hands of this small group the wealth created by the whole Nation?

That is the question now before you gentlemen. You cannot dodge it. You cannot plead ignorance.

We are not suggesting that you recapture the wealth these parasites have obtained by fraud, through this unholy power which the negligence of your predecessors has conferred upon them.

We will leave that to the fact that these men, divested of their unfair advantage, will be unable to compete with constructive minds and their unearned wealth will soon be dissipated to the real creators of the wealth of this Nation. They are largely the accidents of financial politics. Many of them are not fitted by birth, breeding, race, intelligence, culture, or any other characteristic to occupy positions of leadership or control.



Divested of their unholy power over their fellows they are largely an ineffectual class without constructive resource and with little to contribute to society.

We are asking you to end this period of wildcat credit manufacture by private interests. This bonanza banking period through the machinery of which a few greedy predatory men have been able to maintain a stranglehold on this Nation and its Government.

Who are you for?

Are you for the people of this Nation or for the small group of international bankers who dominate and manipulate and exploit the commercial banking system of this Nation and through it dominate and exploit the Nation?

That is the question you must answer your own consciences, your constituents, your children, and posterity. The following amendments to H. R. 5357 are recommended:

1. After 1 year after the passage of this act, all individuals, firms, associations, or corporations in the United States or Territories or possessions thereof, engaged in the business of banking as defined by law, and among other things receiving deposits of money or any substitute medium of exchange, withdrawable or payable upon the check or equivalent order of the depositor, upon demand or within 30 days shall be required to hold said deposits in trust for said depositors in lawful money of the United States, on hand, or on deposit in the Federal Reserve bank of its district, or with the Treasurer of the United States: *Provided, however,* That said bank may at its own risk keep no more than 95 percent of said deposits invested in interest-bearing bonds or notes of the United States Government, and the interest on said bonds or notes may be received and retained by said bank for its own use and benefit: *Provided further,* That any of said bonds or notes of the United States shall be eligible for discount at any Federal Reserve bank at the par value thereof and at the interest rate borne by said bonds or notes, and after the date on which this act becomes effective the Federal Reserve banks shall discount for any bank in its district any of such bonds or notes upon application and shall discount no other obligations, all laws or parts of laws in conflict with this provision being hereby repealed.

2. After the passage of this act, the Treasury of the United States may receive and hold for safe-keeping and credit any funds in lawful money or bonds or notes of the United States deposited with it for the account of any Federal Reserve bank and shall deliver such funds so deposited to the said depositor upon demand; or upon duly authenticated order of such depositor shall transfer the title to such funds to such other Federal Reserve bank as such order may direct. Duly authenticated credit upon the books of account of the Treasury of the United States shall be legal reserve for any bank, banking firm, or banking corporation in the United States or its Territories or possessions, and the Treasurer of the United States shall, upon demand, issue and deliver to any depositor, non-interest-bearing Treasury certificates against such credit in denominations of 1, 5, 10, 20, 50, 100, 1,000, 10,000, 100,000, or 1 million dollars, or such other denominations as the Federal Reserve Board may from time to time direct, and all such Treasury certificates so issued shall be legal tender for all public and private debts, and may be redeemed by the Treasurer of the United States upon demand in bullion, gold or silver, at the option of the Federal Reserve Board upon such prices, terms, and conditions as the Federal Reserve Board may direct.

3. The Federal Reserve Board is hereby directed to use all its powers and facilities to increase the circulating medium of exchange of the country until there shall be in individual demand deposits in the commercial banks of the Nation the sum of \$250 per capita, in accordance with an estimate of the population as of the date of the passage of this act, to be furnished by the Census Bureau, and the Federal Reserve Board is further directed to use all its powers and facilities to maintain the said sum of \$250 per capita in circulation in individual demand deposits in the commercial banks of the Nation until and unless this mandate is hereafter modified by further act of Congress.



**STATEMENT OF D. J. NEEDHAM, GENERAL COUNSEL AMERICAN BANKERS ASSOCIATION**

The CHAIRMAN. Mr. Needham, representing the American Bankers Association, is here and has a statement for the committee that he desires to read. I did not think we should interrupt Mr. Hemphill this morning, but since it was understood we would go forward with Dr. Fisher this afternoon, I am wondering if you might insert your statement in the record, Mr. Needham, and that will give every member a copy.

Mr. NEEDHAM. I will be glad to file the statement and see that each member gets a copy.

(The statement referred to is as follows:)

**RECOMMENDATIONS OF SPECIAL COMMITTEE OF THE AMERICAN BANKERS ASSOCIATION ON THE PROPOSED BANKING ACT OF 1935**

WASHINGTON, D. C., March 22, 1935.

Hon. HENRY B. STEAGALL,

*Chairman Committee on Banking and Currency,  
House of Representatives, Washington, D. C.*

DEAR MR. STEAGALL: The American Bankers Association, through its accredited committees, has given careful consideration and thought to the provisions of titles I, II, and III of the proposed Banking Act of 1935 (S. 1715 and H. R. 5357).

At a joint meeting of the administrative committee and the executive committee of the committee on banking studies, held earlier this month, resolutions were unanimously adopted authorizing the following official statement on behalf of the association:

"The administrative committee and the executive committee on banking studies of the American Bankers Association, in joint session, have made a careful analysis and study of the proposed Banking Act of 1935. While the committees realize that certain provisions of title I of the pending bill affect adversely the larger banks, and that other provisions of the bill are not entirely acceptable to some of the (Federal Reserve) nonmember banks, they believe that the aims and purposes expressed in the provisions of titles I and III of the bill are, in the main, in the public interest, as well as in the interest of banking. The committees have, therefore, on behalf of the association approved in substance title I and III of the bill.

"Since the introduction of the bill in Congress the executive officers of the association have conferred at length with leaders of Congress and administrative heads of the Government regarding the provisions of title II. The committees believe that certain constructive changes should be made in this title. They recognize that some members of the association are of the opinion that it would be advisable to postpone definite action on this title of the bill until such time as a more detailed and careful study of its provisions can be made, but the committees believe that if the changes which they have in mind can be brought about through conferences it will then be possible for the committees to approve the entire measure.

"A special committee has therefore been appointed consisting of the president, the first vice president, the chairman, and one other member of the banking studies committee, and the chairman of the committee on Federal legislation. The above-mentioned special committee is authorized and directed to confer with the leaders of Congress and the administrative heads of the Government with a view to procuring such changes in the bill as are believed by the association to be in the best interest of commerce, industry, and the public.

"The personnel of the special committee is as follows: R. S. Hecht, president; R. V. Fleming, vice president; Tom K. Smith, chairman of the committee on banking studies; W. W. Aldrich, member of the committee on banking studies; Ronald Ransom, chairman of the committee on Federal legislation, of the association."

The special committee, having made further study of the proposed Banking Act of 1935, now submits the following recommendations:



## TITLE I

We believe that the provisions of title I of the bill, if enacted into law, will improve the operation of the Federal Deposit Insurance Corporation in such manner as to enable it to serve more effectively the interests of the public and of banking. We are of the opinion, therefore, that the provisions of title I should be approved in substance. We know, however, that there are many nonmember banks, members of the American Bankers Association, who feel that the provisions of title I, making it compulsory for all banks to join the Federal Reserve System by July 1, 1937, should be given further careful study by Congress before that time.

## TITLE III

We believe that the provisions of title III of the bill, which consists of amendments to the Banking Act of 1933, will materially clarify and improve the present law, and we are therefore of the opinion that the various provisions of this title should also be approved in substance.

## TITLE II

We have given particularly earnest and careful consideration to the provisions of title II of the bill, which relate to the Federal Reserve System. The committee is deeply impressed with the fact that the changes contemplated in title II go to the very root of the theory and practice of banking as it has existed in this country and that it is difficult, if not impossible, to formulate final conclusions with regard to the provisions of this title in the brief space of time which has elapsed since the bill was introduced. If, however, it is considered advisable and necessary to pass legislation covering the subject matter of title II during the present session of this Congress, the committee believes that the following recommendations, if carried out, would eliminate many of the objections to the present bill.

The Federal Reserve Act is the result of years of study of the banking systems of the world and of extensive debate throughout the country and in Congress. The framers of the act intended that the operation and administration of the Federal Reserve System should be based primarily upon the requirements of agriculture, commerce, and industry, with due regard to the general credit situation of the country and the reasonable requirements of public finance.

The Federal Reserve System has now been in operation for a period of more than 20 years. During that period the laws relating to the system have from time to time been modified and adjusted, primarily to improve its application to changing conditions in agriculture, commerce, and industry. At no time, we believe, has there been any essential departure, through amendments to the law, from the basic purposes of the act, as originally drafted. We believe that these basic purposes should be preserved, although we recognize that in view of the rapid and material changes which have taken place in the economic structure of the country in recent years, further adjustments in the Federal Reserve System are from time to time inevitable.

#### 1. *The Federal Reserve Board*

The committee believes that many of the changes in the Federal Reserve Act proposed in title II of the bill are of a constructive nature and should have the support of bankers, if the method of appointment and the tenure of office of the members of the Federal Reserve Board, in whose hands it is planned to concentrate greater power than ever before, could be so altered as to insure, as far as possible, the absolute independence of the Board from partisan or political considerations. It is our view that if a satisfactory solution of this problem can be found, one of the greatest objections to title II of the bill, as proposed, will have been eliminated. We will address ourselves first, therefore, to section 203 of title II of the bill which deals with the all-important question of the membership of the Federal Reserve Board.

Since the passage of the Federal Reserve Act, informed opinion both in Congress and among bankers has been striving toward the ideal of making the Federal Reserve Board a body of such independence and prestige that it might be described as the supreme court of finance and banking. We believe there is greater need now than ever before for realizing this ideal.



In order to bring about this result, we recommend that the Board be reduced from 8 members to 5. We believe this should be accomplished by the retirement from the Board of its ex-officio members, namely, the Secretary of the Treasury and the Comptroller of the Currency, and by reducing the appointive members of the Board to five as soon as a vacancy occurs (such a change would necessarily involve an adequate revision of the salary of the Comptroller who now receives a portion of his compensation through the Federal Reserve Board).

We heartily approve the proposed increase in the salaries of the members of the Board and would, in fact, like to see their compensation fixed at a somewhat higher figure than that mentioned in the bill so as to attract to these tremendously responsible positions the very best talent available. We believe that the plan of providing suitable pensions for the members of the Board is especially desirable because the security with which such an arrangement assures would be a further help in inducing outstanding men to accept a call for service on the Board and give them the financial independence which such a position requires.

### *2. The Governor of the Federal Reserve Board*

The bill as originally introduced provided that the Governor should serve only at the pleasure of the President and that his service as a member of the Board should cease upon the termination of his designation as Governor. It has already been suggested that an amendment be made in the bill as proposed which would provide that the Governor, if no longer designated as such by the President, might, if he chose, continue his membership on the Board, but would be permitted to reenter private business (without the 2-year limitation) if he chose to resign upon not being redesignated. We would be entirely satisfied with this suggested change. If, however, it is deemed essential to give each incoming President the right to name a Governor of his own choosing, because of the fact that the administration will no longer be represented on the Board by the Secretary of the Treasury or the Comptroller of the Currency, it may be desirable to give the President the power to select the Governor of the Board and to provide that the term of the Governor of the Board will be the same as that of the President. It should also be provided in the act that the members of the Federal Reserve Board, including the Governor, shall be removable during their term of office only for cause.

### *3. Election of Governors of the Federal Reserve banks*

It has been suggested that section 201 of the bill be modified so that the governor of each Federal Reserve Bank shall be approved by the Federal Reserve Board every 3 years rather than annually, so that his term as governor would coincide with his term as a class "C" director. We believe that in order to preserve the independence of the governors of the Federal Reserve banks the term during which they may serve without having to be reapproved by the Federal Reserve Board should be as long as possible and that this approval should certainly not be required more often than every 3 years. Corresponding changes should be made in the act with regard to the election of vice governors of the Federal Reserve banks.

### *4. Open market operations*

Neither the original text of section 205, providing for the open market committee of 3 members of the Federal Reserve Board and 2 governors of the Federal Reserve banks, nor the subsequent suggestion which has been made that authority over the open market operations be vested in the Federal Reserve Board, which would be required to consult with a committee of 5 governors selected by the 12 governors before adopting an open market policy, a change in discount rates or a change in member bank reserve requirements, seems to us to constitute a satisfactory solution of the open market problem.

Our suggestion is that the open market committee shall consist of the entire Federal Reserve Board (reduced to 5 members) and 4 governors of the Federal Reserve banks, selected by the governors of the 12 Federal Reserve banks annually, each member of the open market committee having a vote in the deliberations of the committee on the 3 subjects to be entrusted to it, i. e., open market policy, change in discount rates, or change in member bank reserve requirements.



#### 5. *Changes in Reserve requirements*

It has been suggested that section 209 of the bill be amended so as to provide that the open market committee shall not have the power to change reserve requirements by Federal Reserve districts but only by classes of cities and it has been suggested further that for this purpose banks be classified into two groups, one comprising member banks in central reserve and reserve cities and the other comprising all other member banks, and that the reserve requirements be uniform within each group. We believe that these suggested changes are desirable but we think serious consideration also should be given to the desirability of fixing limits in percentage of deposits beyond which reserve requirements cannot be increased or decreased by action of open market committee.

#### 6. *Real estate loans*

We do not favor section 210 as originally proposed, permitting advances against real estate up to 75 percent of the actual value of the property if amortized within 20 years, or up to 60 percent of the actual value of the property for term of not more than 3 years, in both instances without territorial limitations.

We are in favor of the suggestion subsequently made that all real-estate loans hereafter made shall not exceed 60 percent of the appraised value of the property and that the Board be given discretion to make regulations governing real-estate loans held by banks at the present time.

We also believe that the presently existing territorial limitations, or some similar limitations, should be retained in the law and that unamortized real-estate loans should be permitted up to a period of 5 years.

#### SUMMARY

We believe that the foregoing modifications in title II of the bill (nos. 1 to 6, inclusive) are fundamental, and that all of them are in the national interest. If changes substantially along these lines cannot be made in the original draft of the bill, we would be strongly opposed to the enactment of title II. However, if these changes, some of which in whole or in part have been heretofore recommended by Governor Eccles and placed into the record of your committee, are adopted, we would be in substantial agreement with the provisions of title II, provided that the following additional changes, which have also been suggested by Governor Eccles during the course of your hearings, are included in that title:

##### (a) *Admission of insured nonmember banks*

It has been suggested that section 202 of the bill should be amended so as to provide that the Federal Reserve Board shall have authority to waive not only capital requirements but all other requirements for admission of insured nonmember banks to the system, and that the Board be permitted to admit existing banks to membership permanently without requiring an increase in capital provided their capital is adequate in relation to their liabilities.

##### (b) *Federal Reserve bank experience for Federal Reserve Board members*

It has been suggested that section 203 (1) of the bill be amended so that as a general policy two members of the Federal Reserve Board shall be selected, when possible, from persons who have had experience as executives of the Federal Reserve banks.

##### (c) *Federal Reserve Board pensions*

It has been suggested that section 203 of the bill be modified so as to provide that any member of the Board, regardless of age, who has served as long as 5 years, whose term expires and who is not reappointed, shall be entitled to a pension on the same basis as though he were retired at 70 years of age; that is, he is to receive an annual pension of \$1,000 for each year of service up to 12.

The committee offers all of the foregoing suggestions in the earnest belief that they represent constructive modifications of title II of the bill as proposed, with a view to rendering the operations of the Federal Reserve System more beneficial to the interests of the Nation as a whole.



We respectfully request, therefore, that these suggestions be given consideration and study in the deliberations of your committee. We expect to continue our study of the bill, and would like to have the privilege of submitting to you any further suggestions which may occur to us.

Respectfully submitted,

AMERICAN BANKERS ASSOCIATION,  
RUDOLPH S. HECHT,  
ROBERT V. FLEMING,  
TOM K. SMITH,  
WINTHROP W. ALDRICH,  
RONALD RANSOM,

*Special Committee on the Proposed Banking Act of 1935.*

(Thereupon, at 12:30 p. m., the committee recessed until 3 p. m.)

AFTER RECESS

The committee reconvened at 3 p. m., Hon. Henry B. Steagall (chairman) presiding.

The CHAIRMAN. We have waited some little time, and I am sorry we have not more members present. Your statement will be in writing, where all members will have an opportunity to acquaint themselves with it, and I am going to suggest that we proceed with Dr. Fisher.

**STATEMENT OF DR. IRVING FISHER, ECONOMIST**

The CHAIRMAN. Dr. Fisher, we would be glad for you to address the committee without any interruption, if you so desire; and when you desire to be interrupted, please let us know.

Dr. FISHER. I want to say, in the first place, I agree substantially with the position taken by Mr. Hemphill this morning. In some details and minor matters I would differ somewhat, but we certainly agree on the main point—that the depression is substantially due to lack of money, money being used, in his sense, including bank deposits subject to check.

I myself believe very strongly that this depression was almost wholly preventable, and that it would have been prevented if Governor Strong had lived, who was conducting open-market operations with a view of bringing about stability. When I say "prevented", I mean to a large extent. We would have had a stock-market recession, but not a subsequent depression.

I believe also that the depression is mostly curable today, even after all that we have been through, and in a very few weeks, if this bill is passed with suitable changes, which have been suggested by Mr. Hemphill, and which, in some other forms, I will suggest also.

As I see it, the most outstanding important factor in the depression has been the destruction of what may be called "checkbook money or bank credit."

As you know, we, each of us, think of our balance on the stub of our check book as though it were money, comparable with the money which we carry in our pockets. But the checkbook money and the pocketbook money, under our present system, are distinguished, to a very considerable degree, and that is really the source of our difficulties. Our pocketbook money cannot be changed in



amount without action by the Government authorizing more greenbacks or silver certificates or currency, or changing the weight of the dollar, or otherwise.

But the checkbook money not only can be changed but is constantly being changed. And as it changes it carries with it a change in the purchasing power of the dollar and in our business conditions, so that we have the so-called "business cycle" and depression as a consequence.

We had, in 1929, \$23,000,000,000 of checkbook money—that is, deposits subject to check. Of this, \$8,000,000,000 was destroyed. I am not now speaking of the savings deposits or time deposits which draw interest, for they do not circulate, as Mr. Hemphill so well said this morning. They are not a part of our circulating medium, and it is rather unfortunate that we use the same name to designate these two widely different things. "Deposits" apply properly to the deposits subject to check, but the so-called "deposits" in savings banks are really investments, and no more deposits in the sense that something is there which you expect to find when you want it and want to use it as money. They are really investments, like a Liberty bond.

If we had destroyed 8,000 miles of railway out of 23,000 miles—if some earthquake or other catastrophe had destroyed, so that everyone could see it and it was visible, 8,000 out of 23,000 miles of track—I think everyone would realize that it must interfere with traffic, and as traffic was reduced, everyone would recognize the fact that the reason it was reduced was that there was not the track to carry it.

Our money is the highway of commerce and it is more important than the physical track, and when we destroy eight twenty-thirds of that trackage, it does interfere with traffic.

I believe that the situation is still serious and that something must be done. In fact, it is so serious that, when speaking with reporters present and for the press, I hesitate to say how serious it seems.

This bill, I believe, is the most important bill which has come up in this administration. For good or for ill, it means much for the country. I regard it only, however, as a half-way measure and almost as a half-constructed measure. I think the plan of Frank A. Vanderlip, formerly president of the National City Bank, for a monetary authority is better. I would say that the Vanderlip plan is a three-quarter way measure. I think the plan Mr. Hemphill presented this morning might be called a "100-percent measure."

He and I and Mr. Vanderlip have the same objectives as are in this bill.

As Mr. Hemphill said this morning, if this bill were rightly administered—if that is conceivable—it would, as he expressed it, "do the trick."

On the other hand, if it were wrongly administered, it could do irreparable damage. Rightly administered, it might get us out of the depression in a few weeks. Wrongly administered, it might thrust us deeper in.

As a matter of fact—  
Mr. BROWN of Michigan. Professor, are you speaking of the bill as submitted to us?

Dr. FISHER. Yes.

Mr. BROWN of Michigan. The Steagall bill?



Dr. FISHER. The bill as is.

Mr. BROWN of Michigan. Not inclusive of yours?

Dr. FISHER. Not including any suggestions of mine. I am referring to title II, the heart of the measure.

The CHAIRMAN. I had assumed, without saying so, that you would address yourself to title II of the bill.

Dr. FISHER. Yes. But when I said, "if the bill were rightly administered, wonderful results could come", I did not mean that I expect it to be rightly administered; and that is not because of any lack of faith in Mr. Eccles, nor is it any reflection on anybody, but it is merely because the bill does not specifically state what is right and what is wrong. In all probability it cannot be rightly administered. There is too much discretion in it and too little guidance, too little in the nature of a criterion, to tell those who administer this bill what is expected by Congress of them.

For instance, the bill contains—and perhaps this is the most important feature—the power to increase or decrease reserves. Can you imagine that that power will be exercised with promptitude and effectiveness? If the reserves of a bank, that are now required to be 7 percent, are raised to 15 percent or 20 percent or 30 percent, or even to 8 percent, I think there can be no question but that it will be resisted by several thousand banks out of the 15,000 banks. It is inconceivable to me that there would not be hundreds, if not thousands, of letters protesting against any disturbance. Even if there were no disturbance of the reserves, there would be fear of the disturbance all the time, and we have fear too much already.

Not only would there be this resistance of the banks who would feel that they were the victims, and most of whom would not be willing to sacrifice their own personal individual interests, in the belief that Mr. Eccles was wise, and that it would be for the interest of the public as a whole; not only would there be this resistance from many banks, but I think it is altogether likely, if you follow the experience that we have had in the last few years, that there would be dissension in the Federal Reserve Board itself; as it is now constituted, I think I know how the lines would be formed, and that there would be those who would say, "Yes, we have this power, but we do not propose to exercise it. Mr. Eccles, you come in here and tell us what to do. We have had more experience than you. We do not think it is wise to rock the boat and disturb conditions as they are."

Mr. Eccles would be right and they would be wrong, but he would find it very difficult to convince them of that fact.

What you want, it seems to me, is to law down a policy. The Congress should prescribe in this bill what that policy is, when the reserves should be raised and when they should be lowered, or what is the object at the present time to be aimed at. In fact Congress should provide a better means of doing it than by constantly changing the reserves and creating the uncertainty that even the power to change will make.

Now, it seems to me that the policy which should be pursued is in general terms the policy which has been outlined by President Roosevelt. On several occasions he has outlined a twofold policy for money, refation, and stabilization. I believe he never used



that word "reflation", but it carries in it so many things that I like to use it. It does not mean "inflation." It means correcting deflation. Inflation comes only when you have not only made the correction, but have gone further.

Reflation restores the price level to a certain prescribed form, which should be prescribed by Congress, say, the price level of 1926, which I think would be a very good one to adopt. You should prescribe two things; reflation to that price level and stabilization thereafter. Congress should also prescribe the sort of index numbers which should be used. In my opinion, it should be similar to that which is used in Sweden, an index number of the retail price of the cost of living. But, at any rate, there should be in this bill, in some form, a statement of policy of these powers in it. As they are now, you give a tremendous and dangerous power to people, and some day it will be abused. I do not believe that it would be what you call abused by Mr. Eccles or even by those on the Board now, who would disagree with him on the policy, but the time might come, and eventually it would almost certainly come, if so great a dangerous power were put in the hands of the Federal Reserve Board, and it would be manipulated for some ulterior purpose.

It is natural that Mr. Eccles should want the discretion. It is natural that the President wants the discretion that he has got. I do not think that Congress should have given the President the wide discretion that they have given him, and I do not think he has used it wisely in many respects. I do not think it is American to give the discretion that has been given, and would be given in this bill, to Mr. Eccles or the President. It seems to me that it is shirking the problem, and that Congress should solve the problem and prescribe to the Executive what is expected to him.

I know the same thing happened with Governor Strong of the Federal Reserve Bank of New York, to whom I have alluded. He resisted the introduction of any criterion to determine how he should manage the open-market operations. He discovered, although economists before him had pointed out the possibility of it, that open-market operations would stabilize—he discovered for himself what was necessary to cure the deflation that started in May 1920 and to prevent an inflation that might otherwise come. And for 7 years he maintained a fairly steady price level in this country, and only a few of us knew what he was doing. His colleagues did not understand it. And yet when we, who were intent on having a legal regulation, tried to get a bill in Congress passed, first the bill introduced by Congressman Strong, when we had a Republican administration, and afterward almost the identical bill introduced by Congressman Goldsborough (afterward it was passed by the House, but that was after Governor Strong's death), Governor Strong told me that if that bill were passed he would resign. He said:

If you let me alone, I will do the best I can. But if you try to prescribe a criterion, I am not sure that I can measure up, and I do not want that responsibility.

Every one likes to have discretion, or seemingly difficult, and not be told to toe the mark, and that something difficult is expected of him. Then they may not be able to perform.



It seems to me that it is un-American and unwise in every way to leave the policy at loose ends.

I was here when Mr. Eccles spoke the first day, and I quite agree with what he said in regard to one measure in this bill, to make the open-market operations easier and prompter. He said:

In this matter, which requires prompt and immediate action and the responsibility for which should be centralized so as to be inescapable, the existing law requires the participation of 12 governors, 8 members of the Federal Reserve Board, and 108 directors, scattered all over the country, before a policy can be put into operation.

Naturally the results were disappointing. When Governor Strong had his own little committee of five, which were irresponsible, which was not even controlled by the Federal Reserve Board, but was really himself, surrounded by four men whom he could call on the telephone, governors of the next biggest Federal Reserve banks to his, he could immediately put in an order to sell or buy Government bonds to the tune of \$100,000,000.

But because of the dissension, because of the feeling by certain members of the Federal Reserve Board, that Governor Strong was acting without the authority of the Board, and because they wished to be the ones to prescribe something for him and to show him that they were the boss, the Federal Reserve Board discharged that committee and then reappointed it subject to their own wishes, and then enlarged it until you have this cumbersome board with 12 governors, 8 members of the Federal Reserve Board, 108 directors, scattered all over the country, before any policy could be put into operation.

This bill would cure that, and it is well that it should. On the other hand, it does not prescribe what the policy should be. The policy would be simply left to discretion, with fewer men to decide upon it. There will be, I am afraid, the almost same opposition, dissension, vacillation, that we have at present. There would merely be less delay.

As Mr. Eccles said:

Open-market operations are the most important single instrument of control over the volume and the cost of credit in this country.

I think that the bill need amendments. The most important amendment, in my opinion, is one that was stressed this morning by Mr. Hemphill. Instead of allowing Mr. Eccles, irresponsibly, without any guidance, to raise or lower the reserve requirements of the 15,000 banks in this country, according to whatever rules he and his associates may establish, instead of doing that and getting all the resistance and all the uncertainty and the futilities that would surely come, it seems to me it would be very much better to raise the reserve requirements at once to 100 percent, as Mr. Hemphill has suggested.

Then there would be no question of what the reserve was. This would not cause any shock in the present situation, although it shocks some people at first to think of it. The 100-percent reserve could consist, to a large extent, of Government bonds until those bonds matured, and we have, counting the Government bonds, practically 100 percent already. All you would need, therefore, would be to galvanize the situation as it is, so that the reserve would consist of three factors: Cash, that is pocketbook money; Federal Re-



serve credit, which is, so to speak, the checkbook money of the member banks against deposits in Federal Reserve banks; and Government bonds.

As I say, we have that situation already, very nearly. All that we need to do is to perpetuate it; but that is extremely important.

Mr. BROWN of Michigan. Professor, you mean that reserve against the deposits in the banks?

Dr. FISHER. I mean the deposits subject to check only, only demand deposits, but not time deposits or savings.

Mr. REILLY. A bank would be a bailee, then?

Dr. FISHER. Yes; a bank would be a depository. These deposits would be real deposits. What you call your cash in bank would really be cash and really be in the bank. When you deposit an umbrella you expect it to be kept there so that if it rains it won't be to somebody else when you want it.

Mr. BROWN of Michigan. I suppose you would have a basis of compensation to the bankers for that service?

Dr. FISHER. Yes, certainly.

One great object, and I think it is the principal object of galvanizing this 100 percent, and not allowing a constant trombone of expansion and contraction, such as is permitted in this bill, is to avoid uncontrolled inflation. It is true, as I say, that if this bill is passed such inflation could be prevented, provided the resistance to it is not too great and there is not too much dissension within the Board. But as things are at present; that is, if this bill does not pass in any form, you are under constant danger of tremendous, uncontrolled inflation. With reserves now at 100 percent, counting in bonds, as soon as the banks feel a little confidence and business is willing to borrow, its reserves will go down, which means that credit will go up, so that checkbook money will expand. We need a certain amount of that, as I say, reflation; but I fear we are going to have real inflation.

No one, I think, has written more against inflation than I have, and it has irked me a great deal to have my name associated with the idea of uncontrolled inflation. But I am just as much opposed to deflation as I am to inflation. What we want is to avoid both, to get stabilization, after we have once reached the point at which we want to stabilize.

Mr. BROWN of Michigan. Dr. Fisher, I do not want to keep interrupting you, but I do not follow you in one respect. You speak of there being sufficient bonds now to provide a 100-percent reserve. Are those bonds in the hands of the bankers or do you mean all bonds?

Dr. FISHER. Government bonds in the hands of the bankers, about \$10,000,000,000 of those bonds now in the hands of the bankers.

Unless we do something to galvanize this situation and to prevent inflation, we are in constant danger of it. I have not joined those like Professor Kemmerer and Professor Sprague, who have been constantly warning the country about inflation, because it did not seem to me wise. I think the public does not understand this subject well enough, and the effect of their statements, to the effect that we are in danger, merely fills the public with fear, and that is all it does. That fear produces deflation rather than inflation. If the people really understood, they would immediately want to part with their



money and get something for it; but instead they are hanging on to it, hanging on to their money, because they think there is this vague fear, and they are in debt, and they think they better keep their money and not part with it or buy with it, or anything of the sort.

The result is that this propaganda, intended to promote the President's very proper desire to have a moderate reflation, this propaganda has paralyzed almost everyone with fear and produced, apparently, undue caution in the administration itself; so that it has been a deflationary influence, and at the same time we are accumulating these surplus reserves. The reserves of the banks now, in cash or credit, only need to be 7 percent, 10 percent, and 13 percent, respectively, in the three different grades of banks. So that there are now surplus reserves, and if ever that big surplus is used and lent out, then you will have a tremendous inflation. And the result is that the administration is afraid now to proceed with the reflation for fear that it will turn into inflation and become uncontrolled. That is the fear which is gripping the banks and those who understand the present situation, and the longer we stay where we are or suffer deflation the greater the danger ultimately of inflation. If I may use a simile, it is as though stabilization is represented by running your automobile on the road, while on one side is the inflation ditch and the other side is the deflation ditch. We have gone off the road into the deflation ditch, and we are trying to get back onto the road. We turn the wheel and finally we get it going, and instead of getting onto the road and staying there, we cross over the road and into the other ditch. That is where the present danger is. That danger will exist as long as you have got this situation, with a movable reserve, unless it is moved with the utmost wisdom. It is better to have a rigid reserve, and no reserve can be rigid unless it is 100 percent.

Mr. FORD. Doctor, you spoke of surplus reserve.

Dr. FISHER. Yes, sir.

Mr. FORD. In what sense do you mean that?

Dr. FISHER. Surplus reserve, reserve above the legal limit. A typical bank needs 10 percent. If it has 11 percent, it has 1-percent surplus reserve. I noticed this morning when I got off the train, an article by Professor Kemmerer, in which he says:

If the value of gold remains where it was in February 1933 and approximately where it is today in the free-gold markets of the United States—

meaning by "value of gold" the purchasing power over commodities—

the cost of living will have to rise about 50 percent above what it is today, and the slack represented by the reduction of the gold content of our dollar has been completely taken up.

Later in the same article he says:

If the value of gold depreciates to its 1926 level, after the present worldwide scramble for gold has subsided, then, once the slack represented by the gold content of the dollar has been completely taken up, the cost of living will be about 116 percent higher than it is now.

In other words, the cost of living will be doubled.

That will be just about as bad as the situation we have now in the opposite direction.



A recent article in the Harvard Review of Economic Statistics puts the figures far higher than Professor Kemmerer.

Mr. REILLY. Have not the prophecies as to price relations, by deflating the gold dollar, all been disappointing?

Dr. FISHER. No; if you will look at some of the charts of Professor Warren, you will find that for the exportable or importable commodities, and the commodities closely associated with them, what they call "basic commodities", there has been a close and immediate relationship. Every change of the price of gold has been accompanied by a like change, almost exactly proportional change, in these basic commodities. But the "sticky" prices, the prices of commodities that stick, that do not move easily, have not followed. Personally, I would not be sorry to see the gold content reduced still further. But there will then be this danger of inflation, even greater than at present, and you will always have that danger of inflation and of deflation as long as you have a loose steering gear, so to speak; that is, a changeable reserve; that is a reserve requirement less than 100 percent.

Mr. REILLY. Do you mean, domestic prices in England have not reflected the shrinkage of the pound value?

Dr. FISHER. The prices in England?

Mr. REILLY. The domestic prices have not reflected the shrinkage in the pound value.

Dr. FISHER. Yes; they have reflected it, to a considerable extent. I have one of my own articles here which will show that, and show like statistics for all the countries with respect to the price of gold, all the countries for which we have statistics. You will find that the price level, even if you include other than the basic prices, will correspond to the price level in any country compared with the price in a gold-standard country, like Holland or France, will correspond closely to the price of gold.

Mr. REILLY. Doctor, is it not a fact that England is not anxious to go back on the gold standard, because of the fact that she has an advantage, as an export nation, because of her low domestic prices?

Dr. FISHER. I do not think that the advantage in exporting from deflation is a major consideration. I doubt if it is a major consideration even in England. I think I know the man who is really doing this adjusting of the price of gold in England, and I know that that would not be his—at least I think I know—that would not be his idea.

There is an idea, such as you refer to, but it is a temporary one, and it is not the important factor. The important factor is the domestic situation. However, that would take us a little aside from what I was aiming at here.

The point here is that, as long as you have any reserve less than 100 percent, you have a loose steering gear, and you have got the same degree of control over your monetary machine. There are many advantages in having a 100-percent reserve. One is that it obliterates the distinction between the two kinds of money, the check-book money and the pocketbook money, which we have today.

I noticed this morning that there was some confusion in the questions which were asked of Mr. Hemphill. He used the word "money" to refer to both. When you have a 100-percent reserve



there would be no distinction, because the money which you think you have in the bank would really be there. I do not mean that it needs to be right on the spot. It could be in the Federal Reserve instead of in the individual bank. It should always be available and always exactly corresponding to your deposit. You can call it credit, if you will, but it cannot disappear, under the 100-percent system, and that is the important thing. Then there would be no need to distinguish between the pocketbook money and the check-book money.

I might say that this plan of 100 percent is not a new idea. I myself took it up quite recently, but Mr. Hemphill had it much longer than I, and some professors at the University of Chicago had it longer also, and looking over the literature, I find that it has been an old idea, and not only that, but it was the original idea of deposit banking. It was how banking really started. Banking really started with deposits which were real deposits, gold, and other valuables, and they were transferred by written instruments, corresponding to what we now call checks, and the banker was expected to keep all the gold that was deposited. When he found it was never called for, or almost never called for, he thought no one would be the wiser if he should loan some of it out, and it was a breach of trust, and that is how modern banking started.

Afterward, when they were found out, the bankers said, "What of it, as long as you get your money back and as long as I have protected myself by collateral, and so why should you complain?"

The depositor, not thinking of the mechanics of the thing as to public policy, but merely looking at it from his personal point of view, with little understanding of the mechanics of money and banking said, "All right, I will give you my consent."

Today, you cannot accuse the banker of any breach of trust, but it is bad policy for the public just the same, because it makes a constant increase and decrease in the volume of the circulating medium.

Now, today the proposal of the 100-percent plan has astonished a good many bankers. Some of them have tried to laugh it out of court, or ridicule it, but those who have studied it have come to think that that is the best thing for the banker; not only Mr. Hemphill, who has one of the acutest minds in banking that I know, but a good many others.

I have a book coming out on this subject, which will be out soon, and I think I can get some advanced copies to send members of the committee if you will do me the honor to read it, next week, but it will be out in the proper sense of that word "out" in 2 or 3 weeks.

The second appendix to that book, which is a very short paragraph contains quotations of two bankers who have become quite enthusiastic on this subject. One is the president and the other the vice president of the Plaza Bank of St. Louis. The president's name is Von Windegger, and the vice president's name is Gregory. They have written me joint letters, sometimes one signing and sometimes the other, but always representing the opinions of both.

Mr. Brown of Michigan. To do justice to a distinguished citizen of my State, I might say Henry Ford had that idea 2 or 3 years ago, when the banks were in trouble in Detroit.



Dr. FISHER. I am very much interested to know that, and I will make a note of it.

I sent to these St. Louis bankers a number of letters and these men have read my book and manuscript three times. I will quote, not to tire you, just two passages from these letters:

My first impressions, I think, were naturally to disagree with you on several points, but I would like very much to have an opportunity to think about your plan some more, and if it is not too much of an imposition I would like to have you send me the draft of your complete manuscript.

Their first reaction was unfavorable.

In a later letter:

We have, I think, both approached the problem in the past from the social point of view rather than the economic, and our hopes for correction have largely been in the thought that our existing system should be placed in the hands of more honest administrators, and that the evils could be largely overcome with the existing machinery.

That is what this bill is trying to do. [Continuing quotation:]

I think we had hopes that more men of Governor Strong's admitted ability would miraculously appear as saviors of our system. Not because we were selfish, but because we overlooked it. We did not conceive such a system as your 100-percent system. Realizing that we lived a lie, we did not see the obvious thing that the correcting of this lie, would at the same time, correct most of our evils. From this you will understand that, although we were at first reluctant to admit that banks, good and bad, had definitely failed to control their credit system, on deliberation we have finally agreed on practically every major point in your system.

I could go on and quote other bankers as well. I have no doubt the bankers, as a mass, will record themselves as opposed to this proposal, but those who are thinking, who have thought it through, who have studied it, who have read this book which I have written, which gives it in more detail than anything else, have come to the opposite conclusion.

I have taken a whole year in which to prepare this book and to submit it to 150 different people, including a number of bankers, in order to find out whether there was something there which was in need of change. Of course, I have modified it considerably as time went on. I have found that Mr. Hemphill was the most constructive of all the critics.

Besides introducing the 100-percent reserve, and seeing to it that the banks were properly recompensed, as has been mentioned, for having to sterilize their assets to a certain extent, a second proviso is important. We should bring in all the banks into the Federal Reserve System which have checking accounts, or, if a bank does not want to come in as a whole, its checking department could come in. That is, all the checking institutions in the United States would be in one system, under the control of your central authority, whether it is the Federal Reserve Board or what it may be. Then you can have control of the money of the country.

I want to make a big distinction between controlling the money of the country and controlling the banking of the country. Properly speaking, banking is lending money, and it is my idea that the more the Government keeps out of the banking business, in the sense of the money-lending business, the better.



I think if there is anything the Government cannot well do, it is this business of lending money. I think that should be left to the bankers.

But the matter of regulating the quantity of money, creating money, and destroying money, is a governmental function and cannot be delegated to private hands. Under our Constitution, article I, with a liberal interpretation, Congress is given the power to regulate the value of money, and it has never properly exercised that function. That is the reason why we have these chills and fevers that we call the business cycles, these booms and depressions.

Our present system, as distinguished from the 100-percent money system, may be called the "10-percent system", and is essentially unstable and uncontrollable. Money comes into existence whenever a loan is created and goes out of existence when that loan is paid. That was mentioned this morning by one of the committee in a question directed to Mr. Hemphill, in the thought that it was good, that when any commodities were created they would be financed by the man or merchant involved going to the bank, borrowing the money to turn over those goods with, and then paying his loan after the transaction had been completed, so that the money comes into existence when there is need for it and goes out of existence when there is no need for it. That is a beautiful dream, and an iridescent dream. It has never worked that way. The money comes into existence and stays there, to a large extent, even when its usefulness has passed, and the money goes out of existence when it ought to come into existence. This is not simply because of the necessities of commerce, but it is more primarily because of the necessities of the bank. It is the bank reserve which makes the trouble. We have in our Federal Reserve Act the phrase "to accommodate business."

We are supposed to regulate the rediscount rate, and since Governor Strong, we also have regulated the open-market operations with a view to accommodating business, but the average bank makes its average operations accommodate not business but the bank, and it has to do so. I say this not intending to sneer; the first law of nature is self-preservation, and every bank must observe that law like other organism. You cannot blame the bank, and you would blame it if it did not try to keep its own existence. But when there is a run, when there is an incipient depression, when other banks are liquidating, there is a pressure on all the banks and the tendency is for all of them to liquidate in order to be safe. And for every dollar that the public pulls out of the banks about \$10 of checkbook money is destroyed. And that explains what happened between 1929 and 1933. Checkbook money disappeared to the tune of about \$8,000,000,000 because people paid their loans at the banks and they paid their loans at the banks not because they had finished any transactions, but because the banks demanded payment, and the banks refused to renew, and the banks refused to extend new credit. Why? Because the banks were afraid. Why were they afraid? Because their reserves were so low.

It is a case of low reserves. If they had had a 100-percent reserve there would have been no fear and no operation of this sort, but with a 10-percent reserve it was inevitable. The result was that the



public pulled out of the banks nearly \$1,000,000,000, and destroyed, as I said, \$8,000,000,000 of checkbook money to do it, because every dollar of actual money in the banks means the pyramiding of \$10 of loans and deposits by the banks as a whole. That is the essential thing. We have not a homogeneous relation between the pocketbook money and the checkbook money.

When the public would draw its money from the banks, as we think they do, they are withdrawing other people's money, as well as their own, and the bank has to pay the loans and reduce its checkbook money and at once that increases the money in circulation. Some people, not realizing that checkbook money is the most important money in this country, pointed to the fact that instead of four billions, we had five billions circulating, and said "Look there. We have got plenty of money," not realizing that eight billions had been sacrificed to produce the one billion. The banks had destroyed eight billions of checkbook money in order to supply the public with one billion or less of pocketbook money.

Mr. FORD. Doctor, might I interject a thought there? If the banks had been on a 100-percent reserve, with reference to deposits, demand deposits, and this matter came about, what would have occurred?

Dr. FISHER. What would have occurred?

Mr. FORD. Yes, sir.

Dr. FISHER. It depends on how far back you go. In the first place, you would not have had any boom to make a banking cycle or depression. In the second place, assuming that we had the boom, when the time for the depression came, we would not have had the depression, because there would not have been either the fear on the part of the public, or the fear on the part of the banks which stimulated them to ask for the payment of the loans.

Mr. FORD. Let us assume that when the thing came about, the banks had the privilege of taking their sound assets, as distinguished from the limited number of assets that were capable of discounting at the banks, and if all those sound assets had been discounted, what would have happened?

Dr. FISHER. It would not have made any difference, as long as your cash reserve was a fraction of the outstanding deposit liabilities. That is the vital point, and not the nature of the assets. That is where people are making the great mistake in trying to reform the Reserve System. They say, "The trouble is it is this kind of asset instead of that kind of asset." That has almost nothing to do with it.

Mr. FORD. You mean to say, here is a bank with a deposit liability of \$500,000, and they have a 10-percent reserve—

Dr. FISHER. Yes.

Mr. FORD (continuing). If, after they have paid the 10 percent on demand deposits, they were able to go into their portfolio and take other securities which were owned and take them to the Federal Reserve and discount them for a period, would not they have been able to get sufficient money to have met that demand, and, therefore, have stopped it?

Dr. FISHER. Yes; the Federal Reserve would act as a cushion.

Mr. FORD. Yes, sir.



Dr. FISHER. They could get there on a 10-percent reserve, with the action of the Federal Reserve, but in the end that means even a more unstable condition.

Mr. FORD. I wish you would elaborate on that point. That is what we are trying to do here.

Dr. FISHER. Yes, sir. We have now what I called a "10-percent system"; but the 10-percent reserve that we now have, as Mr. Hemphill pointed out this morning, is not cash. It is simply a deposit liability of the Federal Reserve. So that, for, say, \$3,000,000 of deposits subject to check, representing checkbook money, in the hands of the public, the banks which have these checking accounts, are supposed to keep 10 percent reserve on the average; \$300,000, then, are supposed to be in reserve at any time, to meet that demand liability of \$3,000,000. But the banks do not keep that 10 percent reserve in their value as money. They deposit it in the Federal Reserve, and the Federal Reserve in turn only has to have 35 percent of the \$300,000 reserve or about \$100,000 of actual cash in its vaults.

Mr. FORD. Against that?

Dr. FISHER. Against that. So that you really have \$100,000 actual cash supporting \$3,000,000 deposits circulating as cash; that is a 3½-percent system instead of a 10-percent system. And the reason that we are having, I think, worse depressions than before the Federal Reserve System was started—we have had two bad ones, one in 1920 and this subsequent one—is because of that. I remember an economist writing me in astonishment, "How does it happen that the price level could be almost cut in two between May 1920 and December 1921?"

I think the reason is the instability, to which I am referring here. The pulling out of a dollar of pocketbook money from the banks means a reduction of \$10 of check-book money. In fact, if the dollar is pulled out of the Federal Reserve, it really means a reduction of \$30. And it is only when you have very good management on the part of the Federal Reserve, so that they always have a surplus reserve of their own and managed with a great deal of discretion, that you can avoid this. But when you get into difficulties, in either direction, with booms, as in 1920, or with depressions, such as we have had in the last few years, then you have a thirtyfold variation possible. Before the Federal Reserve Act was passed we had bigger reserves, 25 percent, and so forth, and these reserves had to be cash, to a large extent, in the hands of the individual banks. Even when the Federal Reserve was started we had more than the present 7, 10, and 13 percent.

They were lowered, and when that lowering was proposed, Robert Hemphill was then credit manager of the Federal Reserve Bank of Atlanta, and he proposed, instead, they should raise them, with the idea ultimately to make them 100 percent.

But he was almost a minority of one. Others thought, just as the goldsmiths did, "What is the harm? I am not going to keep this money idle."

The CHAIRMAN. Dr. Fisher, why cannot we accomplish—which some of us have tried to do—the same safeguard against the fear of the depositor who wants to withdraw his deposits, and the fear of the banker who, because of the possible fear of depositors, is himself



afraid to lend—why cannot we safeguard against those developments by adequate and complete insurance of bank deposits, as some of us have tried to do, and as we have done in part?

Dr. FISHER. That is a substitute method for accomplishing the purpose of safety of the individual deposit. On the other hand, one of the advantages of the 100-percent system is that it makes insurance unnecessary for deposits subject to check, and have your insurance for the others if you want to.

Mr. BROWN of Michigan. It does not seem to me you have completed an answer to Mr. Ford's question.

Dr. FISHER. All right. I will come back to it. But meanwhile I am on this. The main danger, Mr. Chairman, that we want to guard against is not the safety of a man's deposit. It is the safety of the price level.

The CHAIRMAN. Dr. Fisher, what you really want to do is to safeguard against the fear of the depositor?

Dr. FISHER. Not only that—

The CHAIRMAN. And, in turn, safeguard against the fear of the banker.

Dr. FISHER. Yes.

The CHAIRMAN. Who, when fear exists, calls his loans and turns on a squeezing process, and, therefore, of course, affects the price level and general business conditions?

Dr. FISHER. I would like to emphasize that the main point is not fear at all. The main point is, we should produce stability. You might conceivably have a system, such as ours, operated in such a way that there would be no bank failures, no bank runs, keep insurance and so forth, but all the time the bank is destroying and creating money, and it is only when the two are balanced properly that you have stability. But if they are creating more than they are destroying, or if they are destroying more than they are creating, you have a boom or a depression.

This morning I remember a man said to Mr. Hemphill, there are many sound banks that maintain their stability, and he said, "Yes; but by busting everybody else", and that is perfectly true. Of course, he did not mean everybody, but the banks save themselves, to a large extent, by this process—and if all the banks had saved themselves and if there had been no runs and had been no panic, but the bankers had merely prudently seen that there had been too much assets, and called a halt, there would still be these chills and fever, not as bad as we have them perhaps, but the expansion and contraction is what we want to avoid rather than fear.

Mr. BROWN of Michigan. Let us get to the final answer of Mr. Ford's question.

Dr. FISHER. Yes; you said I did not answer it.

Mr. BROWN of Michigan. I take it that he assumes in this bank, having \$500,000 of deposits or demand liabilities, that the bank would have \$400,000 of sound assets, say. Now, under the bill as presented by Governor Eccles, we have this section:

Upon the endorsement of any member bank, and subject to such regulations as to maturities and other matters as the Federal Reserve Board may prescribe, any Federal Reserve Bank may discount any commercial, agricultural, or industrial paper, and may get advances in any such member banks on its promissory notes, secured by any sound assets of any such member bank.



I take it that the purpose of that addition to section 13 of the Federal Reserve Act was to enable banks in times of emergency to borrow on this \$400,000, in Mr. Ford's bank, in sound assets. Is not that banker in a much better position than he was, under the present law, and would not that eliminate a good deal of fear, on the part of the banker and on the part of the depositor?

Dr. FISHER. Yes; it would go a certain distance in that direction, to help allay the fear of the individual depositor.

Mr. BROWN of Michigan. It would give something like 75 percent liquidity as against 15 or 20 percent under present conditions. Do you not think that that is a great improvement?

Mr. FISHER. Yes; I think that that is a great improvement, but I do not think it is at all adequate to prevent booms and depressions. I am much more interested in preventing booms and depressions than in anything else, and you could still have what you call "safety", with booms and depressions.

There is no reason why we should not get rid of big booms and depressions completely, if we will avoid this partial reserve system which is what makes the banks destroy money sometimes and create money at other times.

Mr. BROWN of Michigan. It practically liquefies a very large percentage of the balance of the banks' assets?

Dr. FISHER. Yes, sir. What you call "liquidity" merely means safety to the individual depositor. But the liquidation affects the volume of the circulating medium, and you must not have a liquidation which affects the circulating medium. Let me put it another way.

Mr. BROWN of Michigan. How does it affect that? By increasing the amount of the currency in circulation, does it not?

Dr. FISHER. Decreasing the liquidation will decrease the amount of deposits subject to check, and decrease it very markedly. You see what really happens today is, when a bank is started with \$1,000,000 of actual cash in its vaults, you can picture it something like this: On the first day it lends out of that \$1,000,000, in loans of \$10,000, \$1,000, and so forth, until that million dollars is gone, and that is covering its capital. That is all right. Those people who borrow it, let us suppose, put it all back in the bank. Then there is \$1,000,000 in the bank and \$1,000,000 of deposits against it, and the depositors really virtually own the money in the bank, instead of the bank itself owning it, and the bank has the promissory notes of the depositors in its place.

So that there are \$2,000,000 of assets, consisting of \$1,000,000 of notes, which we can say belong to the bank, and \$1,000,000 of money which belongs to the depositors. That is all right, too. That is 100-percent reserve. But the next day the bank proceeds to lend that \$1,000,000 a second time, and at the end of the second day it has got \$3,000,000 of assets, \$2,000,000 in promissory notes and \$1,000,000 in cash. As against the cash of \$1,000,000, it has demand deposits. So that it has only a 50-percent cash reserve.

The third day it lends out that \$1,000,000 a third time, and the fourth day the fourth time, and so on until after 10 days it has loaned it out 10 times. Then it has pyramided the former \$1,000,000 ten times, \$10,000,000 of demand liabilities, and all it has got against it



is \$11,000,000 of assets, \$10,000,000 in promissory notes, and \$1,000,000 in cash.

Now, during that process, it has created \$9,000,000 which did not exist before, of circulating medium. There were only \$1,000,000 before this bank was started, and now there are \$10,000,000. Then when it reverses the thing and liquidates, it reduces that from \$10,000,000 to \$9,000,000, \$8,000,000, and so forth, until it goes out of existence entirely, and destroys the whole \$9,000,000. The bank is always creating money when it is lending, and destroying money when it is getting paid. In normal times these two offset each other. Just about as much is created as is destroyed. But there will come times when the equality is badly broken, and when that happens you have got either a boom or a depression.

It is all due to the fact that the bank is pyramiding. It is lending its money out more than once. Some of you may have seen in the paper recently an article by Walter Spahr, professor of banking of the University of New York, in which he tried to show that Father Coughlin, when he stated something about this pyramiding, did not know anything about banking because the individual bank does not pyramid this way because 80 percent of each cash deposit goes into other banks. That is, other banks pull out 80 percent of the cash which is deposited in an individual bank. So that, actually, it only lends out a little more than the actual cash it receives instead of lending 10 times that cash. That is true of the individual bank in a country like the United States, where we have got 15,000 banks. But what should be made clear is that all of this 80 percent is treated in the same way by the other banks as the original deposit; so that, for the system as a whole, you do have this pyramiding. I say this because if I do not, some of you may read that article and say, "Fisher did not know what he was talking about."

If you had only one bank in the country, what I said about pyramiding would be literally true. And when you have 15,000 banks, it is still true of the entire 15,000, but not of any individual one. The individual banker does not know what he is doing. The individual banker thinks, when he gets a cash deposit of \$1,000 he can lend out about that amount. However, other banks do—

Mr. BROWN of Michigan (interposing). In each instance, Doctor, of the additional successive loan the bank has received, if it is a sound banking institution properly run and conducted, it has received either security for the additional \$1,000,000, or it has received a statement which shows that the borrower is in sound condition.

Dr. FISHER. Yes; but it is not a matter of individual soundness that I am talking about. That is a part of the picture, when you get into a very acute situation.

Mr. BROWN of Michigan. What I am saying refers back to the law of supply and demand, which a great many people seem to want to repeal; why we have a situation there, where the needs of the borrowers from that bank are met by what amounts to sufficient or adequate security for those loans, and the current needs of that particular community are met in just the way you have outlined, although I think your case is somewhat extreme.

Dr. FISHER. So far as security and safety are concerned, you are quite right. All of the arguments I have given against the present



system can be fairly well met by such methods as you have suggested, so far as giving security or safety to the individual is concerned, but you will still have this problem of fluctuating deposits all the time.

Mr. BROWN of Michigan. I am talking about the same thing you are. I am referring back as to how the bank can meet the demands of this depositor when that demand comes. And I say it could meet it by turning over to the Federal Reserve banks, assuming, of course, that there is security rather than statements of the bank of these loans, by turning over to the Federal Reserve banks the securities it has back of its deposits, and getting from the Federal Reserve banks, under this additional section 13 which Governor Eccles proposes, additional funds to meet the demand of depositors.

Dr. FISHER. That would help, and it would cushion it, as I say, but the time would sometime come when the Federal Reserve itself, would need cash; that is, its cash reserve was so near the limit that they would not extend the credit, which you would like to have them extend.

Mr. BROWN of Michigan. The time has come, then, in our little business venture when inflation to too great a degree has taken place, inflation of credit money?

Dr. FISHER. Yes. That is what I am talking about.

Mr. BROWN of Michigan. It has gone probably too far. I think perhaps it is healthy that it, then, should be stopped.

Dr. FISHER. Yes; but it is far easier to stop it if you do not have your expansion and contraction of reserve. This is the same principle to which I just referred, where the individual bank creates \$10,000,000 of circulating medium where \$1,000,000 existed before.

Mr. BROWN of Michigan. I won't interrupt you further.

Dr. FISHER. The same thing applies to the Federal Reserve, which creates \$3 where \$1 existed before, and they can contract and expand in the same way.

Mr. FORD. One other question I would like to ask. You say a 100-percent reserve. We will take this same bank with \$500,000 demand deposits. In order to meet your plan that bank would have to have, we will say, in Government bonds \$500,000 to match that. Would not that require that a bank would have to take certain steps? How would you get that? By additional capital and surplus, or how would they have that money to put up?

Dr. FISHER. You would get it from the Government through the Federal monetary authority or the Federal Reserve Board, or whatever is your apparatus which you put in this bill, buying the bonds, United States bonds, of the banks with cash or credit.

Mr. FORD. But every dollar of deposits which the bank takes it has to have another dollar which is commensurate?

Dr. FISHER. Yes, sir; that is true. I was proposing, with Mr. Hemphill, to make the transition easier, to let the Government bonds stay, as is, in the bank, making part of your reserve, but ultimately as maturities are reached they would be replaced by actual cash, while what we call "credit" of the Government, or the Federal Reserve bank, so that you would have a 100-percent reserve then of actual cash.



Mr. FORD. Then if I organize a bank and I am planning on building up my deposits to \$500,000, as fast as those deposits come in I have got to put up in a reserve, dollar for dollar with it?

Dr. FISHER. Yes.

Mr. FORD. That is, of my demand deposits?

Dr. FISHER. Yes.

Mr. FORD. Bonds.

Dr. FISHER. Yes. Of course, as has been pointed out, the bank would lose, or would have a dead asset, as they call it, this money not earning interest, in place of an earning asset, and that would have to be provided for to see that they were not made worse off in respect of profits by this substitution. That can be done and that can all be provided for in any of several different ways.

Mr. FORD. The Government bonds would give a little.

Dr. FISHER. Yes; as long as they were there, but ultimately they would be replaced by actual cash, in which case the banks would lose about \$300,000,000 a year of interest on bonds, which they would have to make up in other ways. That is a detail which I will go into now, if you like.

The CHAIRMAN. Presumably the Government will pay off its bonds sometime.

Dr. FISHER. Yes.

Mr. HANCOCK. Doctor, on that point, how long have you been criticizing the fractional reserve system?

Dr. FISHER. Only about a year. I was stimulated to it partly by Mr. Goldsborough asking me if it was not possible to get up a system by which the money of this country could be created and controlled without somebody having to go into debt to create it. And then I discovered that a memorandum on the subject had been prepared at the University of Chicago by a half dozen economists there, and, putting my own thoughts and theirs together, I became aware of the fact that the original system of banking used by the Bank of Amsterdam 300 years ago is the only real sound system of banking.

Mr. HANCOCK. Doctor, do I understand that you thought that the system in 1929 or the spring of 1929 was unsound?

Dr. FISHER. To a certain extent; yes.

Mr. HANCOCK. Did you not make a statement back in 1929, when we were at the peak of credit expansion, that there was nothing dangerous or unsound about it?

Dr. FISHER. No; I think I was the first one, probably, to predict that we were going to have a recession. That was in the first week of September 1929. And I said, and in that respect I was wrong, that I thought it would be a mild recession. I thought it was only going to be in the stock market. The reason, or a reason why, it was much more severe and continued into the commodity market was that Governor Strong had died and his policies died with him, as I had told him I feared they would. When I said that to him, he said, "No; they won't because there are men, especially in my bank, who will continue it."

His successor did endeavor to do so, but without the degree of success of Governor Strong. I have always believed, if he had lived, we would have had a different situation.



Mr. HANCOCK. I was under the impression that certain administration leaders at that time used your prophecy to allay fear and unrest in the minds of the public.

Dr. FISHER. Yes; I believe, as I have stated earlier today, that the most of the depression could have been prevented if the right policy had been pursued at that time.

Mr. BROWN of Michigan. Dr. Fisher, there are several New York and Chicago bankers who, in the spring of 1929, advised the slowing up in speculation and the raising of the rediscount rate.

Dr. FISHER. Yes; they were right, and the Federal Reserve Board would not do it.

Mr. BROWN of Michigan. Others had the same thought earlier.

Dr. FISHER. The Federal Reserve Board would not allow them to do it. It is also true, I think, that Governor Strong's death was hastened; he was ill at the time at Atlantic City—realizing his policies were not being pursued. He paced the floor, wishing that he had control again.

Mr. HANCOCK. You did not warn about it, Doctor, until after it was here?

Dr. FISHER. That is nearly true. I did not think there was much danger. I merely said there would be a recession in the stock market.

Mr. BROWN of Michigan. To be fair to Dr. Fisher, the stock-market recession did not occur until after September.

Dr. FISHER. That was the worst.

Mr. HANCOCK. It began in September, and we had a very noticeable decline in September.

Dr. FISHER. Yes.

The CHAIRMAN. Doctor, Governor Strong, to whom you referred, of course, was the governor of the New York Federal Reserve Bank?

Dr. FISHER. Yes.

The CHAIRMAN. One of the 12 regional reserve banks?

Dr. FISHER. Yes.

The CHAIRMAN. And his operations were conducted entirely by him and independently?

Dr. FISHER. Not exactly. He formed what he called an "open-market committee", consisting of himself and the governors of the Federal Reserve Banks of Boston, Philadelphia, Chicago, and Cleveland.

The CHAIRMAN. But, as a matter of fact, that was really Governor Strong, and it died when he died, as you said.

Dr. FISHER. Yes.

The CHAIRMAN. With some method of concentrating the authority for such action as he took, and controlling it, it would be possible to have a repetition of that control by one bank, and it might be employed in either direction?

Dr. FISHER. Yes.

Mr. HANCOCK. Doctor, I did not mean to be criticizing you at all, but I just wanted to get the facts about it so that I might be able to judge.

Dr. FISHER. I am not at all hurt. I have been very much lambasted about what I said or failed to say, and, to a certain extent, doubtless deserved it, though I could make many excuses.



Mr. Cross. Let me ask you about something which I think is practical, and which we want to get at. I am one of those who are convinced that we ought to put a goal for the Federal Reserve Board to go to and hold everybody to that price level and stay there. Now, what are your views about that?

Dr. FISHER. I think the price level of 1926 is as good as you can get, if you are going to go on the basis of the price level.

Mr. Cross. All right. Now, assume that we do that. The testimony here by Governor Eccles and apparently by the testimony of Governor Strong and Dr. Miller and others who have testified in years gone is that they have no question but what they can pull inflation down, but they are lost when it goes to lifting a depression up. How can we get to that price level under this bill?

Dr. FISHER. You can make absolutely sure of it if you introduce the 100-percent reserve.

If you do not introduce the 100-percent reserve, you have got now a great deal of slack between your 10-percent reserve and your excess reserve, which slack makes the danger. It paralyzes us with fear and we do not dare increase it for fear of the still greater danger of inflation that increase would cause.

Mr. Cross. Doctor, is it not then a fact that your suggestion would tend to do away with the banks manufacturing "moonshine" money or "phantom" money?

Dr. FISHER. Yes.

Mr. Cross. What would be the effect of this kind of a situation: Suppose we had an agency, whether you call it a monetary authority, Federal Reserve System, or what not, that had nothing to do with banking, but whose business it was to issue money and to seek a price level, the banks go ahead and do their own banking and run their own affairs, but the business of this body or agency is to see that money is put out. The question, of course, is, How can you get it in circulation? But if you would pay all your civil-service employees, Army and Navy pay, offer your bonds as they fall due, necessarily call in bonds until the purchasing power of the dollar diminishes or the price level rises until you get to 1926, could such a body function and could such a body accomplish that purpose in that way?

Dr. FISHER. Without the shadow of a doubt.

Mr. Cross. Why should the body whose duty it is to the people of these United States to supply them with an adequate means of exchange, why should they be tied up to some banking outfit? Why should not they be independent of that and let the banking system be a different proposition, and this body or agency see that the country was furnished with an adequate means of exchange and the price level is kept or the purchasing power of the dollar kept stable?

Dr. FISHER. That is exactly the object of the proposal that I am advocating and that Mr. Hemphill advocated this morning. That exactly expresses it. The monetary authority would issue money or credit—it does not need to be printed—in exchange for Government bonds, and it could reverse that process and get back money by re-issuing bonds, so that it would have, through the open-market operations, a two-way arrangement. It can expand or contract.

I would like to say, in reference to those ideas which you quoted from earlier testimony of Governor Strong and others, that I would



like to point out what Sweden has done. Sweden has, beginning with September 1931, actually accomplished what we stabilizers have been talking about for 20 years. She has done it partly because she has a unified banking system. She has kept the price level the same as it was in 1931, when she started, within  $1\frac{3}{4}$  percent at the utmost. It has been once  $1\frac{3}{4}$  percent above that price level and once  $1\frac{3}{4}$  percent below. Ordinarily it did not reach 1 percent above or below. It has kept thus near the mark for  $3\frac{1}{2}$  years, week after week, without a single miss.

I get the reports every week from Governor Rooth, of the Riksbank, who is doing this thing. This bill which you are presenting ought to be able to bring about in the American case what Governor Rooth is doing in Sweden in the Swedish case.

I have here the information on the figures beginning with August 4 last. I have them at home all the way back to September 1931.

Mr. HANCOCK. Professor, at that point, do they require in Sweden a 100-percent reserve?

Dr. FISHER. No; you could do this, if you have a sufficiently unified banking system, and succeed without the 100 percent.

Mr. HANCOCK. May I ask on that point, to get my own mind clear: How much money would be available today if we required 100-percent reserve?

Dr. FISHER. I do not believe I understand your question. How much available? The Government would issue money.

Mr. HANCOCK. It is a complicated subject to me, but I am wondering if you require 100-percent reserves, how much money it would take?

Dr. FISHER. How much money would be required?

Mr. HANCOCK. How much money would be required.

Dr. FISHER. Yes. I think Mr. Hemphill is right. We ought to have something like \$250 per capita, counting check-book money. He did not mean that that should be all the money that people would be carrying now in their pockets. It would be check-book money and pocketbook money, but the check-book money would have a 100-percent reserve behind it.

Mr. HANCOCK. What would that amount to, about thirty billions?

Dr. FISHER. About forty billions, I think.

Now, may I read the figures? They are rather monotonous but beginning with the week ending August 4, the price level according to the official index number which Sweden has adopted, which is an index-price retail, cost of living, and not wholesale price—

Mr. CROSS. How did they arrive at that? What did they use in getting the price level, the index?

Dr. FISHER. Prices of food and clothing and rent, and other things that they have sufficient records of.

Mr. HANCOCK. Wholesale or retail?

Dr. FISHER. Retail cost of living.

Beginning with the week ending August 4, the index number was 99.4 that week, that is, six-tenths of 1 percent below the established normal, or a little over one-half percent. The next week, ending August 11, 1934, it was 99.4 also. Next it was 99.4, next 99.6, next 99.6, 99.4, 99.2, 99.1, 99.0; it was then 1 percent away. That is a



maximum in the whole list of what the figures happen to be before me.

No; I beg your pardon. It got down to 98.9, 1.1 percent. In two cases the deviation from par exceeded 1 percent. Then it was 99.2, 99.4, 99.5, 99.6, 99.6, 99.6, 99.6, 99.6, 99.8, 99.8, 99.9, 99.9, 99.9, 100.0, 100.0, 100.1, 100.1, 100.0, 100.0, 100.0. The last figure I have here is for the week ending March 2.

The CHAIRMAN. For how long a period do these figures apply?

Dr. FISHER. These go back to August 4, 1934.

The CHAIRMAN. How long have they had this in effect?

Dr. FISHER. Since September 1931, 3½ years. That is about 150 weeks. It is like a man shooting at a target and hitting the bullseye 150 times in succession, without a miss.

Mr. WILLIAMS. What is the condition of their employment over there?

Dr. FISHER. It has improved.

Mr. WILLIAMS. Has it varied in any respect with respect to the problem of unemployment, or remained on an ordinary level?

Dr. FISHER. No; in September 1931 the whole world was going down hill, you will remember, and Sweden went down hill and continued to go slightly down hill for a year or more after that, but not as fast as the rest of the world. According to the data of the League of Nations, they have recovered faster than any other country in Europe. At first the trouble was because of their foreign trade being so important, the prices at wholesale of foreign goods went up and the prices of domestic goods went down, which, of course, was a discouraging thing to the home producer. There were many who were trying to criticize the stabilization idea, who rushed into print, among them Rufus Tucker, of New York, to prove that the Swedish system was a failure, but scarcely had the words got out of their mouths when that situation began to rectify itself.

If you look at the charts which I have here in my book on Stable Money, on pages 326 and 327, and contrast Sweden with the United States during that period, you will see that even the wholesale price level in Sweden was what we would call stable in this country. We have scarcely ever had as great stability as that, even in the early period. It is almost a miracle that Sweden, in spite of the fact that a large part of her trade is foreign trade, and while they had the Kreuger trouble in Sweden, which affected almost every business man in Sweden, nevertheless, succeeded in getting what they were aiming at. The lesson is twofold. You are interested to know whether Sweden was helped. It was helped greatly. That is true, and that is the important thing, but the most conclusive lesson from this is that a nation can stabilize.

Governor Strong and others, as you were saying, said we could not do it, but Sweden is doing it.

Mr. WOLCOTT. You stabilized prices, but did you stabilize employment?

Dr. FISHER. They are getting out faster than any other country.

Mr. WOLCOTT. But that does not carry them out of the depression.

Dr. FISHER. Not entirely.

Mr. WILLIAMS. That is the question I was driving at. Were they able to stabilize employment?



Dr. FISHER. Sweden made this mistake:

Sweden did not have the other part of the twofold program of President Roosevelt. You should have not only stabilization of prices, but first of all, reflation. There should be a corrective upturn. Sweden learned it afterward. They did not try to reflate, because they had the same fear against inflation that we have had, only worse. Europe had had such a terrible result from the inflation of the war, that they were afraid of what they called "inflation", and they would not permit any reflation. In order to prevent that, they put up the Riksbank rate to 8 percent, by successive jumps, to prevent the rise in the price level which they were afraid of when they were on gold in September 1931. If they had permitted, as they should have, a reflation—enough to carry them back to the price level of 1926—instead of galvanizing the price level of 1931, which was abnormally low, they would have gotten out of the depression in a few weeks instead of having to wait a year or more.

Mr. WILLIAMS. Of course, the stabilizing of the price level is not the only objective. There are other things in it.

Dr. FISHER. Yes; but, as Mr. Hemphill said, that is the big problem.

Mr. WILLIAMS. We have here before us in this hearing, that while England finally stabilized the price level during the period 1929 to 1934, that there has been great variation in the unemployment situation, and the conclusion was reached that there was very little relation between the two.

Dr. FISHER. There is a very strong relation between the two. In this article which I hand you, and which you can hand back, it is covered. I have another copy here. I would like to show you another chart which shows how employment is related to changes in the price level. This chart was made for the United States. There is the employment in the United States, and here is the effect of changes and the price level [indicating on chart], so that if there had been no other influence, employment would have been, right there, on the theory that a rising price level increases employment, and a falling price level decreases employment. You see, the two curves correspond fairly well, those for this period and those for that period [indicating].

Mr. WILLIAMS. For what period?

Dr. FISHER. That is from 1919 to 1933, the last one, and this is 1903 to 1918.

Mr. WILLIAMS. You say during the period from 1903 to 1918, and from 1919 to 1933?

Dr. FISHER. It is the same thing continued.

Mr. WILLIAMS. There is a very close relation between the price level and employment?

Dr. FISHER. That is between changes in the price level, with a lag. There is quite a lot of mathematics in that, which you probably do not want me to go into, but whenever there is inflation, it stimulates employment, and whenever there is deflation it causes a reduction in employment, because it cuts down profit, and when you cut down profits people close up shop.

Mr. WILLIAMS. I was wondering what is your explanation of the chart which we have here, and I do not know whether you saw it,



but it was presented by Dr. Goldenweiser and Governor Eccles, about the English situation from 1929 to 1934, and it made a rather strong impression on me, I say, because it showed or seemed to show that there was very little relation between the price level and the question of unemployment.

Dr. FISHER. The relation does not show very clearly, unless you provide for a lag and a distributed lag. That is, the effect of an increase in the price level upon one amount or another does not occur until later, and the effect does not come all at once. It does not all come 6 months from now, but part of it begins in 1 month, a somewhat larger part in 2 months, and so on, and you have got to make an elaborate calculation.

Mr. WILLIAMS. The period which they presented, as I recall it, in round numbers, covered a period of 6 years, covering unemployment from 2,000,000 to 2,900,000, while the price level ranged only from 66 to 72. For that reason it seemed to show that there was not any relation between the two.

Dr. FISHER. There is no question that there is a relation, both in England and the United States. This is the relation as far as business is concerned [indicating on chart]. You will notice "T" representing the volume of trade, and that figure representing the changes in the effect of the price level corresponds even better than the employment curve.

Mr. WILLIAMS. What are you talking about, Doctor; is that ours?

Dr. FISHER. Yes; the United States. Between 1919 up through 1933, into the beginning of 1934, when this was done, you will find a strong relationship between the anticipated effect, with a distributed lag of the changes in the price level, calculated by the methods that I said would require a good deal of mathematics, and compared with the volume of trade. You will find that they correspond very well.

Here is the corresponding thing for England, and there is a fairly good correspondence, there, although the statistics are not so significant. I have no corresponding figures for employment.

Mr. CROSS. Doctor, I did not quite get through. In the beginning, in the fight for a stabilized dollar, the Federal Reserve Board and the members were practically all against that theory, were they not?

Dr. FISHER. Yes.

Mr. CROSS. After that they began gradually to come in that direction?

Dr. FISHER. Yes.

Mr. CROSS. Now, Dr. Sprague, for instance, testifying in 1928 said:

I see an advantage from the passage of the bill—

I believe that was the Strong bill—

and I heartily agree with you, that the difficulties in the Federal Reserve System are not so much in past errors of judgment that they have made, but, rather, in the hasty manner in which at times policies have been decided upon and then executed. I have reached the conclusion that a stabilization amendment might prove serviceable.

Originally he fought those ideas. Dr. Miller, testifying—

Mr. BROWN of Michigan. Have you stated whose book you are reading from?



Mr. Cross. This happens to be Dr. Fisher's book, but these are the quotations from the testimony of these hearings. Besides, I would just as soon take his testimony.

Mr. Wolcott. Do you recall Professor Sprague's testimony in that respect last year?

Mr. Cross. Last year? We had him here with reference to going off the gold standard and deflation, but I don't know whether we had him on the stabilization problem or not. He surprised me very much, saying in that hearing, that he thought the only thing for us to do was to get off the gold standard, and then he issued a very strong statement the other way, when he left the Treasury Department. Thereupon, I lost any faith in Dr. Sprague.

Mr. Wolcott. My surprise is that you are quoting from Professor Sprague as to his views, because I thought you did not place much reliance on what Mr. Sprague said.

Mr. Cross. No; I did not, and I do not now.

Dr. Miller, testifying in 1930, said:

It is my opinion, expressed several times in discussions at Federal Reserve meetings in the open months of 1929 that the Federal Reserve System was drifting, that it was in the midst of a perilous situation without a goal.

They had no goal to go to, they were floundering. That is one of the reasons I am convinced we should have in this bill, something for them to go to and stay to.

To the same effect, Mr. Russell Leffingwell, connected with the Treasury for awhile under President Wilson, said:

The system has been unable to evolve properly and persist in an effective policy to counteract the deflation of the last 3 years. A deflationary policy has found only hesitant and tardy and intermittent expression and action. In the matter of monetary matters, the control of inflation and deflation, a step in time is worth nine.

All of which shows the necessity for having a goal for whatever agency is set up to go to and work to. To jump one way a while and jump the other is not satisfactory. They go out here and buy bonds and sell bonds, and when Governor Harrison came down here and saw the situation and wanted the Board to raise the rediscount rates, you will remember they would not do it. Finally they did do it but it was too late. As a result, the storm was coming, and they were too late. They would not let him do it.

I think we should put up our goal to go to.

Mr. Spence. Dr. Fisher, as a practical matter, how would you regard that policy in the law? Would you state the definite objectives to be obtained and the means by which they should be obtained?

Dr. Fisher. Yes, sir.

Mr. Spence. Have you formulated any idea as to how it should be worked?

Dr. Fisher. I would not assume to be a bill drafter, but I have made a memorandum several times, including one in this forthcoming book, on the 100-percent plan, and chapter II is entirely on that subject.

Mr. Spence. Is there any way that it could be made which would do away with the whole equation?

Dr. Fisher. Yes; you could do away with the whole management of currency if you are willing to accept a less degree of stabilization



than Sweden has achieved. All you would need to do would be to decree that we should increase our per capita circulation until it reached \$250, or whatever you decided on, and then keep it there. That is really what was proposed by these—or substantially what was proposed by these economists at Chicago. Personally, I would prefer to have some discretion enter in order to get a higher degree of stabilization. This is like running your automobile with a robot instead of with a chauffeur. I would rather have a chauffeur and give him a little discretion, although he would be told where he is to go.

May I continue, Mr. Chairman?

The CHAIRMAN. Yes; you may proceed.

Dr. FISHER. I have not finished my statement.

I did want to quote from Mr. Gregory, of this bank in St. Louis to which I referred, who has written an article on this 100-percent plan in the *Mid-Continent Banker*, "Pay your debt, Mr. Banker", by which he means that the bankers ought to do some thinking on this subject, and to contribute to it—have their profession contribute to its solution; and he has tried to do it for them. This is the last sentence:

If we cannot develop an enlightened opinion among ourselves—

Meaning bankers—

that will assist the rest of the business world to a better solution to our problem, then may the red and black devils of alternating inflation and liquidation toss us quickly into the consuming fires of Government ownership.

I believe that the 100-percent plan, or decreeing that plan, will produce stable money—and that is the quickest and best way—I believe that is necessary if we are to prevent socialism, to Russianize this country, maintaining our American system of individualism and individual initiative.

This 100-percent plan is the only plan that would absolutely separate the control of money from banking. There would then be no need to have many, if any, banking laws. Presently you could repeal almost all the banking regulations if you would extricate from the bankers these deposits subject to check, which are a form of money which the bank issues, contrary to the Constitution of the United States—and destroys from time to time—thereby creating booms and depressions.

Mr. WILLIAMS. Here is a question I would like to ask you, Doctor. You have gone over several times about the 100-percent reserve.

Dr. FISHER. Yes, sir.

Mr. WILLIAMS. Do I understand you to mean that for every deposit account subject to check, for every dollar, that you must have 100 cents in money, cash, currency?

Dr. FISHER. Yes; in effect. Federal Reserve or Government credit which can be turned into money, by having the money printed as needed. As a matter of fact, you would not need as much actual money as you do now. As long as all the money was in the bank or could be made to order few would ever ask for it.

Mr. WILLIAMS. That would mean Government bonds could be turned into money.

Dr. FISHER. No; I did not mean that. I meant money in existence or which could be brought into existence. Government bonds could



temporarily be a part of the reserve. I proposed that simply in order to make the transition easy.

Mr. WILLIAMS. As a matter of fact, how much money in actual currency do you think it would require to carry that on?

Dr. FISHER. There would not be any distinction then between the money in the bank and the money in your pocket, except as the individual wanted to change its location from bank to pocket or from pocket to bank; but he would want to keep on deposit just about nine-tenths of his money, as now; that is, out of the \$250 he would probably deposit \$220.

Mr. WILLIAMS. And that would take about \$40,000,000,000?

Dr. FISHER. Counting the deposit money, about \$35,000,000,000.

Mr. WILLIAMS. Then in order to place this country on a sound, stable basis, from a monetary standpoint, we should have actually in existence about that much in currency?

Dr. FISHER. In currency? No. It would mostly be on deposit. It would not be currency in the pocket. It would be the equivalent of currency in the banks; yes.

Mr. WILLIAMS. What is the difference between that and what we have now? We have deposit credit now.

Dr. FISHER. Yes; but the banks can control the amount of it. We want to take that control from the banks, because the banks do not now control it in any central way. If they are going to control it, then you ought to have a committee of the American Bankers' Association, or someone, do it. But if you are going to let 15,000 banks independently function, some creating and some destroying, sometimes engaged in creation or sometimes in destruction, you are going to have booms and depressions.

Mr. BROWN of Michigan. They cannot create it, Doctor, unless somebody comes into their bank and becomes indebted to the bank, can they? They can only create it on a demand for the money.

Dr. FISHER. They can create it on their own initiative, to a large extent, and they can destroy it on their own initiative still more.

Mr. BROWN of Michigan. Not unless someone wants to borrow money from the bank.

Dr. FISHER. Take it the other way: The destruction consists merely in saying you must pay.

Mr. WILLIAMS. I am not able to see the difference, as Mr. Brown says. As I see it, when a man comes in and asks for credit at a bank he wants to borrow money.

Dr. FISHER. Yes.

Mr. WILLIAMS. And you place to his credit so much money, whether you hand him out the cash and he hands it back to you?

Dr. FISHER. If a man comes to me and asks for money, I do not create it. The banks should be the same way.

Mr. WILLIAMS. In other words, you would have to have as much currency as you have credit?

Dr. FISHER. A banker could lend under the 100-percent system his capital.

Mr. WILLIAMS. Yes, sir; his capital.

Dr. FISHER. His capital could be lent. He could lend whatever is deposited with him, for that purpose, in the savings account, which we call "deposit" but which it really investment; he could



relend what was left to him from previous loans. There would be these three sources for the loan of funds. It would amount to this: The loans would be made out of savings, where they should be made, and not out of thin air. A banker ought not to be allowed to manufacture the money that he loans any more than individuals should.

Mr. WILLIAMS. You would not confine those loans to any particular feature out of savings accounts? You would not differentiate between investments and ordinary commercial banking?

Dr. FISHER. I make a very big distinction between deposit banking—I mean check banking—and time or savings banking. Savings banking is mere money lending without any money creation; but commercial banking is both money lending and money creation.

Mr. WILLIAMS. In lending the savings account or the time deposit, the bankers can lend out of that, you say?

Dr. FISHER. Yes, sir.

Mr. WILLIAMS. That is legitimate?

Dr. FISHER. Yes, sir.

Mr. WILLIAMS. On what kind of loans? Any kind?

Dr. FISHER. That is a matter for banking practice.

Mr. WILLIAMS. What is your theory in making a difference in the character of a loan which he could make on that?

Dr. FISHER. My theory has nothing to do with it.

Mr. WILLIAMS. I am asking your view of that.

Dr. FISHER. I am not a banking expert.

Mr. WILLIAMS. You do not know any distinction, then, between the character of the loans which he might make or ought to make?

Dr. FISHER. I think it could largely be left to the bankers. The banker knows more about it than the Government.

Mr. WILLIAMS. That is what I am saying. There ought to be no distinction made as to the kind of loans he would make out of the savings deposits?

Dr. FISHER. I do not know. I do not know enough about money lending, which is real banking, to have much of an opinion, except this: I am satisfied that if you once had money disentangled from banking, and let the Government stabilize the money, and they had a dollar which was stabilized in purchasing power, you could let the banker have much more freedom than he has now.

The only thing that I want to take away from the bankers, the only thing I am trying to take away from the bankers, is their power to create money and their power to destroy money. Let them handle money, that somebody gives him to lend, but do not let him create money.

Mr. WILLIAMS. I am very much interested on that subject of prices. I do not see any difference between that and the system we have now.

Dr. FISHER. Now he lends the reserve 10 times over. You cannot lend me \$100, if you have only got \$10 to lend me.

Mr. WILLIAMS. You would not carry the loans 10 times, would you?

Dr. FISHER. No; the existing loans can be taken care of simply by buying the bonds that are now outstanding behind those loans, the United States paying for those in noninterest bearing money or credit.



Mr. WILLIAMS. And the money going into the bank?

Dr. FISHER. Yes.

Mr. WILLIAMS. Then I come back to the question: Then you would have in the banks of the country, in the vaults of the banks, all your currency handed out back and forth in the transaction of business.

Dr. FISHER. It would be available; yes. It would not need to be printed, for it would not be used as much as it is now. Anybody knowing that he could get 100 cents on the dollar, no matter if every other depositor demands his, at the same time would not demand much, if any.

Mr. BROWN of Michigan. Of course, under the Steagall amendment to the Banking Act of 1933, the right to issue that money on assets of the bank, both Federal Reserve and non-Federal Reserve banks, exists.

Dr. FISHER. That is a step in the same direction. Federal Reserve bank notes, you mean; is that right?

Mr. BROWN of Michigan. Yes, sir.

Mr. WOLCOTT. Dr. Fisher, as I understood Mr. Hemphill this morning, he advocated the repeal of the Federal Reserve Banking Act and National Banking Act, and turn the banks back to State supervision, if I understood him correctly. How would the Federal Government, if that was done, control the situation and require the banks of the country to maintain this?

Dr. FISHER. He did not mean that you would turn back to the States the control of deposits subject to check. That would be taken care of, because that is money. The control of deposits subject to check should go with the Federal Government.

Mr. WOLCOTT. I will admit, Professor, that I may be dense, but I do not understand your 100-percent reserve proposition.

Dr. FISHER. I have not tried to go into it in detail, because I thought there were so many other things which I wanted to say, and I have said all this in the book to which I referred, and which I am going to send you next week.

Mr. WOLCOTT. I would be very much interested in it.

Dr. FISHER. It is really the simplest thing in the world. All we need to do is to have the monetary authority buy the bonds, or, if you want absolute money in the banks, to buy the bonds that are held by the banks, to a sufficient extent to provide them with a 100-percent reserve behind the checking accounts only, and require them to hold that. I mean always maintain 100 percent; never to lend any of that out, as the old goldsmiths did, when they betrayed their trust. We go back to the old goldsmith idea; that this is an actual deposit.

Mr. WOLCOTT. If I understand that correctly at this point, I understand you mean that in the old days the goldsmiths had an ounce of gold in their safes for every receipt which they gave for the receipt of gold; so the banks should have cash and capital bonds in their vaults for every dollar of deposit?

Dr. FISHER. Yes; where it is a checking account.

Mr. WOLCOTT. Then that would necessitate a divorcement of time deposits from demand-deposit banking, and you would have to separate them?

Dr. FISHER. Separate them absolutely.

Mr. WOLCOTT. And keep them absolutely separated?



Dr. FISHER. Yes; so that the business of money lending—

Mr. WOLCOTT. I understand that that is directly contrary to this bill which we have before us, because Mr. Eccles, I think, voiced the impracticability of trying to separate commercial banking from savings banking, and showed us how difficult it was to do that in practice, although it looks easy to do in theory. How would you suggest that they do that? To set up separate institutions with separate capital bases?

Dr. FISHER. Yes, sir; and each bank that now has its deposits subject to check to incorporate separately the department that handles the deposits subject to check; and after it has gotten its 100-percent reserve, which you will get by the Government buying assets, if necessary—if it has not already got the 100-percent reserve—then it must maintain a 100-percent reserve, and that department is under the supervision of the Federal Government. What happens to the other department is an entirely different matter. The savings or loan department would then handle the short-term loans, now behind demand deposits, in addition to the long-term loans which they already handle, thus getting more liquidity than now.

Mr. WOLCOTT. Let me follow up that thought with one more question. As was suggested, that would make the banks practically a bailee, or practically a warehouse for deposits?

Dr. FISHER. Yes.

Mr. WOLCOTT. What means are you providing for reimbursing the banks for servicing the accounts?

Dr. FISHER. The simplest way is by a service charge for checking. That is being done today, and you only need to charge an average of \$1 per month on each checking account, as Mr. Hemphill has shown, to get back all the \$300,000,000 a year that the banks are now getting from Government bonds, and half as much more.

Mr. WOLCOTT. I want to hurry through this. Do you not think that this might be somewhat deflationary, Professor? That is, to charge what is necessary to maintain that department to give me the service, it must be based upon the transaction basis, in other words, 5 cents a check or 10 cents a check, or whatever the charge would have to be to maintain the department. Is not there a tendency on the part of the public, which has been using these banks and paying by check, to go down to the bank and draw one check and send their wives around in the city to pay the bills?

Dr. FISHER. It is deflationary now under the partial system, but under the 100-percent system it would not be deflationary. The only effect it could have would be for the bank, if they chose, that is, the depositors, to take out their money and carry it in their pockets or deposit it somewhere else. But they could not destroy any money. Now they can destroy it.

Mr. WOLCOTT. In other words, where there would have been one transaction at the bank for 10 separate detailed transactions, they would have to use the money instead of checks.

Dr. FISHER. If the banks were not willing, or if the depositors were not willing to pay the service charges, or the banks were not willing to accommodate the public, as they do now, in the making of service charges, which were burdensome, it would make for more cash transactions instead of transactions by check.



Mr. WOLCOTT. Of course the banks could not maintain them without making some charge, other than through the earnings of the savings department, and that, of course, would not perhaps be correct, to ask my neighbor to have the interest which he would ordinarily draw from his savings account decreased to give me a service which is wholly divorced from any of his activities.

Dr. FISHER. The service charge would not be big. One dollar per month for each account would bring in 450 million to the banks, which is 50 percent more than they are getting now on the bonds which they have—\$1 a month.

Mr. WOLCOTT. I will tell you why I think it is deflationary. I had a case called to my attention just the other day, where the Treasury Association, instead of drawing 10 checks in this city, where the charge is 5 cents a check, or something like that, went around and drew one check and paid in cash, to save the association a matter of 40 or 50 cents. Of course, he drew one check. That was one transaction.

Dr. FISHER. Yes.

Mr. WOLCOTT. That turned over just once. Whereas, we have been striving here to create a situation where that money would turn over as many times as it would be considered desirable.

Dr. FISHER. It is slightly deflationary now, because every time that is done, if it results in permanently putting \$1 in the pocket, which used to be in the bank as a deposit, subject to check, it causes a shrinkage of \$10, subject to check, in the country as a whole, so that there is \$9 of deflation there, but, under the 100-percent system, that would not be true. You would just simply have your money in the pocket instead of in the bank vault, putting in one storing place instead of the other.

Mr. WOLCOTT. Do you explain that in your book?

Dr. FISHER. Yes, sir; but besides that there are two other answers. One is that the monetary authority would not only buy bonds of the banks, but, in order to bring about the reflation, it would buy bonds of the public, so as to increase the circulating medium, and if there were any deflationary tendency, such as you described, if there were any, it would be overcome by that process. In other words, the whole thing is in the control of the monetary commission.

Another answer is—

Mr. WOLCOTT. Just a minute, you used the term "deflationary." That, of course, gets us into the realm here of the question of relationship between the volume of currency and the price commodity index. You remember, Professor, we discussed that matter at length when we had the monetary authority question before us last year. My memory is that many of the economists found no relationship, or very little relationship, between the volume of money and the price commodity index. They claimed that the velocity of money and credit controlled it.

Dr. FISHER. There is a very close relationship.

Mr. WOLCOTT. Why I brought up that, in this respect, is that if we decrease the velocity, the turn-over of credit, currency, or bank check currency, it would not seem to make much difference, according, perhaps not to the weight of authority, but according to the opinion of many economists, what the volume was, if we decreased the velocity.



DR. FISHER. As a matter of fact, velocity does not change very much except in the speculative field, and except where you have booms and depressions, and if you would not have so violent booms and depressions under any system of stabilization, the variation would be still less under the 100-percent system, and it is now probably not over 10 or 20 percent from the average.

But I want to say this: There are other methods of treating this reimbursement of the banks besides this method of a service charge. There are four or five different methods, discussed in my book, which I have gathered from bankers and all. And of all I find the bankers apparently like the service charge better than the others. I have been feeling somewhat as you do, that we wanted to encourage the maintenance of checking accounts, I won't say to avoid deflation, but to make it safer to keep things in the bank instead of in your pocket, and to put a premium on that. They generally do not seem to think this is necessary. The service charge will be so small, just think of it, an average of \$1 a month for all accounts, including those that have millions, and it would be very easy to charge for the big accounts only, or in such a way as to reimburse the bank sufficiently for that.

There are several other ways of doing it.

MR. BROWN of Michigan. Mr. Chairman, how long are we going to continue?

THE CHAIRMAN. I had hoped to finish with Dr. Fisher. He only had a chance to be with us today, and for that reason we started the hearings today.

MR. BROWN of Michigan. We have not heard Professor Fisher on the plan of issuing the money. It seems to me that that is the most important factor in the case.

DR. FISHER. I have been interrupted, Mr. Chairman.

MR. CROSS. I asked a question along that particular line, and I thought you answered my question.

DR. FISHER. Yes.

MR. RUSSELL. May I ask one question?

THE CHAIRMAN. Yes.

DR. FISHER. Before you ask that question, may I go ahead a little bit further with this matter of reimbursing the banks? This is the one problem, the best solution of which would require certain study, and for that purpose, Mr. Hemphill suggests that in order to put this into immediate effect, we allow the Government bonds to be counted as though they were cash reserve at first. Then, the banks would have as long as these bonds had not reached maturity, they would have \$300,000,000 a year for that need, in the Government bonds. When they reached maturity, then they would be converted into cash and the reimbursement problem would come up.

In the meantime they could study this and the bankers could work out what is the best method, among the half dozen different methods I know about. It gives you leeway without stopping this legislation. This could be put into effect without any trouble. Talking about evolutionary methods, this is an evolutionary method.

MR. RUSSELL. My question is this: Would not your 100-percent reserves greatly reduce the loaning facilities of the country?

DR. FISHER. No; that appears to be the case and that is the question which is most often asked and raised as an objection: "Would



it not make it more difficult to get loans?" On the contrary, by preventing the depressions which we have now, it would make loans always available. It has been hard during the depression to get loans. You have cases where it is impossible to get loans; whereas, under this system, it trots along all the time, and you will not get too many loans or too few, but you will have a normal supply and demand practically all the time.

Mr. RUSSELL. What money is available for a loan except the capital and surplus of the bank?

Dr. FISHER. I stated there are three sources. One is the capital of the bank; another is the money deposited in savings, which is the big thing.

Mr. RUSSELL. But you are going to divorce that from the checking account?

Dr. FISHER. Yes, but it exists, to get the loans there. Third is the funds which come in payment of old loans.

Mr. RUSSELL. But you have wiped out this, that is now available for loans.

Dr. FISHER. No.

Mr. RUSSELL. And you put nothing instead of it.

Dr. FISHER. You do not reduce any of the loans outstanding.

Mr. RUSSELL. As those are paid.

Dr. FISHER. As those loans are paid, they can be renewed or replaced out of the funds they pay them with. When Mr. Smith pays his debt, that money that he pays can be re-lent to Mr. Jones.

Mr. RUSSELL. I understand. That is based on the theory you now have a 100-percent reserve.

Dr. FISHER. Yes.

Mr. RUSSELL. But if the credit requirements of the country increased, there would be nothing available—

Dr. FISHER. That is where the monetary authority comes in. The monetary authority, with the growth of the country, in order to maintain the price level and prevent depression would find it necessary to issue more money or credit—you can call it either one of those, as there would be no difference now—more money, let us say, buying Government bonds to supply the needs of the Government. Or if you had the \$250 per capita, and had no monetary authority, Congress merely prescribing that that would automatically increase with the increase in population. As I say, that would not be a very exact stabilization. Loans would take care of themselves, as they should, out of savings, for the most part.

The CHAIRMAN. Mr. BROWN, did you wish to pursue your inquiry?

Mr. BROWN of Michigan. I do not recall Professor Fisher telling us how the money would be raised, but I do recall Mr. Hemphill stating how it would be. So that if you have the same idea he has, there is no use your repeating that.

Dr. FISHER. I have.

Mr. BROWN of Michigan. I would like to add as to what I said in questioning you as to the panic of 1929, this question: Is it not a fact, Dr. Fisher, that the Federal Reserve Board itself in 1929 issued a warning against excessive speculation?

Dr. FISHER. Yes.

Mr. BROWN of Michigan. In February 1929, which was some 7 months before the thing actually occurred?



Dr. FISHER. I do not remember the exact month. These verbal warnings were very disappointing in their results.

Mr. BROWN of Michigan. But they did, you might say, sense the fact that things were going bad?

Dr. FISHER. That was the weakness of the present system. You can warn banks all you like, but if the individual bank does not proceed to heed that warning, but issues money instead, it can do it under the present system. Under the 100-percent system it could not create a single dollar of more money.

There are four big arguments for this plan. One is the reduction of the Government debt, which is now frightening people. That could be practically wiped out. The second is the separation of money and banking, leaving the banker free.

Mr. BROWN of Michigan. It would be wiped out by the issue of cash in the form of printed money?

Dr. FISHER. Non-interest-bearing money of the United States. Third, it would prevent this menace of inflation which people are afraid of, both because of the Government debt or the fear that the Government will "go bust", and because of the banks having the power to inflate, a power which they might suddenly exercise at any time.

And, fourth, preventing further booms and depressions, which is the important thing.

I had a number of other minor matters, but I have taken so much time I think I can stop here.

Mr. WOLCOTT. Perhaps it is not apropos to what has been going on, but the Federal Reserve have been buying and selling and conducting open-market operations more or less voluntarily ever since their existence. What effect have those voluntary operations had?

Dr. FISHER. They have had a good effect. As long as you have not got a big storm to weather, it is easy to steer a ship, and Governor Strong succeeded in maintaining a good deal of stability during his lifetime, after he discovered the uses of open-market operations.

When the depression came, Mr. Hoover tried to do the same thing. Mr. Meyer, then Governor of the Federal Reserve Board, was not in sympathy with it. There was no law requiring any particular index number or price level, or anything of the sort, and it all rested on the value of individuals, and he balked at the idea, until the President dealt with him rather severely, and then there was at last the Steagall Act, passed February 27, 1932, in order to facilitate these open-market operations, to release a certain amount of gold, to make it free gold. When, finally, that was done, after a certain lag had normally occurred, we were really beginning to get out of the depression.

Mr. WOLCOTT. August 1932?

Dr. FISHER. Yes; and it is my opinion—and, of course, this is purely an opinion and I may be entirely wrong—but it is my opinion that if we did not happen to have what Mr. Wilson once called the "astronomical system of elections", by which we have an election after the earth has gone around the sun four times, irrespective of whether the political situation requires it or not, if it had not been that we had to have that election in the fall of 1932, I think we would have been out of the depression long ago.



When Mr. Hoover, very unwisely said, and Secretary Mills, that if he was not elected the grass would grow in the streets, and then when in September it became very clear from the election in Maine that Mr. Hoover was not going to be elected, people concluded, many millions of people concluded, that the grass was going to grow in the streets, and, therefore, they began to hoard, and finally began to hoard gold. And we had all these troubles until Mr. Roosevelt came in, and suddenly he created so much confidence that it was unhoarded to a certain extent, and we had improvement until all this mistaken N. R. A. and the A. A. A., and so forth, came in to retard recovery instead of treating it as a monetary problem.

That is, in brief, the history, and the open-market operations did work until they were stopped.

Mr. WOLCOTT. Do you think that those agencies have had the effect of destroying that influence?

Dr. FISHER. Yes; but it was not the destruction of the confidence, which is bad enough, but the destruction of wealth, plowing under cotton fields and lowering wheat acreage and paying people not to produce, making prices rise by making goods scarce, which is quite the opposite from making prices rise by making money abundant.

Mr. WOLCOTT. You believe in the prosperity of abundance rather than scarcity?

Dr. FISHER. Yes, sir; we never suffered from overproduction.

Mr. BROWN of Michigan. Would not the money be less valuable in its purchasing power, if there was a plentitude of money?

Dr. FISHER. The dollar should be less valuable. It is too valuable now. The increase, according to wholesale value, was 81 percent between 1926 and March 1931.

Mr. BROWN of Michigan. Which would have left us with a superabundance of a certain kind of goods, according to the law of supply and demand, and the price level would have been much lower.

Dr. FISHER. We want the price level to rise. The dollar had swollen, which means the price level had fallen, and to restore the dollar downward would mean to restore the price level upward.

Mr. BROWN of Michigan. I do not think we want to get into a discussion of that kind, but I am one who believes it is wise to control production.

Dr. FISHER. I do not think so. This is a monetary problem, as Mr. Hemphill said, I think.

Mr. CROSS. Mr. Chairman, I must go.

The CHAIRMAN. I think we are practically through.

Mr. Hemphill wanted to be heard 5 minutes in conclusion.

Mr. HEMPHILL. I was going to say this, Mr. Chairman: There are so few members of the committee present and I think this subject is so important, and sitting here listening to this discussion this afternoon I have gotten some sense of the confusion which exists in the minds of a great many of the members of the committee which could be cleared up.

The CHAIRMAN. Let me make a suggestion, Mr. Hemphill. You will have opportunity to correct your statement, and if you desire to add to it, the committee would be glad to have you do so, and it will be included in your statement.

Mr. Russell, do you want to ask Dr. Fisher a question?



Mr. RUSSELL. No. If it is not out of order, I was going to make the suggestion that it might be a nice thing to have my predecessor, Mr. Luce, to appear before the committee sometime.

The CHAIRMAN. The committee would be delighted to hear Mr. Luce. Some of the old members know pretty well what Dr. Luce thinks, and we appreciate him, just as you do, and that is quite a generous thing on your part, to suggest that he come.

Mr. WOLCOTT. I think, Mr. Hemphill, all the members of the committee are very much interested in this 100-percent reserve, and I think, as you said, there is a great deal of confusion in our minds, which now exists, and if you can put that into understandable form in your statement, it would be well.

The CHAIRMAN. Add to your statement.

Mr. HEMPHILL. It is entirely at your pleasure, but I would like awfully well to have another hour before the whole committee, if that is possible.

Mr. BROWN of Michigan. There is one thing I would like to ask for the purpose of the record, because it was based in part on the hearings of the committee. I know you criticized Governor Eccles for suggesting a spending program and a taxation increase on income, in a news article a couple of days ago. I want you to know that Governor Eccles did not suggest before this committee a present increase in income taxes. He proposed that we delay that until we had had some substantial recovery, some increase in income. I think it was unfair in that respect.

Mr. HEMPHILL. It was just what he stated to me.

Let me say this: In all kindness and with the greatest respect in the world for our Congress, you brought up a point here that is, I think, a very important charge.

I believe that Congress was intended originally and is now presumed, to legislate, and this Congress seems to me to have been engaged largely in considering the bills which have originated by the administration. Is not that true?

The CHAIRMAN. That is probably not so true as many people have been led to believe. As a matter of fact, this bill before us is not a bill that has been prepared and sent down here to us with a "thou shalt" on it, and it has not been prepared in the absence of conferences and consultations with Members of Congress. There is an exaggerated idea in connection with what you say.

Mr. HEMPHILL. All I was hoping to do was to get an amendment to this bill, not to promote any legislation at all, but to get an amendment to this bill, Mr. Chairman, which has exactly the same objective which this bill has.

The CHAIRMAN. If I may say it, everybody has the same object and the same desire.

Mr. HEMPHILL. Yes; by short-cuts.

The CHAIRMAN. A great many people think they know how to bring that about, but those who know how have not got the power, it seems.

Mr. HEMPHILL. That is true. I thank you gentlemen very much.

The CHAIRMAN. We appreciate your statement, and I am sure every member of the committee does, and we regard it as able and



instructive, and, of course, the same is true of Dr. Fisher. We are glad to hear you and wish we could hear you longer.

Mr. BROWN of Michigan. Have you made it very plain that we will be glad to have these gentlemen submit their proposed amendments to the committee in writing?

The CHAIRMAN. Yes; we shall be glad to have them do so.

Senator Owen, will you come around, please?

**STATEMENT OF HON. ROBERT L. OWEN, FORMER CHAIRMAN  
COMMITTEE ON BANKING AND CURRENCY, UNITED STATES  
SENATE**

The CHAIRMAN. Senator Owen, you are familiar with the legislation, and the committee would be glad to have you express your views on this bill. You need no introduction to the committee.

Mr. OWEN. Mr. Chairman and gentlemen, in commenting upon the present bill and the principles which underlie it, I wish it to be understood that I am speaking simply as a citizen, and not as representing any groups with which I am connected. I am expressing only my personal opinions with regard to the matter.

The great question, Mr. Chairman and gentlemen, which needs to be settled in this country, the settlement of which has now been deferred 5 years, is the reemployment in industry of some 10 or 12 or 13 million men and women who have been walking the streets unable to sell their labor at any price. That is your real problem, and it is a monetary problem. There is no difficulty in understanding it. It has been explained to the committee on various occasions, and this committee took a very good step in 1931 and 1932 in its attempt to bring about a fundamental settlement of that question in the Goldsborough bill, upon which you had 500 pages of testimony, and which the House passed by a perfectly tremendous majority, 289 to 60, 172 Democrats and 117 Republicans voting for that bill, to restore and maintain the purchasing power of money at an equitable price level, and giving a mandate to the Secretary of the Treasury, through the Federal Reserve Board, and the Federal Reserve banks, to make effective that policy.

There is no doubt whatever in my mind that they had the power to do it, but so far from obeying what was the will of the House of Representatives on that matter, beginning on March 15, 1933, immediately after Mr. Roosevelt came in the White House, the Federal Reserve banks contracted credit to the extent of \$944,000,000 within the 12 months up to March 15, 1934, and they contracted currency to the extent of 1,560 millions at the same time, making a total contraction of about 2,500 millions the first 12 months of the Roosevelt administration.

Of course, you did not get any recovery from a depression, under those conditions.

Now, Mr. Chairman and gentlemen, let me call your attention to the fundamental facts from which attention should not depart. They are these: That to carry on the business of this country, you must have the medium of exchange and you must have the working capital. What took place was a contraction of working capital of approximately 20,000 million dollars, from the contraction of that amount of loans, the loans having been made for that purpose.



And when those loans were contracted by the banks—I am not blaming the banks; I am a friend of the banks; I wish them well; I have been elected bank director 46 times and my sympathies are with them—when the banks contracted the loans amounting to 20,000 million dollars, they withdrew that amount of working capital which employed labor to that extent. And those loans were paid by the liquidation of \$10,000,000,000 of time deposits and about \$10,000,000,000 of demand deposits.

Now, as Mr. Eccles explained very clearly to the committee, the demand deposits comprise the money of the country which transacts nine-tenths of our business. So that when you contracted that working capital through the liquidation of loans you not only reduced the amount of working capital \$20,000,000,000 and threw out of employment the people who were employed by the business using that amount of working capital, but, what was still more important, perhaps, you cut down the amount of money available by the contraction of nine-tenths of our business to nearly one-half of what it was. We had 23 billions of demand deposits in 1929 and about 4 billions of so-called "cash" or pocket money issued by the Government of the United States. With that 27 billions we had a production in this country of about three times as much, or \$81,000,000,000, and, taking the last 10 years, you will find that the total production or income of the country, as estimated by the Department of Commerce, corresponds very closely indeed with the amount of money in demand bank deposits and in pocket money multiplied by 3. That is a uniform relationship between the money supply and production.

And your problem is to restore that money to this country. There are two ways of doing it. One is through the banks. If the banks would relax, and if the banks would relax the policy of freely lending money for productive purposes, that amount of working capital and that amount of demand deposits would be quickly restored. But the banks do not do so because of fear. You have got to remove their fear before they will return to normal banking. But the Government can accomplish that with perfect ease. All that is necessary at the present time is to have the Government buy its own bonds through the Reserve banks. When they do that, if they bought 17 billions of bonds which the private persons in this country hold, the first effect of that would be to increase the deposits of the banks by 17 billion; and when those bonds were transferred by the member banks to the Reserve banks, it would increase the member-bank reserves by a like amount.

If the Government, on the other hand, bought the 13 billions of bonds, approximately, which the banks are supposed to have, or which they do have, you would not increase the deposits, because the deposits have already been created by the purchase of those bonds. It would increase the member-bank reserves by a like amount; and when the member banks have a reserve of 100 percent, subject to check, in the form of reserves, with the Federal Reserve banks, the banks would not have any fear at all, because they could liquidate their demand deposits 100 percent without any difficulty.

That is the great problem with which you are faced. It is restoring the money of the country which has been retired by the calling



of loans by the member banks and other banks. That has been so clearly explained to the committee that I do not think it is necessary for me to enlarge upon that any more.

I was asked the question under examination some days ago by Senator Bailey, of North Carolina, "Where would you get the money from to buy the United States bonds?"

I replied very mildly that I would find the money the same way that the First National Bank of Raleigh finds the money for bonds it buys from the United States Government. When they buy \$100,000 worth of Government bonds, they simply take a pen and insert on their books, their ledger, a credit account to the Government of the United States subject to check. They hold against that the bonds. That credit is available, but it is subject to demand; and if for any reason they did not have the ability to pay the amount in currency, they would have to call on the Federal Reserve banks for the currency; and if their resources failed, then the bank would fail, if they had a run made upon it. It is for that reason that the banks are apprehensive when their demand deposits are large and their available cash reserves are relatively small.

Now, taking the bill which is before you, I wish to express my approval of the proposal made by the Governor of the Federal Reserve Board, in that he asked that the bill should provide that the Federal Reserve Board should control the interest and discount rate; that they should control the ratio of reserves in member banks against their deposits; that they should control the right to buy and sell bonds.

Those three powers are necessary to expand the money of the country or to contract it, having the power either to expand or contract, the power of expansion and contraction, and you can expand when it is needed, and you can contract to prevent inflation.

I use the word "inflation" always as meaning an unjustified expansion, never to mean merely a justified expansion, because a justified expansion is not "inflation."

You need now the same amount of money per capita that we had in 1929, and that amounted to about \$225 per capita up to \$250 per capita. The calculations vary according to the estimates that are made. When you have furnished this country a mechanism by which this can be accomplished, if you stop there, gentlemen, and do not exercise your duty and your power to regulate the value of the money, which the Constitution of the United States imposes upon you, if you do not have a mandate upon the officials charged with the duty of exercising the powers which you grant, you need not be surprised if you are disappointed afterwards in the exercise of human judgment, which may or may not carry out the hopeful expectations you might entertain.

In my opinion, this bill is defective in the very particular matter of having no legislative mandate, such as you proposed in the Goldborough bill, which was passed, I believe, in May 1932. That bill was discussed very fully in the House for 2 days. It had an overwhelming vote because of the obvious righteousness of the proposal, and you were confronted at that time by the story that it could not be done. In other words, the Federal Reserve banks and the Federal Reserve Board, and the Secretary of the Treasury promptly



advised you they could not do it. That was the answer then. It is no longer the answer now. It is now plainly stated to you that it can be done, and you are invited to give these powers to the Federal Reserve Board.

To talk about immaterial things, to talk about little things, when this gigantic subject matter is before you does not interest me. I do not take any interest in the matter, outside of these vital fundamental questions. The responsibility is on you, it is on this administration. When the administration came in 2 years ago, the country was under the impression that this was going to be done; that we were going to have an adequate supply of money; that we were going to have the regulation of the value of money; that we were going to have a sound money, with a uniform, permanent, debt-paying purchasing power; that we were going to have property values restored.

When the Goldsborough bill passed, I took the bill and the recorded testimony before the committee to Mr. Roosevelt in New York City, and handed it to him in person. I asked him whether he was in favor of the Goldsborough bill. He replied that he was in favor of it. He has consistently maintained that position, because in his inaugural address he stated it, and in his cable to the London Economics Conference he said:

Let me be frank in saying that the United States seeks the kind of dollar which a generation hence will have the same purchasing and debt-paying power as the dollar value we hope to attain in the near future.

And in his following address to the American public, October 22, 1933, he said:

When we have restored the price level, we shall seek to establish and maintain a dollar which will not change its purchasing and debt-paying power during the succeeding generation. I have said that in my message to the American delegation last July, and I say it now once more.

He added:

Some people are putting the cart before the horse. They want a permanent revaluation of the dollar first; it is the Government's policy to restore the price level first.

I regretted it as most unfortunate that President Roosevelt's advisers were able to persuade him to defer dealing with this fundamental until the N. R. A., the A. A. A., the R. F. C., and so forth, could be tested out. Whatever measure there is of disappointment in these administrative efforts can be largely accounted for by the failure to restore property values, to restore working capital, and to restore the volume of the medium of exchange in demand bank deposits which had been destroyed by contraction.

You cannot restore property values without restoring the money by which to restore property values. Property values depend absolutely upon the volume of your money.

Your power to coin money and regulate the value thereof, under the Constitution of the United States, is the power of regulating the value of money by regulating the supply.

The Governor of the Federal Reserve Board has very clearly pointed out to you all that is necessary to be done to give that power to the Federal Reserve Board. The control of the interest and discount rate, the control of the reserves, the control of the right



to buy and sell bonds, that is the way the Bank of England regulates money in London, and has been doing for nearly 100 years. That is the way England checks itself from a monetary panic, by simply passing a resolution of the ministry, authorizing the Bank of England to issue unlimited legal tender money on sound assets other than gold. They cured the panic of 1847 in that way in a few days. They stopped the panic of 1857 in the same way. They cured the panic of 1866, when Overend-Guerney failed, in the same way, and when the Baring Bros. failed in 1890 they controlled the panic in that way. They do not fear that kind of panic any more, because they know they can control it, and they are now regulating the value of money in Great Britain by regulating the supply of the money.

They are doing the very thing that I am counseling now. Sweden is doing the same thing, and has regulated it with particular accuracy down to 1 or 2 percent. You have the greatest opportunity in the world now, by framing this bill properly and efficiently, so as to make your will control it, so as to have the Congress of the United States framing the policy and directing the policy of this country. To regulate the value of money, when you give this power, you ought, in my judgment, to put in this bill a mandate requiring the powers you grant to be used to restore and maintain the purchasing power of money along the lines of the Goldsborough bill which you passed by such a splendid majority, and which certainly excited my most ardent admiration.

The legislative mandate will remove the executive officers from the danger of being diverted from their duty by selfish advice or by political influence of any kind. The honesty of our officials can be depended upon when they have a clear instruction as to what to do. If they fail, the Congress would have the plainest evidence of it and could correct it.

While the demand bank deposit is about 19 times as important as pocket money, because checks transact 19 times as much business, our pocket money should be simplified by issuing only one form of paper money in which the note employed would not be described as a "promise to pay" (an artful device of selfish interest), but should be designated as so many dollars issued in pursuance to the constitutional mandate of article 1, section 8, clause 5, which authorizes Congress to coin money and regulate the value thereof.

The statute should declare the gold and silver in the Treasury to be available for the payment of foreign-trade balances, and in science, and in the arts, at a fixed price.

The fear that our dollars would not be kept at parity with gold has no real foundation, for it has been demonstrated by the Gold Standard Act of March 14, 1900, that a very small amount of gold, to wit, \$150,000,000 in gold coin, has kept from 5 to 7 billions of currency at parity with gold, and without the employment of any of the gold reserve referred to. If, therefore, \$150,000,000 of gold coin will keep at parity with gold 5 billions of paper money without impairment for 33 years, how long would 8½ billions of dollars maintain the parity of our paper money?

The question itself is obviously absurd. The same thing is true of silver. Now that our money is all legal tender, it not only is as good as gold, but it is better than gold, for it can perform services



more economically than gold, more conveniently than gold, and when gold is desired for legitimate purposes it can command the supply of gold required. It isn't the gold in the dollar which gives it its value, but it is the demand for the dollar in the transaction of domestic and foreign business. The domestic demand for dollars in 1929, in checks alone, was over \$1,200,000,000; more than 100 times all the monetary gold in the world then existing, and 300 times as much gold as we had in the United States; and, as a money metal in the United States, gold had even then a negligible use. It has no use now, because of the wisdom of Congress in taking public ownership of the gold supply and confining its use to domestic needs as a commodity and to the payment of foreign-trade balances. The form of money which I advise would greatly save expense and the cost and trouble of accounting. It would facilitate our business in a constructive manner.

Now, Mr. Chairman, that is all I have to say.

Mr. CROSS. Senator, one of the most vital things that we could do and do, I think, officially, is to stabilize the purchasing power of the dollar in harmony with some commodity index, covering some period, 1921 to 1929, or 1926, or whatever it might be. I have been thinking recently about the fact that England, ever and anon, let their pound slide down, unquestionably on purpose. They are getting an advantage in export trade as a result. Since she has not her pound stabilized, if we were to put a provision in this bill to stabilize the purchasing power of the dollar on some commodity level, would it not probably be wise to say that we must not let its purchasing power drop 2 percent below the line, but have a leeway for conditions which present themselves, where you could go 20 percent further? In other words, if England kept cheapening her pound, we would keep cheapening our dollar, and put the price level higher. Of course, she has got to reach a limit on that kind of thing some time, but it occurred to me if we were to stabilize on a fixed limit, now, say—and I am using England as an illustration—she might just cheapen her pound under our dollar, and in that way get an advantage on her exports.

Mr. OWEN. Mr. Congressman, what we need in our country is a stability in the purchasing power of money, so as to establish a fixed, an honest, and a just relationship between debtor and creditor, and so as to have a standard measure of value upon which manufacturers and merchants could depend.

Mr. CROSS. I understand.

Mr. OWEN. That is the great objective, and what England may do with a view to cheapening her pound, to expand temporarily her foreign commerce, should not concern us. What we want to do and what we need to do is to establish an honest, stable, permanent debt-paying purchasing dollar, and when we do it at home, Mr. Congressman, we will do far more than would appear to be the domestic result. We would, in that event, fix permanently the purchasing power of an ounce of gold, which is 35 times that stable index of \$1, and therefore you would give a standard to the whole world, using gold as the basis of a stable measure of value. You could do the same thing with silver, by fixing a fixed relationship then afterwards between silver and gold, and we have enough gold and



we can command enough silver to accomplish that purpose without difficulty. But our great problem is at home. Look at what has taken place in this country. If you could only visualize the 10,000 people who commit suicide annually under recent conditions, if you could visualize 13,000 armies of 1,000 each walking the streets of Washington, telling that pallid tale of distress and woe, you would realize the enormity of what has taken place in this country by the destruction of the medium of exchange; the destruction, therefore of all values of property and the destruction of employment.

Mr. CROSS. Now, another question, Senator. What do you think about putting an amendment in title II, providing for the Government to purchase the stock of the member banks in the Federal Reserve banks?

Mr. OWEN. All the values that are in the Federal Reserve Banking System have been created by the Government except \$143,000,000.

Mr. CROSS. I know that.

Mr. OWEN. My own opinion is the Government of United States needs an instrumentality belonging to it, not belonging to somebody else. It is the private ownership of the stock of these banks which leads to their right to select the directors and the governor and the control, and when they control, they control the credit of the United States. They control the money of the United States, and, without knowing it, they have expanded our money and contracted our money in such a way as to make bull movements and bear movements, out of which the speculators profit, in both cases. I do not think that the banks should be charged with any willful purpose about it. They are just human beings, such as we are. They are following the line of their own interest, conducting the banking business for profit, and I think, gentlemen, the Government of the United States ought to go out of the banking business for profit and leave the banks to do the lending to the country, but the Government of the United States ought to control the volume of money, the supply of money, so as to give this country what President Roosevelt said we should have, money of a permanent, debt-paying purchasing power. When you have done that, you will have discharged your full duty, and this country will rise up to call you blessed, and if you do not, they will rise up and call you be-damned.

Mr. CROSS. That is what they are calling us now.

Mr. OWEN. That is what they are going to call you. Do not make any mistake about that. If you do not give this country immediate relief, something is going to happen to you.

Mr. CROSS. Here is another question, but I do not know whether it is very material—

Mr. OWEN. I have taken the liberty of talking very freely to you gentlemen, because I feel myself a sort of elder brother in talking to you, and I have been talking to you as a friendly counselor who has given a long study to the question of monetary science.

Mr. CROSS. What do you think of, instead of requiring the 40 cents in gold back of the notes, you require, say, 30?

Mr. OWEN. I did not quite catch your question, Mr. Congressman.

Mr. CROSS. I said, in place of requiring 40 cents of gold certificates back of the Federal Reserve notes, you require 30 in gold and 10 in silver. What do you think of that kind of a proposition?

Mr. OWEN. I think it is a joke.



Mr. CROSS. Do you not think—

Mr. OWEN. I am speaking seriously, Mr. Congressman. Permit me to say, we have something about 8½ billion dollars of gold, and a large amount of silver, but we have got what is far more than that—far more than that; we have got taxing power in the United States, representing the earning power of a very great industrial people, whose normal production is \$90,000,000,000 and who could get into production 150 billions, if they were furnished with the proper supply of money.

Mr. CROSS. Now—

Mr. OWEN. Just a minute. I have not finished answering your question. I am going to answer it. Behind whatever money we issue would be, of course, the gold and silver controlled by the Government. The Government has taken over all the gold now, and the only use of gold now permitted by law is to pay international trade balances and for commodity purposes, making jewelry and in the arts and sciences, and at a fixed price of \$35.

Now, Mr. Congressman, on the 14th of March 1900 we passed what was called the "Gold Standard Act", requiring that the gold dollar should contain 25.8 grains and nine-tenths fine, and that our paper money should be kept at parity with gold. To keep all the money at parity with gold, we put into the Treasury \$150,000,000 of gold coin; and that kept our money up to 5 billion, and at the parity with gold, without using any of the 150 millions of gold at all. That is why I say it is a joke to talk about putting gold behind our money, when that is confined, in my way of thinking, to a reasonable base. We do not need any gold behind our money.

Mr. CROSS. You have in this bill 40 cents in gold back of every note.

Mr. OWEN. I say it is a joke just the same.

The CHAIRMAN. Under the Gold Standard Act provision was made for replenishing that fund.

Mr. OWEN. Three-percent gold bonds.

The CHAIRMAN. At any time it might be depleted.

Mr. OWEN. Three percent gold bonds. It never needed to be employed. The gold was never depleted. People did not want the gold. They wanted money. They do not use pocket money for transacting nineteen-twentieths of the business of the country, but they use check money, based on demand bank deposits. That is what they use. They are not thinking about gold and do not care anything about gold. It is only the bankers who do that with respect to gold and silver with the effect of confusing innocent men.

Mr. CROSS. In other words, 40 percent gold back of the dollar here might as well be wiped out?

Mr. OWEN. It might.

Mr. HANCOCK. Senator, do you not think that the administration, in keeping with its covenant, is making a serious and faithful effort to furnish the country with a sound and adequate currency system today?

Mr. OWEN. I think that this bill is a tremendous step forward in the right direction, and I have every hope in the world that this bill will pass. I am only pointing out to you that you should add a mandate, such as the Goldsborough bill, which you passed 2 years



ago, because without a mandate you will have the same thing occurring which occurred the last 2 years. You authorized three billions of bonds to be bought through the Federal Reserve banks—did you not?—as you authorized three billion dollars of currency to be issued; did you not? Congress authorized it, but it did not put a mandate on it, and it has not been employed, and the money available for business has been contracted instead of expanded. Do not underestimate the vast importance of this because it is a reality. By the sight of Government when the Government bonds are sold to the member bank, it does create a deposit. But up to this time approximately all those deposits which have been thereby created have been consumed by requiring the industrial elements of this Nation to a like amount of debts to the banks, and the loans to our industries have been decreased while the deposits have increased. The natural result has been to take productive capital from industry and transfer a credit to the payees. Do not make any mistake about that.

Mr. HANCOCK. Senator, I appreciate very much the constructive suggestion which you have made. I do not care to inject anything that smacks of politics in connection with the consideration of this legislation, but I have had in my mind for a good long time the significant difference in the language which our great President used at the time of his inaugural address and the platform adopted by the Democratic Party in Chicago. I understand that that platform, as you well know, recommended a sound currency system at all hazards.

Mr. OWEN. Yes; certainly.

Mr. HANCOCK. Mr. Roosevelt, however, in his inaugural address, referred to the same subject, and promised the people a sound but adequate currency system. That's what we need and must have, is it not?

Mr. OWEN. The words "sound money" have been unjustly given a double meaning. The words "sound money", as used by the advocates of the gold standard, mean gold money, redeemable in Government gold of 25.8 grains per dollar. That is what the stand-patters mean by "sound money", but I do not mean that; but informed people mean sound money which has a uniform, debt-paying purchasing power. Mr. Roosevelt's interpretation of the word "sound" money is entirely correct, in my opinion. I certainly commend him for it.

I organized, or took part in organizing, the Sound Money League, in which I have been advocating just that kind of dollar, because that is the only sound dollar we could have.

Let me describe what took place with the gold dollar, because the gold dollar had the same purchasing power index as our other dollar had, and yet, in May 1920, the index was 60. In February 1933 it was 166. The variation was the variation between 100 and 278, showing that that was not sound money.

Mr. HANCOCK. Do you not think it is fair to conclude that, since the Governor of the Federal Reserve Board has come here with this bill and presented it so intelligently and so effectively, that it represents the President's sincere effort to carry out his pledge made in his inaugural address and that its general purposes have his blessings?



Mr. OWEN. I heard the evidence given for the first 2 days by Governor Eccles, and it was in accord with my own views. I sat in 2 days, listening to it, and I felt entirely in accord with it.

Mr. HANCOCK. Would not the Government, under this legislation, particularly title II, be in a position to furnish the country with a dependable, sound, and adequate medium of exchange, an obligation which it has never to this good hour discharged?

Mr. OWEN. Yes; but if the Government were to undertake to say to these privately owned Reserve banks, "I want you to buy five billions of gold bonds", that the privately owned Reserve banks would be in a position to raise a great outcry against compelling them to do that; whereas if the Government bought those banks, by a cross entry, of \$143,000,000 on the books—and that is all it would take—it would be in the position of actual control and it would not take any money at all.

Mr. HANCOCK. Do you not also think that whatever authority may be vested with this sovereign power, some latitude of judgment and discretion should be left with the authority, or, in this legislation, the Federal Reserve Board?

Mr. OWEN. Certainly, the latitude of carrying out your will; but your will ought to be described so as to tell what you want. You ought to tell them plainly that you want them to bring back the dollar to the normal value, and keep it there, and when you do that you will have discharged your duty; and if you do not, I do not think you will have discharged your duty.

Mr. HANCOCK. Senator, what would you say is the normal level of the dollar?

Mr. OWEN. I would say 1926 is a reasonably normal level, because it is the same as the average 1914 to 1930, inclusive, and because it is the average of 1921 to 1929, inclusive.

Mr. HANCOCK. Must you not allow for at least normal economic changes in determining that level?

Mr. OWEN. Yes; certainly, and, more than that, I think the suggestion which has been made here is a good and wise one, to base the index upon basic commodities, and I think that that ought to be further discussed by the Board, and the Board will make reports to the Members of Congress at least once a year, and I think preferably every quarter, so that the Board would tell the Members of Congress what they are doing to carry out the policy of the Congress with regard to money, so frequently that they would never lose sight of their job; and their sole job, in my opinion, is regulating the volume and value of money. Your chief duty is to declare the policy—not necessarily the details.

Mr. HANCOCK. Do you not think that things other than commodities should enter into a determination of the price level?

Mr. OWEN. No; I think that is enough. They have had the Saurbek index in Great Britain for many years, and it served as a good enough level. The value of the all-commodity index is this: That it represents a value of all human labor for a period of 1 year, we will say, and that is comparatively stable in volume and in its essential usefulness, and if money is kept stable in relation to it you will have the greatest stability of which you are capable.

Mr. HANCOCK. One question, and then I am through, Senator.

Mr. OWEN. Yes, sir.



Mr. HANCOCK. With respect to purchasing the obligations now held by the banks in order to replenish the supply of money, you say that a transaction of that kind on the part of the Government will be similar to a transaction on the part of any bank. For instance, you used the First National Bank of Raleigh, N. C.

Mr. OWEN. I say that when the purchase by the Federal Reserve banks of United States bonds is made, it would be identical in character with that of the purchase of bonds by the First National Bank of Raleigh. They would give a book-entry credit against the purchase of the bonds. If they wanted that paid in money, they could get it, because the Federal Reserve banks can get all the money they require against bonds. People do not want pocket money. They want bank credit. That is what they want.

Mr. HANCOCK. I think I understand.

Mr. OWEN. That is what they need.

Mr. GOLDSBOROUGH. Senator Owen, do you remember going over a bill that I introduced early this session providing for the establishment of a bank which should absorb the national debt?

Mr. OWEN. By purchasing the bonds outstanding?

Mr. GOLDSBOROUGH. Yes.

Mr. OWEN. Yes; I do.

Mr. GOLDSBOROUGH. Do you remember the bill provided that the capital stock should be furnished by the Treasury?

Mr. OWEN. By what?

Mr. GOLDSBOROUGH. The capital stock of this bank should be furnished by the Treasury.

Mr. OWEN. Yes.

Mr. GOLDSBOROUGH. Money which was not then being used for support of other money, and that as the purchase of these bonds tended to raise the reserves of the banks the Federal Reserve Board was directed to raise their reserve requirements in order to prevent undue inflation.

Mr. OWEN. Yes.

Mr. GOLDSBOROUGH. All right. Now, then, my question is this: A gentleman who is to appear before this committee tomorrow characterized that bill in this language [reading]:

Now, Mr. Goldsborough's proposition would have the Government paying off its investors not through money raised through borrowing or taxation but by means of paper money printed by the Government. Such money is in the nature of forged notes, forged by a Government against its people. He is asking the Government to go into the business of forging notes. If in his private affairs a man borrows at a bank or elsewhere and then finds it difficult to pay and gives a forged note or counterfeit money in settlement, he is put behind the bars. We demand that he live up to his contract and that he make his wealth with which to pay his debt. We do not allow him to issue forged notes or to set up a printing press to run off the necessary amount of notes to pay off this debt. In simple but accurate terms that is what Mr. Goldsborough and several others in Congress are proposing to do.

I would like to get your judgment as to the value of that statement.

Mr. OWEN. It has no value or it has no truth in it. The truth is that when the First National Bank of Raleigh buys \$100,000 worth of Government bonds and gives a credit against them they give value for value, and the same thing would be true with regard to the Government of the United States in buying its own bonds through the Federal Reserve banks. They would give dollar for dollar value. If



the public wanted legal-tender notes for it, they could get it; but they do not want legal-tender notes. The Government in buying its own bond of \$1,000 and giving the equivalent for it, a sound bank credit convertible into legal-tender money, is giving full value. That is a very amazing statement you read. I cannot imagine any person informed with regard to monetary science would make it.

Mr. GOLDSBOROUGH. He is going to be seriously offered here tomorrow in opposition to the bill which we are here considering.

Senator, what argument can be made, if any—I do not know of any myself—but what argument can be made that money which is merely manufactured on the books of a bank, which really had nothing in comparison with what the Government of the United States has, that money manufactured on the books of a bank is more valuable and is of a higher degree of monetary consequence than money issued by the Government of the United States, that has behind it every resource of every individual in the country?

Mr. OWEN. Mr. Congressman, I do not sympathize with those who say that the banks make money out of nothing, because when a bank lends money, a certain amount of money, \$1,000, say, they take a mortgage on my property worth \$2,000, \$3,000, or \$4,000. They ask a larger amount of security than the loan ordinarily, and it is against that property of value that they issue this credit. The weak spot in it is that when they are called upon to liquidate that in pocket money, in currency, they have not got that to pay with.

What you say with regard to the Government is perfectly true.

Mr. GOLDSBOROUGH. I had reference to Government borrowing from banks. That is what I am talking about.

Mr. OWEN. The Government borrows from a bank by giving its bonds to the bank, and the bank takes the Government bonds and enters a book credit.

Mr. GOLDSBOROUGH. First the Government sends their bonds to the bank, and then the bank loans the Government the money, and the Government loans the money back to the bank and pays interest on it. That is substantially right?

Mr. OWEN. That is about right.

Mr. GOLDSBOROUGH. Is there any value created in the money which eventually goes into the market because the Government, instead of issuing this money directly, furnishes its bonds to a bank and has a bank set up a bookkeeping entry? Is there any more value to that money?

Mr. OWEN. No; that is self-evident. The question answers itself.

Mr. GOLDSBOROUGH. I know the question answers itself, but because it is contradicted so often it is worth while to state it.

I am through.

Mr. FORD. Senator, I want to ask one question.

Mr. OWEN. Yes, sir.

Mr. FORD. Assuming that the Patman bill becomes a law, what effect would that have on the country?

Mr. OWEN. It would have an effect on the country primarily of introducing that amount of pocket money. A large part of it, I assume, would flow back into the banks, and if they owed the Federal Reserve banks anything they would liquidate that debt to the Federal Reserve banks for that, but they do not owe the Federal Reserve



banks anything but have large balances in the reserve banks now, and, therefore, that would add materially to the available amount of money in the country. That is my opinion about it. It would help substantially.

Mr. FORD. It would have a tendency to help business?

Mr. OWEN. It would substantially help the whole country. We are suffering from lack of money, and that is the only way we can do it. We have got everything else on earth. We have got the ablest people on earth, and our factories are running only one-sixth of their time. We have got splendid climatic conditions and our country is fertile, and we have everything on earth but money, but you cannot transact business without money. Civilization depends on money. If you have got to go back to bartering civilization would cease. Everybody knows that. It is self-evident.

Then the statistics which have been laid before you show that. I suppose you have seen these statistics and chart compiled by the Federal Reserve Bureau which shows completely the trouble. We have lost \$20,000,000,000 of capital employed in production. We have lost 10 billion of time deposits, potential demand deposits, and approximately \$10,000,000,000 of actual demand deposits which function as check money in business, and which have a turn-over 36 times a year.

Mr. FORD. Governor Eccles says that the 2-billion-dollar excess reserve is capable of supporting a 20-billion-dollar bank credit.

Mr. OWEN. That is a technical observation, meaning this: Under the present system of a ratio of 10 percent on the average of reserves against deposits, those reserves could be employed to expand 10 times. But the difficulty with our country has been that those reserves are entirely too small; that those reserves, instead of being 10 percent should be raised to a point where the banks would have no fear of our demand depositors. This should be made at least 50 to 100 percent, gradually and steadily raised, and in that way the banks would have no fear. That was explained very clearly by Professor Fisher and Mr. Hemphill a few days ago. I was sitting here and I heard their testimony. It was very clearly stated.

Mr. FORD. I am thinking this situation over: If a bank had to maintain a 100-percent reserve on its check deposits, what possibility or what opportunity for profit would there be in banking?

Mr. OWEN. The total amount of bank deposits in 1929 was about 55 billions. So that only 23 billions were demand deposits. All the balance was time deposits or savings accounts. And I think that this bill has some very valuable provisions in it, in providing that all bills of value, practically, shall be eligible; and I think it has a very important provision in authorizing the loans against real estate. When the banks have their fear of the demand depositors removed by a large reserve against their demand deposits, and it does not cost them anything to get the reserves, it will save the Government the interest charge of the bonds that are bought.

Mr. FORD. That is what puzzles me. Maybe I am dumb, but I am just trying to find out. A bank has \$500,000 worth of demand deposits.

Mr. OWEN. Yes, sir.

Mr. FORD. It has to keep a \$500,000 cash reserve against that; and where does it get the \$500,000, unless the bank's owners put it up?



Mr. OWEN. The bank you speak of, with \$500,000, has in its own vaults at this time probably \$500,000 in Government bonds. All they have got to do is to sell those bonds to the Federal Reserve bank that has a reserve of 100 percent against their deposits. Fifty percent, I think, should be enough, except for the principle involved in the proposition—the manufacture of money by the banks, which I think ought to cease.

Mr. FORD. Where would their income come from, if they sold their bonds for \$500,000?

Mr. OWEN. At present they have 56,000,000 accounts. If they charged \$1 a month for each account as a service charge, they would get twice as much as they do now for the bonds. I am giving you the facts with regard to it. They are entitled to be paid for the service they render.

Mr. FORD. Then why should the banks object to it?

Mr. OWEN. They do not understand it. They do not know as much as you think they do. I do not mean to criticize them, because I am very friendly with them. I do not feel any element of hostility to them. I think they are just as good as we are, and they have done the best they knew how, and I think they have proved a good alibi when 15,000 of them have died.

Mr. GOLDSBOROUGH. This point has been raised here by different members of the committee—and I do not agree with them at all, but it has been raised, and possibly you could throw some light on it; more light than I have been able to—that if banks were put on a 100-percent reserve, they would have only capital stock and surplus, and there would be a deficiency.

Mr. OWEN. That is not so. They would have their savings accounts and their time deposits as well, their real-estate loans and loans against both time deposits and excess demand deposits, and interest on their investments. When they render service, they are entitled to be paid for it and they ought to be paid for it, and they ought to be allowed to do so.

Mr. GOLDSBOROUGH. Do you not think, Senator, when it comes to payment of services, it would be economically sound to let the United States Government assume it, rather than the depositors themselves?

Mr. OWEN. That is a matter of policy. The banks are entitled to be paid for the services they render, I think.

Mr. GOLDSBOROUGH. So do I.

Mr. OWEN. They are not aliens. They are our own citizens. They are our friends and our brothers and they are handling the money which they have, and the money of our neighbors. We have no fault with them.

Mr. GOLDSBOROUGH. I want to ask one more question. It is getting late, and we do not want to hold here much longer. I have made this statement, Senator, in this committee and other places and from the floor of the House: That under our average 10-percent reserve system, that if every individual in this country had the financial genius of the senior Morgan, and the inventive genius of an Edison or a Ford, and the energy of a north German farmer, that there could be no permanent prosperity in this country, because as soon as they began to pay their debts, we would immediately have a deficiency of money and depression would be inevitable, because as



soon as you begin to pay your debts you create a deficiency of money. Is not that right?

Mr. OWEN. Certainly that is right on your hypothesis. When you pay off these debts, upon which the money is based, of course you contract the money, and that is the whole point of this discussion. It is, that the United States Government should furnish the money, and that in order to furnish the money the money should be based either upon the outstanding public debt, or issued as a straight credit based on the taxing power. The Government must issue the money required, whatever it is. It must not be issued by the privately owned banks as a debt. The outstanding public debt can be used instead of the private debt for the issuance of money. That is a plain proposition, and I do not see how anyone can fail to see it.

It has the advantage of saving 3-percent interest and 5-percent amortization on a debt which will soon equal 36 billions, a saving of nearly 3 billions per annum. This saving is only a part of the benefit to the Government, for the national income would double when the national production doubles. The national revenues would double when the national production doubles. Why talk about trifles when this saving is before you?

Mr. HANCOCK. May I ask one question?

Mr. OWEN. Certainly.

Mr. HANCOCK. That statement which Mr. Goldsborough has just related, which he has also made on the floor of the House, has given me a lot of trouble in understanding.

Mr. OWEN. In what way?

Mr. HANCOCK. Well, if such a situation as he relates should ever come to pass in this country, under our present monetary system, why would anybody need any credit?

Mr. OWEN. You speak of this matter?

Mr. HANCOCK. I mean when all the debts were paid, both public and private.

Mr. OWEN. I do not infer that he meant all the debts were discharged. What Mr. Goldsborough really meant by it—

Mr. HANCOCK. I think I am quoting him correctly. His argument is predicated on our present monetary system, if I understood it correctly—

Mr. GOLDSBOROUGH. Starting with the debt we now have.

Mr. HANCOCK. Starting with the debt we now have, the people would get in such a position that they could discharge those obligations, that you would thereby automatically so contract your credit money that you would not have any—

Mr. OWEN. Let me explain that matter, if I may. What Mr. Goldsborough really means, I think, is this: That the private debts were the basis of the issuance of the money, and when those private debts are called in, those private debts are liquidated by checks on the demand bank deposits, and therefore it is retiring the money of the country. That is what he really means. He means that the money of the country is based on private debt.

Mr. HANCOCK. I think I understand his contention and I am trying to analyze it. I am wondering why it would not be a very fine thing if all the debts were paid, and everybody's property was clear. Why is not that a desirable goal to work toward?



Mr. OWEN. We have had a very fine thing during the last few years, the contraction of loans by 20 billions, the contraction of our money supply by one-half and of our national property values by half, or 200 billions.

The CHAIRMAN. He means after your debts are paid.

Mr. HANCOCK. Would not all of those assets against which this credit is issued be immediately available for currency or credits. That's my reasoning and I think it both logical and sound.

Mr. OWEN. When you liquidate the outstanding debts you of course bring on these conditions. When you restore the money which is based on those debts, by making new loans, you bring back the money and bring back prosperity again, because it is in that way that we have been creating money, and it is against that means that I am protesting, and suggesting that the money shall be based on the public debt, and not upon the private basis of debt, and thus make the money permanent in supply. That is the very point I am trying to make. I do not know whether I am intelligible or not, but I understand very clearly what I am trying to convey to you, and that is that the money which previous to 1929 was based upon private debt has been retired by the liquidation of the private debts, and that the future money should be based upon a public debt that cannot be retired by privately-owned banks. That is what I am trying to tell you.

Mr. HANCOCK. Senator do I understand that you would want the Government to always be in debt in order to provide a different basis for credit or money?

Mr. OWEN. No; that is not necessary, Mr. Congressman. This is the first step, but it is enough.

When the bonds shall have been bought by a Government-owned bank, they would offset the credits issued against them. The credits issued against them are credits by the United States not bearing interest, but functioning as money. This could be done without bonds. The Government could issue credit to a Government-owned bank even if it had no bonds, and furnish the money of the country in this way, by having those who wanted such money obtain it for actual money in any bankable form. There is nothing mysterious about this. Government money does not have to be in the form of \$1 bills, used for pocket money. It can be for \$100,000,000 credits added on the ledger of a Government-owned bank, of which the United States is responsible exclusively, without any private ownership whatever. The Government must have its own agency undiluted and uninterfered with by the specious plea of private ownership of the instrument through which the United States discharges its constitutional duty to issue money and regulate the value thereof.

While the reserve banks are in private ownership, it will be necessary to remember that the earnings on the bonds bought would belong to the member banks who owned the stock. Therefore, the savings to the Government, both of interest and amortization on these bonds, would not accrue, and the benefits arising therefrom in the matter of interest would go to the member banks in violation of the fundamental purpose of the Federal Reserve Act of 1913, which provided that all earnings should go to the Government of the United States, except a reasonable interest on the stock. This



law was amended by the Seventy-third Congress to pass the profits to the surplus of the Federal Reserve banks. This, of course, must be changed in any event, in order to deal justly with the Government itself. When the Government owns the banks this difficulty vanishes, and the Government will get the benefit of both the interest and amortization payments, which would be necessary.

It is the first step to have the Government of the United States furnishing the money that the country requires, and the Constitution provides. You are required to coin money and regulate the value of it, and you can only do it by furnishing the supply of money. You can do that by a credit instrument from the Treasury of the United States, convertible into legal tender on demand, just as well as you can on bonds. Suppose the Treasury of the United States gave a credit note to the Federal Reserve bank, convertible into legal tender on demand. They are not going to demand legal tender because they do not want that much pocket money, but suppose they do that, they can use the credit to buy the bonds with anyhow. Can't they?

Mr. HANCOCK. Yes; maybe I understand your point. It is a pretty deep subject for me to comprehend. I will have to do some more thinking and studying. My mind is open, I am happy to say.

Mr. OWEN. I do not think it is deep, but the only thing is, it requires attention. You cannot understand anything without giving it some attention, and the life of a Congressman is so bedeviled by outside things, they are doing forty thousand things at once, and I wonder how they do go down deeply into a question of this sort.

Those who are opposed to the administration banking bill of 1935 will strenuously urge the importance of delay. They will offer no means of giving the country relief from its great distress. They will urge with learned words that a bank has a very delicate mechanism from which all sorts of unexpected results may follow unless the banking laws are framed by a committee of experts such as the economists' national committee on monetary policy, headed by Professor Kemmerer, Professor Spahr, Dr. H. Parker Willis, and others. These gentlemen will urge delay without offering any immediate remedy. They will insist upon letting nature take its course; letting the creditor take over the mortgaged property of the debtor at half its value. These gentlemen, whether consciously or unconsciously, voice the views of our leaders of finance, under whose guidance this country suffered the enormous losses inflicted for the last 15 years by its great depressions ignorantly caused by expansion and ill-considered contraction of our national money supply by privately-owned banks moved into action by propaganda.

These representatives of the views of financial leaders, and who generally owe their bread and butter to generous endowments, will also strenuously urge that the existing order of manufacturing and expanding money and contracting money by privately-owned banks is the only way; that no man can prevent bull movements or bear movements; that they are inevitable, due to the laws of human nature, and that the Government should let them alone.

They will denounce the idea of the Government performing its constitutional duty to coin money and regulate the value thereof, and they will denounce the present bill as setting up a supreme



dictatorship in Mr. Roosevelt, who could, they assert, through the exercise of his political control of the Federal Reserve Board, dictate the conditions of life and death, not only to the banks, but to every business man in the country. They urge that this political control of the banking system, and the issuance and regulation of the value of money, would give the powers of life and death over business. But they fail to realize that the American people have their choice only between public control and private control. They fail to see that private control is swayed by press propaganda, from extreme optimism to extreme pessimism; from a bull market to a bear market, and that these conditions give the speculators, the moneychangers of the country, the opportunity of depriving uninformed people of the proceeds of their labor.

They oppose Congress exercising what they call "political control", which the Constitution imposes as a duty on Congress. Political control, when wisely exercised by Congress, would assure the most beneficent results when Congress, in exercising its political power and its political control, imposes a legislative mandate on the Federal Reserve Board and the Federal Reserve banks, requiring them by law to provide the country with an adequate supply of sound money of uniform debt-paying, purchasing power, as President Roosevelt promised the country.

Our dangerous expansion of credit preceding the recent depression was not in the commodity markets, or the field of production, for the general price level actually went down to 98. Our dangerous expansion was produced in making loans for unproductive or speculative purposes in the security exchanges, supplemented by about 3 billions of foreign money attracted by usurious rates on call on the stock exchanges. This forced market price of stocks far beyond a price justified by earning power. Our Government should have power to control such operations which are so dangerous to the public interest.

Such legislative mandate would deprive the Federal Reserve Board, or the President himself, of the power of using the system with partiality or partisan discrimination.

The Goldsborough bill of 1932, declaring the policy to restore and maintain the purchasing power of the dollar on the average commodity index of 1921-29, and directing the Secretary of the Treasury, the Federal Reserve Board, and the Federal Reserve banks to make effective this policy, is a complete answer to the argument that the present administration bill could be used for partisan or selfish political purposes, because it is only necessary to insert this legislative mandate to meet these charges of possible partisan partiality.

This Goldsborough bill passed as stated by a vote of 289 to 60; 172 Democrats and 117 Republicans supporting this benign, intelligent, and patriotic policy.

The opponents of the administration will urge that all will be well, and our country will be restored to prosperity, if we merely go back to the Gold Standard Act of March 14, 1900, a standard of weight and not of value; a standard which has fluctuated from an index of 145 in May 1913 to 60 in May 1920 to 166 in February 1933. Even Prof. Kemmerer, who is chairman of the economists'



national committee on monetary policy, had this to say as president of the stable money league, in December 1927:

\* \* \* The world sooner or later must either learn how to stabilize the gold standard or devise some other monetary standard to take its place.

There is probably no defect in the world's economic organization today more serious than the fact that we use as our unit of value, not a thing with a fixed value, but a fixed weight of gold with a widely varying value. In a little less than a half century here in the United States, we have seen our yardstick of value, the value of a gold dollar, exhibit the following gyrations: From 1879 to 1896 it rose 27 percent, from 1896 to 1920 it fell 70 percent, and from 1920 to September 1927 it rose 56 percent. If, figuratively speaking, we say that the yardstick of value was 36 inches long in 1879, when the United States returned to the gold standard, then it was 46 inches long in 1896, 13½ inches long in 1920, and is 21 inches long today.

This stable-money league was backed up by important names in the industrial and financial world such as Owen D. Young, Russell C. Leffingwell, John Hays Hammond, the late George Eastman, and Paul M. Warburg, Waddill Catchings, James H. Rand, Jr., Henry A. Wallace, Malcolm C. Rorty, Frederic A. Delano, Charles Evans Hughes, Elihu Root, Otto H. Kahn, Roland W. Boyden, and George M. Reynolds.

Mr. HANCOCK. I am sure all the members of the committee have enjoyed hearing you.

Mr. OWEN. I enjoy it, I am sure.

The CHAIRMAN. We must thank you for your very able statement.

Mr. OWEN. I thank you, Mr. Chairman, and the members of the committee.

The CHAIRMAN. We will adjourn until tomorrow morning at 10:30.

(Whereupon the committee adjourned until 10:30 a. m., Monday, Mar. 25, 1935.)

I am a father of a family of five children, and I own a 250-acre farm on the Tennessee River. I am a member of the Chamber of Commerce of my town.

Mr. Chairman and gentlemen, I am very glad to hear the report of Chairman Steagall and your committee in regard to the new money to explain further our anxiety of a gold dollar, and to explain and specifications of the commodity dollar as being approved. Permit me to express my appreciation for the currency.

Under the leadership of your committee, Congress has made an excellent start through the banking bill of 1933, in revising extensively some of the banking and monetary laws of our Nation. To keep abreast of this progress, I believe it is within reason and logic to include in this measure one of the most important aspects of monetary reform which we have had under consideration for 20 years.

I refer to the commodity dollar, frequently called "the fixed dollar." The proposed banking act of 1935 provides for a sound and more adaptable banking machinery for the United States than we have ever had before. I stress the fact, however, that the reason of the banking machinery we should not create is the purchase of the present kind of a dollar by the people in general.







BANKING ACT OF 1935

MONDAY, MARCH 25, 1935

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON BANKING AND CURRENCY,  
Washington, D. C.

The committee met at 10:30 a. m., Hon. Henry B. Steagall (chairman) presiding.

The CHAIRMAN. The committee will come to order. We have with us this morning Mr. O'Neal, the president of the American Farm Bureau Federation.

We are glad to have you discuss this bill, Mr. O'Neal. You may proceed without interruption, as far as you see fit, after which the members desire to interrogate you.

STATEMENT BY EDWARD O'NEAL, PRESIDENT AMERICAN FARM BUREAU FEDERATION

Mr. O'NEAL. Mr. Chairman and members of the committee, my name is Edward A. O'Neal. I am president of the American Farm Bureau Federation, with 35 State farm bureaus throughout the United States. Our headquarters are in Chicago, Ill., and we have a Washington office.

I am a farmer from Florence, Ala., and own and operate a 2,900-acre farm on the Tennessee River in north Alabama.

Mr. Chairman and gentlemen of the committee, the courtesy of Chairman Steagall and your committee in granting us two sessions to explain further our advocacy of the significant principles and applications of the commodity dollar is highly appreciated. Permit me to express my appreciation for this courtesy.

Under the leadership of your committee, Congress has made an excellent start, through the banking bill of 1935, in revising extensively some of the banking and monetary laws of our Nation. To keep abreast of this progress, I believe it is within reason and logic to include in this measure one of the most important aspects of monetary reform which we have had under consideration for 20 years.

I refer to the commodity dollar, frequently called "the honest dollar." The proposed banking act of 1935 provides more efficient and more adaptable banking machinery for the United States than we have ever had before. I stress the fact, however, that in the revision of this banking machinery we should not commit the unpardonable error of setting up an efficient banking machine without providing the proper kind of a dollar for this machine to handle.



We have reached an important crossroad in our recovery program. We are confronted with decisions of national policy upon which the success or failure of the recovery program is predicated. Our problem cannot be cured by hysterical and demagogical panaceas. Neither can they be cured by any temporary or artificial means.

For example, to aid us in obtaining satisfactory prices for what we produce, so that we can become larger purchasers of commodities which others sell to us, we need a mechanism more permanent and more applicable than the tariff. This superior mechanism, the commodity dollar, will aid us in solving problems relating both to our domestic and foreign markets. Furthermore, that monetary reform which includes the commodity dollar is as broad as the Nation itself. There is nothing local or sectional in it. And, in addition, it ramifies itself into the international picture.

The problem for us to determine is this: What shall we do to raise commodity prices so as to bring economic recovery to all? Shall we accomplish this goal by a further devaluation of the dollar? Or, shall this recovery come through enormous outlays of Treasury appropriations for public works, supplemented by credit expansions? In which direction does the road to real recovery lie? This question is of vital concern to every American citizen and to every American industry. Upon the solution of this question is predicated the very security of our Nation.

Because the American Farm Bureau Federation has taken the leadership in the solution of our monetary problems, particularly in their effect upon commodity prices, I ask for the privilege of reading into this record the resolution adopted at the sixteenth annual convention of the American Farm Bureau Federation, held in Nashville, Tenn., December 12, 1934. The resolution, under the title of "Honest Dollar", is as follows:

*Be it resolved*, That we urge the President to make full use of the powers granted him to raise the price of gold to the limits prescribed by Congress, to the end—

1. That commodity prices may be raised in line with the debt level and fixed costs.
2. That all business may be increased with resultant increase in employment and decrease in the huge expenditures for relief.
3. That equities may be restored in farms, homes, and investments.
4. That homes and other buildings may be made possible.

*Be it further resolved*, That gold certificates be issued against the profit accruing to the Government in the revaluation of gold.

*Be it further resolved*, That we urge upon the President that he meet the too often demonstrated need for a sound and honest dollar that will have a stabilized purchasing power from year to year and from generation to generation.

This is not the first time an economic calamity has visited our Nation, for in a lesser degree it happened in 1837, 1873, and 1893, and it is high time that farm organizations secure legislation of a curative and preventative nature. Men live at most 60 and 70 years and unless we recognize the cause of depressions and fortify ourselves against their recurrence, the millions of boys and girls who are now growing into manhood and womanhood will be forced to spend 10 to 20 years of their lives in distress such as we are now experiencing.

On the completion of the reflation program we demand that the necessary legislation be enacted to establish the dollar on a commodity basis, and maintain it as a stable measure of value.

In my judgment, the most effective step to take at this time to expedite national recovery is to further devalue our dollar to a nor-



mal level, and restore a normal balance to our price structure. This will permit the production and exchange of goods and services on a normal basis. It will provide employment. It will bring about resumption of trade.

To accomplish these ends, the American Farm Bureau Federation proposes:

1. That the dollar be devalued by raising the price of gold, thereby reducing the gold content of the dollar, until the normal level of purchasing power is restored to the dollar.

2. That Congress establish, as the goal of our monetary policies, a scientific unit of value which will be constant in value, and which will serve as a fair measure of value for the exchange of goods and services, comparable to scientific units of weights and measures.

In explanation of these proposals, permit me to point out, first, why further devaluation of our dollar is needed; second, what benefits may be expected from such devaluation; third, why such devaluation will be more effective in hastening economic recovery than can be anticipated from other proposed measures of relief.

We have made splendid progress toward recovery. The crucial crisis confronting our Nation in February 1933, has passed. The purchasing power of farmers and workers has been greatly increased. Unemployment has been reduced somewhat. Industrial production and profits have expanded. Bank deposits have increased. In general, the economic picture today is much brighter than it was 2 years ago.

However, we face the sober fact that our Nation still has a long road ahead of it before it reaches the goal of real and substantial recovery. A major economic collapse today would entail much graver consequences than ever before because the public debt is far greater. Destruction of public confidence at this time would result in chaos.

Despite the increase in farm purchasing power, farmers today, as a whole, are receiving little more than a subsistence income. Their returns are far below what is necessary to enable them to purchase industrial goods in terms of a normal demand by agriculture.

Agriculture's total gross income in 1934 was approximately \$7,000,000,000. This is still far below agriculture's income in 1929, which was \$11,900,000,000, and a long ways from agriculture's income for 1919, which was \$16,900,000,000. Farmers cannot repair their homes and farm buildings, cannot buy fencing material, cannot replace worn-out machinery, and cannot improve their farm lands adequately on the basis of the present farm income.

Industrial production, trade, and finance are still far below normal levels, according to various business indicators. The Department of Commerce's Survey of Current Business shows that department-store sales are only 61 percent normal, freight-car loadings are 61 percent of normal, crude-steel production is 52 percent of capacity, December 1934 factory pay rolls were 63.2 percent of normal, pay rolls in the wholesale trades were 64.8 percent of normal.

According to data published by the Federal Reserve Board for December 1934, the index of industrial production in the United States was 78 percent of normal; the index of marketings of agricultural products was 73 percent of normal. The index for 1923-25 equals 100.



Today's dollar is still too dear, in terms of goods and services, to permit a normal exchange. The purchasing power of the dollar is still too high to permit a normal interchange of goods. The result is a low level of production for industry and a high rate of unemployment. So long as the general price level of commodities remains low in relation to the dollar, farmers cannot make enough profits to absorb the goods which industries would normally produce. Under these conditions, industries cannot resume a normal level of production and thereby absorb the unemployed.

Since February 1934, when the dollar was devalued by raising the price of gold to \$35 per ounce, we have had virtually a de facto stabilization of our currency, with the price of gold remaining at that level. During this period we have been consolidating the gains resulting from the devaluation of the dollar and the restoration of commodity prices, supplemented by other recovery measures.

Under the existing value of the dollar in relation to commodity prices, debts, and wages, we seem to have gone about as far toward recovery as is possible. Without further devaluation of the dollar, to restore commodity prices to normal levels, complete or permanent recovery cannot be obtained.

To stabilize our dollar permanently at the present level would be ruinous. It would result in freezing our economic structure on a maladjustment basis. Ultimately such maladjustment would destroy the recovery program. No hope for permanent recovery can be had in a stabilization program which includes, at one and the same time, a general commodity price level of 115, a farm price level of 107, a price level of 126 for industrial goods bought by farmers, and an industrial wage level of 188. Only when and if a fair and equitable adjustment is established for all these indices can there be a normal exchange of goods and services.

To substantiate my reasoning I want to read into the record a statement made by Dr. G. F. Warren, nationally known economist, in an address before the Association of Land Grant Colleges, Washington, D. C., on November 20, 1934. The statement follows:

The only desirable price level is the price level to which the internal affairs of the Nation are most nearly adjusted. After 4 years of deflation there were only two possible ways to proceed. One was to lower those things that had not declined. The other was to raise those things that had fallen. Whenever prices rise raw materials rise more rapidly than manufactured goods. If prices rise high enough, raw materials become high in proportion to manufactured goods. Some persons have thought that reflation called for an increase in prices of monopoly goods and wages that had declined very little. In general, such increases are not sound economically and would not be expected to occur by committee action.

While our prices of basic commodities have risen to the English level, English wages have been approximately stationary at the index figure which also held for this country before the recent advance. Recovery is aided by placing emphasis on volume of business and volume of employment rather than on wage rates and prices of manufactured goods when the volume of business and employment is abnormally low.

One of our most serious mistakes has been that we did not carry our monetary program far enough. We stopped too soon in advancing the price of gold, and in getting the dollar down to the proper level. As a result, basic prices were not raised enough to make farmers and producers of other basic commodities prosperous,



or to give them sufficient buying power with which to purchase a normal volume of the goods of other industries.

Other nations have gone farther than we have in revaluing their currencies, and have consequently enjoyed a greater measure of economic recovery. The price of gold in the United States has been raised 69 percent compared to 190 percent in Japan, 116 percent in Argentina, 108 percent in Australia, 107 percent in New Zealand, 103 percent in Denmark, 93 percent in Finland, 76 percent in Sweden, and 65 percent in England.

Quoting Dr. Warren again:

These countries that were forced to, or had the judgment to, start reflation first have fared best. Australia and the Argentine left the gold standard in 1929 and avoided a large part of the depression. England left the gold standard September 21, 1931, and avoided the worst part of the depression. The United States continued until our entire credit structure collapsed. After such a wreck, recovery is a slow and painful process.

Had we followed the example of England in 1931, conditions would be very different. England had been working toward recovery for 3 years. We therefore had a much more serious injury to recover from, and about half as much time within which to recover.

Failing to compete the devaluation of our dollar to a normal level, we are still at a disadvantage with our competitors in selling our goods in foreign markets. For example, how can our wheat farmers hope to compete successfully in world markets with Argentina when she has devalued her currency 116 percent, compared to our devaluation of 69 percent, which enables her to undersell us?

So long as buyers of commodities in the world market can purchase exports of Japan, Argentina, New Zealand, Australia, Denmark, and our other principal competitors in such markets at lower prices than they can buy our goods, due to the higher value of our money, we will always be at a distinct disadvantage in selling our goods abroad.

The primary cause of the maladjustment of our price structures was the tremendous rise in the value of gold which led to the collapse of commodity prices. The investigations of Dr. Warren and Dr. Pearson have established conclusively the close relationship existing between gold and the commodity price level. These studies, covering a 75-year period prior to the World War, show that when monetary stocks of gold increased faster than the production of other commodities, prices rose; but when stocks of gold increased less rapidly than the production of other goods, prices fell.

From 1914 to 1928, world monetary stocks of gold increased about 38 percent and the world's volume of production also increased 38 percent. With the outbreak of the World War, the demand for gold was greatly lessened because most of the gold using countries left the gold standard.

According to Dr. Warren and Dr. Pearson, under this relationship we might ordinarily expect prewar prices. Actually, however, prices in terms of gold, throughout the world were 40 to 50 percent above the pre-war level. Obviously, if the entire world returned to the prewar gold standard, this price level could not be maintained in terms of gold. Therefore, when all the gold-using countries began to return to the gold basis, a collapse of commodity prices was precipitated.



On April 1, 1924, Sweden returned to the gold basis; Germany, late in 1924; Italy and The Netherlands on April 28, 1925; Belgium on October 25, 1926; and France on June 25, 1928. The increased bidding for gold, resulting from the action of these countries in returning to the gold basis, brought about a tremendous increase in the value of gold.

In the United States the value of gold began to rise in 1926. Between then and 1933, the value of gold more than doubled in our country. Since our currency was still on a prewar gold basis, this meant that other commodity prices, expressed in terms of gold, were cut in half.

Under these conditions, if we kept our currency at a prewar ratio to gold, we had to go either through a complete process of devaluation, or revalue our currency. There was no choice. We either had to devalue prices, wages, taxes, real-estate values, freight rates, utility rates, salaries, bank deposits, and practically everything else, or revalue our currency.

Unfortunately, we waited until the Nation was on the brink of ruin before we stopped this cruel and destructive process of devaluing of goods and services. As a result, our entire economic structure was completely dislocated.

However, prices of all commodities did not drop alike. According to data published by the United States Department of Agriculture, covering the period from 1929 to the spring of 1933, prices of various commodities dropped as follows: Agricultural commodities, 63 percent; agricultural implements, 6 percent; motor vehicles, 16 percent; iron and steel, 20 percent; automobile tires, 33 percent; textiles, 45 percent; food products, 49 percent. Fixed charges, such as debts, taxes, interest, utility rates, and other costs declined comparatively little. Basic commodities and raw materials suffered most. The prices of these commodities fell more rapidly and dropped much lower than the prices of finished materials.

The actions of President Roosevelt, in the spring, summer, and fall of 1933, in placing an embargo on gold exports, withdrawing gold from circulation, abandoning the gold standard, and devaluing the dollar by increasing the price of gold, stopped the deflation, started prices spurting upward, and gave a tremendous impetus to agricultural and industrial recovery.

His actions produced the greatest recovery of prices in any one comparable period in our history. Farm prices and prices of other basic commodities rose faster than the general commodity price level, thus tending to restore price equilibrium.

This process of readjustment of our general price structure has been deterred, however, by the de facto stabilization of our dollar during the past year. Until the dollar is devalued to a normal level in its relation to commodities, debts, and services we cannot expect the restoration of a normal balance in our commodity-price structure. Until we restore such a balance we cannot have a normal exchange of goods and services.

Now, I come to the question of whether devaluation of the dollar is an effective instrument in restoring a normal equilibrium to our price structure. The best evidence in support of this thesis is the record of what has happened to date as a result of such revaluation as we have had.



What would have happened if there had been no devaluation of our dollar? Supposing we had kept our dollar tied to gold at its pre-war value on the basis of \$20.67 per ounce. According to the Sauerback-Statist index of wholesale prices for the United States, as revised by Warren and Pearson in *Gold and Prices*, at page 182, the average index of wholesale prices in the United States in terms of gold in December 1934 was 62 percent of the 1913 price level, or 7 points lower than in February 1933, when the index was 69.

In other words, if there had been no devaluation, and our prices were still based on the pre-war value of gold, our price level now would be lower than it was in February 1933, when the Nation was confronted with ruin. Instead of this situation our price level, in terms of our revalued currency, was 104 percent of the 1913 level.

Without reflation, it is doubtful whether our country could have withstood the shock of completing the paralyzing deflationary processes which were brought to a halt in March 1933 through the action of President Roosevelt in first abandoning the gold standard and later in revaluing our dollar. Without reflation the Nation would have faced bankruptcy.

In 1929 our total wealth was estimated at 362 billion dollars, and our total public and private indebtedness at 203 billion dollars, or 56 percent of our total wealth. Then came the terrific decline in commodity prices which forced down the values of property and securities until by 1932 our national wealth had shrunk to 247 billion dollars while our debt has decreased to about 175 billion dollars, or 71 percent of our total assets.

Warren and Pearson state that—

at the actual market prices in the winter of 1933 the property of the country was probably worth little more than debts. Such a condition of universal bankruptcy was worse than anything which had ever occurred in the United States.

How could farmers pay their debts or even buy the bare necessities of life with wheat at 15 and 20 cents per bushel, corn at 10 cents per bushel, eggs at 10 cents a dozen, butter at 15 to 20 cents per pound, and cotton at 5½ cents per pound? The decline in commodity prices destroyed farm buying power. This, in turn, cut off the market for the goods of the city, throwing millions out of employment. Great numbers of farmers and business men were thrown into bankruptcy by declining prices and high fixed charges.

The deflation of commodity prices inevitably brought about deflation of property and security values, wiping out equities back of loans, throwing banks into insolvency, demoralizing values generally until our whole financial structure collapsed. Banking and finance were paralyzed. Only the courageous and decisive action in abandoning the gold standard and in revaluing the dollar saved our Nation from absolute ruin.

On March 6 the gold standard was suspended but our dollar was pegged at its pre-war gold value in foreign exchanges by means of gold exports. On April 19 the pegging operations were stopped and the value of the dollar immediately fell, seeking its natural level of value in foreign exchange.

This ended deflation. Commodity prices immediately responded with a tremendous surge upward. Security values also soared upward under a tremendous volume of trading on the exchanges. Con-



fidence once more had been restored to commodities and property. Orders for goods began to pour in; factories reopened, providing employment for millions of unemployed. At last the Nation was on the road toward recovery.

On May 12 the Agricultural Adjustment Act was approved by the President, including title III, the so-called "Thomas amendment", authorizing the President to devalue the dollar by changing the gold content up to 50 percent. On June 5 the President approved the act, canceling the gold clause in all public and private contracts.

During the late summer and fall of 1933 a reaction resulted from speculative activities and heavy buying of advanced requirements, which had forced prices upward farther than justifiable. Prices, particularly of basic commodities, slumped.

Up to this time there had been no actual devaluation of our dollar in the sense of reducing its gold content. The disastrous slump in prices in October warned of the necessity for further action in adjusting the dollar to a normal level of value. Accordingly, on October 22, President Roosevelt announced that, in furtherance of his previously declared policy of restoring commodity prices and establishing a stable unit of value, the United States was determined to "take firmly in its own hands the control of the gold value of our dollar."

To further this end he authorized the Reconstruction Finance Corporation to buy gold newly mined in the United States at prices to be determined from time to time and to buy and sell gold in the world market. Purchases of gold began on October 29. This action checked the decline in commodity prices.

On January 30, 1934, the President approved the Gold Reserve Act of 1934. On February 1 he issued an Executive order reducing the gold content of the dollar to  $15\frac{5}{21}$  grains of gold nine-tenths fine, which was equivalent to changing the price of gold to \$35 per ounce.

What was the result of these actions in revaluing our dollar? From February 1933 to February 1934 the price of gold in the United States advanced 69 percent above par and the wholesale prices of basic commodities, according to the Journal of Commerce Index, advanced 67 percent. What better evidence can I offer of the effectiveness of revaluation of the dollar in restoring commodity prices?

The restoration of commodity prices increased the buying power of farmers and other basic producers, stimulated factory production, and increased trade. Reference to a table which I will append to this statement, entitled "Percent of Change in Business Activity", shows the tremendous impetus given to business revival through dollar revaluation.

Net railroad operating incomes increased 193 percent. New orders for machine tools increased 473 percent. The operations of pig-iron furnaces increased 145 percent. Construction contracts increased 83 percent. Commercial failures decreased 56 percent. Faith and confidence returned to the people.

Our attempts to maintain our dollar at its pre-war value had imperiled our foreign trade. Our exports had slumped to extremely low levels. Most other nations had depreciated their currency, making it difficult for us to sell our goods in foreign markets and making it easier for other countries to sell their goods in our own markets, despite our high tariff barriers.



Revaluation of our dollar immediately stimulated our exports, and retarded the flood of foreign goods pouring into our own markets. During this 1-year period the value of our exports increased 60 percent. Our distinguished Secretary of State, the Honorable Cordell Hull, addressing our Nashville convention, called attention to this fact, saying:

Now we all recognize that the dollar, being cheaper internally, was of the greatest aid to our exports—especially our agricultural exports—for foreigners then could obtain, at a lower rate of exchange, dollars with which to buy our goods.

Contrary to the dire predictions of the deflationists, the revaluation of our dollar did not destroy public confidence. It restored it. It did not undermine the public credit. It bolstered it. It did not ruin the market for stocks and bonds. It restored the value of stocks and bonds.

The value of all stocks listed on the New York Stock Exchange rose from \$19,700,986,000 on March 1, 1933, to \$36,348,748,000 on July 1, 1933, and to \$36,657,647,000 on March 1, 1934, or an increase of 72 percent in the 1-year period.

The value of all bonds, not including Government securities, listed on the New York Stock Exchange rose from \$10,793,948,000 on March 1, 1933, to \$12,934,469,000 on July 1, 1933, and to \$13,792,675,000 on March 1, 1934, or an increase of 29 percent in the 1-year period.

The increase in the values of these securities has helped to make safer the investments in life insurance, the collateral back of loans, and, therefore, the actual solvency of our banks.

Now, that the program of revaluating our dollar has succeeded so well to date, there should be no hesitancy in finishing the task. It is imperative that this be done so that prices can be brought back into equilibrium. As Walter Lippman points out:

There is no other way that recovery will take place. Trade is an exchange of goods. If some products fall violently in price and others do not, the exchange cannot take place. To it [rebuilding the price structure] we owe what recovery we have achieved.

We recognize, of course, that revaluation of our dollar is not the sole cause of recovery. As Dr. Warren points out, there are five factors in determining the price level of commodities, the supply of and demand for gold, the supply of and demand for commodities, and changes in the prices of gold. Under the agricultural adjustment program, we are adjusting the supplies of commodities to market demands. The other factors influencing prices must be regulated through a monetary program.

To complete the task of national economic recovery, I earnestly recommend to this committee and to Congress the monetary program of the American Farm Bureau Federation, to which I have already specifically referred. That program calls for the regulation of the value of our money by establishing, first, a definite monetary policy, and, second, by creating the machinery with which to attain the objective desired.

The President now has the authority under the Gold Reserve Act to raise the price of gold from \$35 per ounce to \$41.34 per ounce. It would appear desirable to give the President further latitude in



changing the price of gold, to meet any emergency that might arise, inasmuch as he has already used this power within 18 percent of the maximum limit, and there is still a considerable way to go yet before complete recovery is reached. Then, too, there is always the possibility of further devaluation by foreign countries, which would place us at a serious economic disadvantage.

The most eminent financial authorities tell us that, wherever a nation abandons the gold standard and adopts a managed currency, it can establish any price level it sees fit. On October 3, 1934, the New York Times carried a press dispatch from London, quoting a statement made by Neville Chamberlain, Chancellor of the Exchequer, in an address to London bankers, in which he said that Great Britain's program "has delivered the goods."

He told the bankers that England will keep the pound sterling independent of other currencies, and demonstrated how this program has operated to improve economic conditions in Great Britain. He emphasized the fact that it was not desirable to attach too much importance to the maintenance of sterling at any particular level.

He declared, as quoted in this press dispatch:

We never attempted, and are not now attempting, by means of an equalization fund, to fix exchange at a given point or to maintain it even within fixed limit of values in the face of and in opposition to seasonal or other powerful influences.

President Roosevelt has declared as the objectives of the administration's monetary policy, first, the reestablishment of the commodity price level to a normal level; and, second, the establishment of a commodity dollar that will be constant in purchasing power.

In his message to the World Economic Conference, on July 2, 1933, President Roosevelt said:

Let me be frank in saying that the United States seeks the kind of a dollar which a generation hence will have the same purchasing and debt-paying power as the dollar value we hope to attain in the near future. That objective means more to the good of other nations than a fixed ration for a month or two in terms of the pound or franc.

In his radio address on October 22 he declared:

Finally, I repeat what I have said on many occasions, that ever since last March the definite policy of the Government has been to restore commodity price levels. The object has been the attainment of such a level as will enable agriculture and industry once more to give work to the unemployed. It has been to make possible the payment of public and private debts more nearly at the price level at which they were incurred. It has been gradually to restore a balance in the price structure so that farmers may exchange their products for the products of industry on a fairer exchange basis. It has been and is also the purpose to prevent the prices from rising beyond the point necessary to attain these ends. The permanent welfare and security of every class of our people ultimately depend on our attainment of these purposes.

The declarations of policy of the President are in full accord with the policies and recommendations of the American Farm Bureau Federation for an honest dollar.

I have referred to the resolution adopted at the last annual convention of the American Farm Bureau Federation, urging the need for a sound and honest dollar. This resolution has been incorporated in bills introduced by Congressman Goldsborough at various times before this committee. One of these bills, reported favorably by this committee, was passed by the House of Representatives by



an overwhelming vote, but killed by reactionary influences in the Senate. I can distinctly remember my standing before this committee, as far back as 1932, and pleading for this very same honest dollar.

In the last Goldsborough bill—H. R. 170—as well as in former ones, such as H. R. 8780, presented during the second session of the Seventy-third Congress, the policies of the American Farm Bureau Federation have been incorporated and to a large degree carried out in existing legislation. It is to the credit of this committee that it had the foresight and courage to fight for the Goldsborough bill.

As in the case of the Goldsborough bills, which for several years have been the basis of our legislative method for obtaining the commodity dollar, the so-called "Thomas amendment" to the Agricultural Adjustment Act, adopted May 12, 1933, during the extraordinary session of Congress in that year, has put into law most of the policies which the American Farm Bureau Federation up to that time, and the Goldsborough bills alike had advocated. For example, we have said for many years that there should be a revaluation of gold so that an ounce of gold would be altered in its value from time to time to keep it more in line with the index numbers of commodities. The Goldsborough bills introduced at various sessions of Congress have contained this provision. It has been accomplished through the Thomas amendment in a manner which permits the President to revalue gold.

To a certain extent President Roosevelt has revalued gold, but has not proceeded to the full extent as authorized in the Thomas amendment. This amendment also authorizes a larger circulation of well-secured Treasury bills and other obligations of the United States under safeguarded conditions as specified in the amendment. The American Farm Bureau Federation has advocated this policy also, and the Goldsborough bills, at different times, have contained provisions permitting the issuance of well-secured circulating media.

The Thomas amendment, as title III of the Agricultural Adjustment Act, further provides that the President can give greater recognition to silver than it has received since the demonetization era in the seventies of the last century. The Goldsborough bills have provided that gold bullion, silver bullion, or both should be kept in the Treasury vaults as the base upon which circulating media should be issued. This has been done.

In the Thomas amendment, the President was authorized, at his discretion, to set up and put into operation what is commonly known as the "commodity dollar." This has been the main objective of all of the Goldsborough bills for several years. The commodity dollar has been the central policy of the monetary reforms urged by the American Farm Bureau Federation for the last half decade. Although I rejoice in all the monetary reforms which have been put into effect I am not content, as the official spokesman for a great farm organization, with just a partial program. Our organization is asking that the entire program, as exemplified in our resolutions, policies, and recommendations, be put into effect.

The time is now ripe for Congress to exercise its constitutional mandate to put the desired monetary policy for this country into effect. Congress has placed discretionary powers in the hands of the President to control the value of the dollar. Legislation now



is before this body proposing to enlarge the control of the Federal Reserve Board over the volume and price of credit. But no objective has been set as the definite goal of the Government's monetary and credit policies.

Therefore, I appear again before this committee to support H. R. 170, introduced by Congressman Goldsborough, respectfully insisting that the one great, outstanding feature of monetary reform which, in my judgment, is more important and will be more effective in raising commodity prices than all other monetary reforms we have thus far received, be put into practical effect by incorporating the principle of the commodity dollar as a part of the banking act of 1935.

On behalf of the American Farm Bureau Federation, I recommend that Congress definitely declare its policy by the establishment of the commodity dollar, restored to a normal value, and stabilized at that value on a basis which will enable it to function as a fair medium of exchange. Surely Congress will not permit the reoccurrence of those extreme fluctuations in the value of our currency which have caused alternating periods of inflation and deflation. Surely, we have learned our lesson during this depression from which we are just emerging. We must be convinced now that steps must be taken to prevent these economic catastrophes from occurring in the future.

The way now is open. Never before have we had a more favorable opportunity for establishing a stable medium of exchange. Gold has been withdrawn from circulation and is now held as a reserve back of our currency. It is now possible to regulate the value of gold, and hence the commodity price level, by varying its price in terms of gold from time to time. Now that gold is withdrawn from circulation it becomes a simple matter to change the gold content of the dollar merely by changing the price of gold expressed in dollars. It is no longer necessary to coin gold dollars. Change in the gold content of the dollar therefore can be adjusted without the mechanical difficulty involved when gold coins were in circulation.

I want to call your specific attention to that portion of H. R. 170 which describes the commodity dollar. It is section 4, on page 7 of the bill as printed. In discussing the declaration of policy relative to the commodity dollar, so ably presented in this section, it occurs to me that we should amend it at least in three ways. Then, when it is put into effect, it will work with that precision which we expect of it, in relation to improving commodity prices, and holding such prices at more stable levels than they have been held at in former years.

The first amendment that I wish to suggest deals with the year which should be used in measuring future commodity prices. The year 1926, as stated in the present bill, is not a very good yardstick to use in measuring or determining what our future prices should be. I confess that 1926 was a fairly good year for agriculture. But I remember also that cotton and tobacco, not to name any more crops, were not very profitable that year. It seems to me it is much safer to include a period of several years for determining what our commodity prices should be rather than by comparison with one particular year as being the desirable year.



Consequently, would it not be desirable to strike out the year "1926" and insert in lieu thereof "1921 to 1929, inclusive"?

The second amendment which I desire to present to the committee relates to the use of an index which is commonly known as the "one prepared by the United States Bureau of Labor Statistics." I am not opposed to the use of that index for certain purposes. But it has too many commodities in it which are under monopolistic control and which influence this index unduly. The index is not fluid and elastic enough to keep in step with the price changes experienced by some of our basic products and raw materials.

Therefore, it seems to me to be advisable to give the regulatory authority which is to administer the proposed act, whether it be the Treasury Department, the Federal Reserve Board, or a separate monetary authority, permission to formulate a special basic commodity index. Therefore I suggest that somewhat of the following language be included in paragraph (b) of section 4:

An index of the purchasing power of the dollar shall be compiled by authority of the Federal Reserve Board, or the Secretary of the Treasury, to contain not less than 30 nor more than 50 major raw materials and basic products entering into commerce and industry.

It is well known that raw materials and the basic products, including more than agricultural materials and products, tend to fluctuate easier and with greater rapidity in price extremes than is true for some of the manufactured products now included in the seven or eight hundred commodities used by the Bureau of Labor Statistics in making up its commodity index.

Another reason which I submit for limiting the number of commodities is that too many of those now included in the list employed by the Bureau of Labor Statistics are monopolistically controlled. Such commodities do not properly reflect the true price situation of the raw materials that enter into these products, or of the basic products which they represent when offered for sale.

The amendment I have suggested would have the effect of making the commodity dollar mechanism very sensitive to price changes. If we should adopt a mechanism which would require revaluation of the dollar too often, as a method of keeping its purchasing power in line with the wholesale prices of the commodities used in the index, we might run into some danger of facing an impractical situation. I recommend, therefore, that the adjustment of the value of the dollar in relation to wholesale prices of commodities should be made virtually automatic to changes in the general commodity price level.

To make this plan automatic in its operations, may I suggest a third amendment, which might be known as "paragraph (d) of section 4", and which would read as follows:

When this index of commodity prices fluctuates 10 percent above or below the average index of all commodities for the period 1921 to 1929, inclusive, the authority shall adjust the purchasing power of the dollar by increasing or decreasing the number of grains of gold in the dollar, or by increasing or decreasing the price of gold: *Provided*, That after 2 years from the date this act becomes effective the authority shall adjust the purchasing power of the dollar when the index of commodity prices fluctuates 5 percent above or below such index.

The purpose of this amendment is to provide a tolerance for 2 years of 10 percent above what I call the index of wholesale prices, or below that index; in all, a tolerance of 20 percent. It may be



advisable to give the administrative agency of the proposed act some latitude in changing the value of the dollar. We do not want to revalue the dollar every time there is a variation of a trifling percent above or below the index.

To start with, 10 percent tolerance seems logical. After 2 years of operation, however, the tolerance should drop to 5 percent. Thereafter, if the prices on the commodities used should vary less than 5 percent from the commodity index, nothing would be done about it by the administrative agency. The administrative agency would adjust the purchasing power of the dollar only when there was a variation of 5 percent above or 5 percent below the index.

These amendments do not in the least change the basic principles of our declared policy for this monetary reform. They are merely designed to make it easier to administer the policy we advocate.

I believe the plan we are advocating is the soundest and most effective way to achieve the goal we have sponsored for a long time. It is the plan we have tried out so successfully during the past 2 years. It has proved its worth in our most severe financial and economic crisis. Any plan which can check the worst deflation in our history and bring about the greatest price restoration in the history of this country is not only worth continuing but should be perfected as a permanent monetary policy.

Adoption of this plan, which is most fundamentally sound, will go far in heading off movements for inflation by the printing-press methods. It is not necessary to discuss the disastrous results which always follow in the wake of inflation by the printing-press route. Yet, in view of the fact that many of our citizens are beset with financial difficulties, and are exorted constantly by demagogues promising easy money by the simple process of printing it, the movement for this unsound inflation may reach alarming proportions unless sound action is taken immediately to correct present maladjustments.

In conclusion, let me appeal to this committee and to this Congress and to the President to take speedy action in the completion of the declared monetary policy of this administration as voiced by President Roosevelt. I want to urge haste in restoring a normal balance to our price structure.

Our public debts have grown rapidly. Today 20 million people are on governmental relief. Ten million citizens are still unemployed. Our price structure is out of balance. It is impossible to resume the normal exchange of goods and services. To many of our distressed citizens, ready for desperate remedies, no matter how badly conceived they are, or how certainly they are doomed to failure, unsound and pernicious plans are being offered almost daily. The situation is a critical one and requires speedy action with which to meet it.

If this action is taken along the lines we recommend, farmers can once more buy the goods of industry. Producers of basic commodities, with profits in sight and orders contemplated, can resume normal operations. The unemployed can once more have the opportunity of going to work. Government unemployment subsidies can be eliminated. Increased income and increased property and security values will yield greater tax revenues, making it possible to



balance the governmental budgets, and perhaps even begin paying off our accumulated debts.

The best way to prevent our country from being forced into extreme measures, either by the pressure of unbalanced budgets and unemployment, or by the popular clamor that may be aroused in support of ill-advised schemes, which will ultimately destroy our chances of immediate recovery, and possibly bring us to ruin, is to speed up the monetary program which President Roosevelt announced in 1933, and which has proved to be so potent in stimulating recovery to the degree in which it has been employed to date.

I thank you, Mr. Chairman, and gentlemen, for your patience in listening to me.

I submit the following tables as a part of my statement:

*Percent change in business activity February 1933 to February 1934<sup>1</sup>*

[From Gold and Prices, Warren and Pearson]

	February 1933	February 1934	Percent change
Machine tools, new orders, index.....	15	86	473
Net railroad operating income.....	\$9,802,000	\$28,700,000	193
Price second-grade rail bonds, percentage of par.....	25.7	71.22	183
Corporation profits <sup>2</sup> .....	\$124,000,000	\$315,000,000	154
Pig-iron furnaces in blast, capacity, long tons per day.....	18,910	46,260	145
Pig-iron production, long tons.....	554,000	1,264,000	128
Pneumatic-tire production, numbers.....	1,871,000	4,205,000	125
Automobile production, total number.....	107,000	235,000	120
Factory employment, Detroit, index.....	49.2	99.1	101
Crude-rubber consumption, total long tons.....	18,825	36,548	94
Contracts awarded, all types of construction.....	\$53,000,000	\$97,000,000	83
Pay rolls, factory, Pittsburgh index.....	26.4	46.5	76
Wool looms, carpets and rugs, percent capacity.....	23	40	74
United States stocks, total market value <sup>3</sup> .....	\$22,694,000,000	\$36,606,000,000	61
Value of exports, including reexports.....	\$101,530,000	\$162,805,000	60
Forest products, carloadings.....	13,800	21,800	58
Coke production, beehive and by-product, short tons.....	1,723,000	2,611,000	52
Paint sales, total (558 estab.).....	\$11,666,000	\$17,715,000	52
Value of imports, total.....	\$83,803,000	\$125,292,000	50
Factory pay-roll index <sup>4</sup> .....	40	59.2	48
Contracts awarded, all types of construction, number.....	3,884	5,507	42
J. C. Penny Stores, sales.....	\$8,455,000	\$11,745,000	39
Mail-order and store sales.....	\$26,194,000	\$36,016,000	37
Factory employment, iron and steel industry, index <sup>5</sup> .....	48.9	66.4	36
Factory employment, nonferrous metals, index <sup>5</sup> .....	52.6	70.1	33
Newsprint consumed, short tons.....	116,307	153,958	32
Factory employment, lumber and by-products, index <sup>6</sup> .....	36.9	48.4	31
Shipments of cement, barrels.....	2,278,000	2,952,000	30
Factory employment, adjusted index <sup>4</sup> .....	61.7	78.4	27
Pittsburgh, index.....	57.6	73.4	27
Unadjusted, index.....	59.2	74.7	26
Bathroom accessories, production, number of pieces.....	121,070	147,407	22
Pullman passengers carried.....	952,000	1,132,000	19
Freight carloadings, total cars.....	492,600	577,200	17
Price high-grade rail bonds, percentage of par.....	81.92	95.19	16
Net demand deposits.....	\$9,996,000,000	\$11,398,000,000	14
Value, all listed American bonds except governments <sup>3</sup> .....	\$11,791,000,000	\$13,448,000,000	14
Electric-power production, kilowatt-hours <sup>6</sup> .....	6,297,000,000	7,049,000,000	12
Newspaper advertising, 52 cities, lines.....	72,539,000	80,788,000	12
Insurance written, total value.....	\$609,725,000	\$648,073,000	6
Freight car surplus, total.....	650,000	375,000	-42
Commercial failures, number.....	2,378	1,049	-56
Liabilities, total.....	\$65,576,000	\$19,445,000	-70

<sup>1</sup> Date taken from Survey of Current Business, April 1934, vol. 14, no. 4, and other issues.

<sup>2</sup> The March quarterly figures are used. The datum for March 1934 was obtained from a letter from Alfred Inge. It is a preliminary figure.

<sup>3</sup> Data from New York Stock Exchange Bulletin, vol. IV, no. 2, pp. 3, 8, February 1934. The figure for the all American bonds except Governments is obtained by subtracting the total market value of United States Federal and Sub-Government bonds from the total market value of all American listed bonds.

<sup>4</sup> Federal Reserve Board unadjusted index.

<sup>5</sup> Data from Federal Reserve Bulletin, vol. 20, no. 6, pp. 326 ff., June 1934.

<sup>6</sup> Revised series, Survey of Current Business, p. 38, May 1934.



*Index numbers of the price of gold in various countries, February 1933-  
November 1934*

[Par=100]

Country	February 1933	November 1934
Czechoslovakia.....	100	120
Austria.....	100	127
India.....	141	165
England.....	142	165
South Africa.....	144	167
Canada.....	120	165
Sweden.....	147	176
Finland.....	169	193
Denmark.....	176	203
New Zealand.....	178	207
Australia.....	179	208
Argentina.....	165	216
Japan.....	240	290
United States.....	100	169

*Changes in average prices of identical basic commodities in various countries  
in currency and in gold from February 1933 to February 1934*

[From Gold and Prices, Warren and Pearson]

Country	Number of identical commodities	Percentage change in currency prices	Percentage change in the price of gold	Percentage change in prices in terms of gold
France.....	21	+5.5	0	+5.5
United States.....		+64.2	+69	+2.8
Italy.....	20	+1.9	0	+1.9
United States.....		+69.6	+69	+ .4
Belgium.....	9	+3.3	0	+3.3
United States.....		+69.6	+69	+ .4
Holland.....	16	+16.7	0	+16.7
United States.....		+78.5	+69	+5.6
Switzerland.....	22	+7.9	0	+7.9
United States.....		+80.4	+69	+6.7
England.....	22	+13.5	+13	+ .4
United States.....		+73.4	+69	+2.6
India.....	13	+1.6	+14	-10.9
United States.....		+64.2	+69	-2.8
Canada.....	17	+40.4	+40	+ .3
United States.....		+78.3	+69	+5.5
Czechoslovakia.....	23	+5.8	+11	-4.7
United States.....		+69.1	+69	+ .06
Japan.....	10	+20.7	+16	+4.1
United States.....		+63.9	+69	-3.0
Austria.....	22	+15.6	+25	-7.5
United States.....		+81.8	+69	+7.6
Germany.....	23	+13.8		
United States.....		+73.8	+69	+2.8

Mr. O'NEAL. Mr. Chairman, may I also be allowed to put into the record a statement of policy of the National Agricultural Conference, a group which is composed of the National Grange, the American Farm Bureau Federation, the National Cooperative Council, Farmers National Grain Corporation, a cooperative and a representative of American Association of Agricultural Editors.

I would like, if I may, to have permission to put that in the record.

The CHAIRMAN. Without objection, it is so ordered.

(The statement above referred to is as follows:)



## STATEMENT OF THE NATIONAL AGRICULTURAL CONFERENCE

To the President of the United States, Congress of the United States, Secretary of Agriculture, Secretary of Interior, Governor of Farm Credit Administration, and Administrator of the Agricultural Adjustment Administration:

Restoration of farm buying power by the regulation of the value of money, and by the Agricultural Adjustment Administration, Farm Credit Administration, and other agencies has been the most potent of all recovery measures.

Agriculture can be of more powerful assistance to national recovery as rapidly as restoration of its prices to parity brings about a normal balance of income between city and country.

We urge intensification of present efforts to increase farm income. Every item of national policy should be carefully weighed as to its effect on agriculture. Such policies as price fixing in industry and unduly high wages on public works tend to retard recovery. We commend steps that have been taken to correct these policies.

Artificial and excessive limitation of production by industry and labor, with the help or permission of government, coupled with shrinkage in foreign markets, has forced agriculture to curtail its production in order to exist.

The policy must continue until other factors have demonstrated their ability to raise and sustain farm prices. We urge that all possible efforts be made to develop foreign trade, develop industrial uses of farm products, raise quality of standards, reduce distribution costs, all to the end that farm income may be increased without further curtailment of production.

We favor the continuance of farm-production control for the time being, and urge simplification of present plans and especially the correction of inequities in allotments.

Further increase in farm prices until they reach parity, and reduction in industrial prices which higher production will make possible, are the most important measures of recovery and reemployment, and should be pushed forward with the whole power of the administration.

To aid in carrying out the above declaration of policy, we favor the following objectives:

With regard to the Agricultural Adjustment Act and its administration, we recommend:

1. Authority to make benefit payments in kind.
2. Remove the present requirements to make benefit payments when processing taxes are imposed.
3. Strengthen the marketing agreement and licensing sections of the act by clarifying the provisions with respect to interstate commerce, and by authorizing the Secretary to prescribe licenses for the enforcement of marketing agreements adopted only by producers.
4. Modify the definition of "parity" to take account of taxes, interest, and labor costs.
5. Authorize the use of cooperatives in the handling and disposal of surpluses to the extent of which they are capable.

L. J. TABER,

*Master of the National Grange.*

EDW. A. O'NEAL,

*President, American Farm Bureau Federation.*

M. W. THATCHER,

*Washington representative Farmers' National Grain Corporation.*

JOHN O. MILLER,

*President, National Cooperative Council.*

CLIFFORD GREGORY,

*Representative, American Association of Agricultural Editors.*

Mr. GOLDSBOROUGH. Have you any information as to the attitude of the Farmers' Union as to the suggestions you have made this morning?

Mr. O'NEAL. Congressman Goldsborough, the Farmers' Union was invited to sit as a member of the farm-conference group, but refused on the premise that they could not go along with us unless we were against something, unless we were against the Agricultural Adjust-



ment Act and agreed to come out against it they would not cooperate with us.

We have asked them on several occasions if they would come into the farm-conference group, because they represent many farmers in the country. Through what is known as the "Farmers' National Grain Cooperative" there are 7 or 8 or more farmers' union States of the far West which cooperate with the grain group. In other words, they have several farmers' union leaders in our members, not as a national farm union group, but as part of one of the national cooperatives.

Mr. GOLDSBOROUGH. I heard your statement up until the time you said what you were going to recommend, when I had to temporarily leave the room. Did you intend to suggest to the committee how you think, or how your organization thinks your suggestions, if adopted by the committee, should be incorporated in the bill? Will your suggestions replace any title of the bill, or will they consist of additional titles?

Mr. O'NEAL. Congressman Goldsborough, of course, that is at your option or the option of the committee. We suggested it as an amendment of section 2, or at any place where you think it should go. We definitely want it as a part of the bill, but anywhere you think it should go. We offer it as a suggestion which we think will make the bill really worth while.

You not only want to set up this machinery, but you want to be able to handle the machinery so it will be effective. Without any criticism of the bill at all, we think, in order to make it complete, it should contain this amendment.

Mr. FORD. You set up the income of the farmers in 1918 as \$18,000,000,000; is that correct?

Mr. O'NEAL. 1919, \$16,900,000,000.

Mr. FORD. And you set up the farmers' income in 1929 as \$11,000,000,000?

Mr. O'NEAL. Yes, sir.

Mr. FORD. And in 1934 as \$7,000,000,000?

Mr. O'NEAL. Yes, sir.

Mr. FORD. Do you not think the income of the farmers in 1918 was largely influenced by the fact that there was a tremendous foreign demand for cotton, corn, wheat, and tobacco?

Mr. O'NEAL. Yes, sir; that was a great factor.

Mr. FORD. And the lack of income in 1934 is measurably due to the fact that there is no longer any foreign demand for those products; and also, did not the refusal or inability of foreign governments to pay their debts have some effect on the situation?

Mr. O'NEAL. You know it is mighty hard to ask the farmer why he did not pay his debts.

Mr. FORD. I did not mean the farmers.

Mr. O'NEAL. I think it was because of the great lack of buying power in those nations, and because we have become a creditor Nation. Those people are hungry over there, and if they had the money to buy they would buy.

If we had a tariff system that would allow us to trade and a monetary policy that would help us in trading, as I said in my statement, I think there would be a different situation.



But I have shown that we have had quite an increase in foreign trade under the present monetary policy. But if you go into any little corner store down town you will see goods marked "Made in Japan" on the counters. If you go to some of our eastern cities you will find agricultural commodities that have come in from Europe.

Mr. HANCOCK. Do you think that the Banking Act of 1935 should contain a declaration of policy?

Mr. O'NEAL. Yes, Congressman; I think it should define our monetary system as well as furnish the machinery for handling sound money.

Mr. CLARK. Have you seen the proposed amendment that Governor Eccles presented as a suggestion to this committee?

Mr. O'NEAL. I do not know that I have. There have been so many suggestions, and the testimony is so voluminous, that I do not know whether I have seen that or not.

Mr. GOLDSBOROUGH. The suggestion was as to a declaration of policy.

Mr. O'NEAL. I have not seen it. I would be very happy if he would adopt ours, which has been so effective.

Mr. CLARK. Of course, he does not believe, if I understood his testimony correctly, that through monetary control alone you could bring about a stable price level. As I recall, his amendment declares it to be the legislative policy to bring about a stable price level, full employment, and stable business conditions, insofar as it can be done through monetary action. I was wondering what your position would be as to that.

Mr. O'NEAL. That is fine. I hope the distinguished Governor, whom I have not had the pleasure of meeting, could recommend ours. That was the purpose of the Goldsborough philosophy, as proved by this administration, and it has certainly shown what it will do. There is no question about that.

It seems to me that the distinguished Governor of the Federal Reserve Board cannot afford to miss overlooking what other great nations are doing today. In other words, we are not so awfully smart after all. The other fellows got to this before we did and they have had some remarkable results. It seems to me that should furnish a precedent for the Governor of the Federal Reserve Board.

Mr. CLARK. He has no objection to a declaration of policy, only he does not believe that you can put a specific declaration in the bill, that you must leave some latitude, rather than try to fix any one year as the desirable year to aim at as far as the price level is concerned. I believe that is your suggestion, too.

Mr. O'NEAL. Our suggestion is the period from 1921 to 1929.

Mr. CROSS. I want to get your reaction to this thought. I am of the opinion that the Federal Reserve Board, while I have great faith in the present Governor, that Board, according to my view of the situation, are naturally inclined, judging by the previous testimony of members of the Board, to have the idea that they are to look after the banking of the country. The banking of the country is a private moneymaking institution, after all is said and done. They do not feel, it seems to me, that they have a direct responsibility for stabilizing the value of money, or regulating the value of money, and furnishing the country with an adequate medium of



exchange. So I think it would be far better if there were an independent agency representing Congress, furnishing the country with an adequate medium of exchange, whose prime purpose is that not of the business of banking, or dealing with so much with banking. What do you think of that?

Mr. O'NEAL. Sometimes I frankly feel that the Federal Reserve Board, from my observation as the head of a farm organization and a private citizen, has not loved agriculture very much, and has not served banking very well. That would be my answer.

In other words, I was thinking, whatever the wisdom of your committee might decide, of the sort of authority you have, that you should follow the Constitution, and really coin money and regulate the value thereof, and keep it in the hands of an agency that serves the people of the United States, and no particular group.

Of course, the bankers have their rights as public servants, but at the same time, no Congress or President should take away the constitutional authority given you gentlemen here to regulate money.

I think I will have to ask you to excuse me now, Mr. Chairman, as I have to go to the White House. If I may be excused, I would like to leave, and let you hear some of the other witnesses. I will be glad to come back this afternoon, if you like. But we have a couple of other farm witnesses here, including Mr. Sexauer, of the Dairymen's League of New York, who will speak for the Cooperative Council, and Mr. Ed Foster, of New York, who will speak for the American Farm Bureau Federation, as the secretary of the New York State federation. So may I ask you to excuse me at this time, as I am due at the White House at 12:15 o'clock.

The CHAIRMAN. We will excuse you now. We thank you for your assistance to the committee.

#### STATEMENT OF FRED H. SEXAUER, PRESIDENT DAIRYMEN'S LEAGUE COOPERATIVE ASSOCIATION, NEW YORK CITY

The CHAIRMAN. We have Mr. Sexauer of the National Cooperative Council, whom we shall be glad to hear.

Mr. SEXAUER. My name is Fred H. Sexauer. I am president of the Dairymen's League Cooperative Association, representing the National Cooperative Council. In presenting a brief statement which I have here I will be very glad to have anyone ask any questions about it as it is read or afterwards if they so desire.

The CHAIRMAN. You may proceed.

Mr. SEXAUER. The National Cooperative Council, which is the organization which I represent here today, is composed of the large national commodity organizations handling such commodities as cotton, milk and its products, citrus and deciduous fruits, field seeds, rice, livestock, nuts, poultry, tobacco, vegetables, melons, wool, and associations of organizations purchasing farm supplies. In addition it has as associated members several State agricultural councils and State associations of cooperative organizations. These national associations are in turn made up of several hundred territorial cooperative associations. Thus, in total representation, the National Cooperative Council represents a large percentage of the total cooperative business in the United States.

(A list of the member organizations is as follows:)



## MEMBERS OF NATIONAL COOPERATIVE COUNCIL

## CITRUS FRUIT DIVISION

California Fruit Growers Exchange, Box 530, Station C, Los Angeles, Calif. (including 230 cooperatives): Mutual Orange Distributors, Redlands, Calif. (including 30 cooperatives).

## COTTON DIVISION

American Cotton Cooperative Association, 535 Gravier Street, New Orleans, La.  
 Alabama Farm Bureau Cotton Association, Montgomery, Ala.  
 Brazos Valley Cotton Cooperative Association, Bryan, Tex.  
 California Cotton Cooperative Association, Box 416, Bakersfield, Calif.  
 Georgia Cotton Growers Cooperative Association, 746 Glenn Street SW., Atlanta, Ga.  
 Louisiana Farm Bureau Cotton Association, 535 Gravier Street, New Orleans, La.  
 Mid-South Cotton Growers Association, Box 44, Memphis, Tenn.  
 Mississippi Cotton Cooperative Association, Jackson, Miss.  
 North Carolina Cotton Growers Association, Raleigh, N. C.  
 Oklahoma Cotton Growers Association, Oklahoma City, Okla.  
 South Carolina Cotton Growers Cooperative Association, Columbia, S. C.  
 South Texas Cotton Cooperative Association, Corpus Christi, Tex.  
 Southwestern Irrigated Cotton Growers Association, El Paso, Tex.  
 Texas Cotton Cooperative Association, 1100 South Ervay Street, Dallas, Tex.  
 West Texas Cotton Growers Association, Abilene, Tex.

## DAIRY DIVISION

National Cooperative Milk Producers Federation, 1731 Eye Street NW., Washington, D. C. (consisting of the following member organizations, together with approximately 900 affiliated local cooperatives):  
 Berrien County Milk Producers' Association, Benton Harbor, Mich.  
 California Milk Producers' Association, 947 Maple Avenue, Los Angeles, Calif.  
 Cedar Rapids Cooperative Dairy Co., 560 Tenth Street SW., Cedar Rapids, Iowa.  
 Challenge Cream & Butter Association, 925 East Second Street, Los Angeles, Calif.  
 Champaign County Milk Producers, 24 Taylor Street, Champaign, Ill.  
 Colorado Dairymen's Cooperative, Inc., 642 Lawrence Street, Denver, Colo.  
 Connecticut Milk Producers Association, 450 Asylum Street, Hartford, Conn.  
 Consolidated Milk Producers for San Francisco, 740 Pacific Building, San Francisco, Calif.  
 Cooperative Pure Milk Association, Plum and Central Parkway, Cincinnati, Ohio.  
 Coos Bay Mutual Creamery Co., Marshfield, Oreg.  
 Dairy and Poultry Cooperatives, Inc., 110 North Franklin Street, Chicago, Ill.  
 Dairymen's Cooperative Sales Association, 451 Century Building, Pittsburgh, Pa.  
 Dairymen's League Cooperative Association, Inc., 11 West Forty-second Street, New York, N. Y.  
 Des Moines Cooperative Dairy Marketing Association, 1935 Des Moines Street, Des Moines, Iowa.  
 Dubuque Cooperative Dairy Marketing Association, Inc., 1020 Central Avenue, Dubuque, Iowa.  
 Evansville Milk Producers' Association, Inc., 214 Boehne Building, Evansville, Ind.  
 Falls Cities Cooperative Milk Producers' Association, 229 Bourbon Stock Yards Building, Louisville, Ky.  
 Georgia Milk Producers' Confederation, 156 Alabama Street SW., Atlanta, Ga.  
 Illinois-Iowa Milk Producers' Association, room 24, Schmidt Building, Davenport, Iowa.



## National Cooperative Milk Producers Federation, etc.—Continued.

- Indiana Dairy Marketing Association, Muncie, Ind.  
 Inland Empire Dairy Association, 1803 West Third Avenue, Spokane, Wash.  
 Interstate Associated Creameries, 1319 Southeast Twelfth Avenue, Portland, Oreg.  
 Inter-State Milk Producers' Association, Inc., 219 North Broad Street, Philadelphia, Pa.  
 Land O'Lakes Creameries, Inc., 2201 Kennedy Street NE., Minneapolis, Minn.  
 McLean County Milk Producers' Association, 411-413 North Center Street, Bloomington, Ill.  
 Maryland and Virginia Milk Producers' Association, 1731 Eye Street NW., Washington, D. C.  
 Maryland State Dairymen's Association, 810 Fidelity Building, Baltimore, Md.  
 Miami Valley Cooperative Milk Producers' Association, 136-138 West Maple Street, Dayton, Ohio.  
 Michigan Milk Producers' Association, 406 Stephenson Building, Detroit, Mich.  
 Mid-West Producers' Creameries, Inc., 907 Lemcke Building, Indianapolis, Ind.  
 Milk Producers' Association of San Diego County, 354 Eleventh Avenue, San Diego, Calif.  
 Milk Producers' Association of Summit County and Vicinity, 145 Beaver Street, Akron, Ohio.  
 Milwaukee Cooperative Milk Producers, 1633 West Thirteenth Street, Milwaukee, Wis.  
 National Cheese Producers' Federation, Plymouth, Wis.  
 Nebraska-Iowa Non-Stock Cooperative Milk Association, 2410 Dodge Street, Omaha, Nebr.  
 New England Milk Producers' Association, 51 Cornhill, Boston, Mass.  
 Northwestern (Ohio) Cooperative Sales Co., 2221½ Detroit Avenue, Toledo, Ohio.  
 O. K. Cooperative Milk Association, Oklahoma City, Okla.  
 Peoria Milk Producers, Inc., 208-210 East State Street, Peoria, Ill.  
 Pure Milk Association, 608 South Dearborn Street, Chicago, Ill.  
 Pure Milk Producers' Association, 853 Live Stock Exchange Building, Kansas City, Mo.  
 Pure Milk Products Cooperative, 110 East Main Street, Madison, Wis.  
 Richmond Cooperative Milk Producers' Association, 605 East Canal Street, Richmond, Va.  
 St. Joseph, Mo., Milk Producers' Association, 403 Ballinger Building, St. Joseph, Mo.  
 Sanitary Milk Producers, Room 609, Chamber of Commerce Building, 511 Locust Street, St. Louis, Mo.  
 Scioto Valley Cooperative Milk Producers' Association, 303 Grand Theater Building, Columbus, Ohio.  
 Shelby County Milk Producers' Association, 1039 South Bellevue, Memphis, Tenn.  
 South Texas Producers Association, 912 Bankers Mortgage Building, Houston, Tex.  
 Stark County Milk Producers' Association, Canton, Ohio.  
 Tillamook County Creamery Association, Tillamook, Oreg.  
 Tulsa Milk Producers' Cooperative Association, 1120 North Boston Street, Tulsa, Okla.  
 Twin City Milk Producers' Association, 2402 University Avenue, St. Paul, Minn.  
 Twin Ports Cooperative Dairy Association, 6128 Tower Avenue, Superior, Wis.  
 United Dairymen's Association, 635 Elliott Avenue, West Seattle, Wash.  
 Valley of Virginia Cooperative Milk Producers' Association, Harrisonburg, Va.



## DECIDUOUS FRUITS DIVISION

- American Cranberry Exchange, 90 West Broadway, New York, N. Y.  
 Growers Cranberry Co., 730 Drexel Building, Philadelphia, Pa.  
 New England Cranberry Sales Co., 9 Station Street, Middleboro, Mass.  
 Wisconsin Cranberry Sales Co., Wisconsin Rapids, Wis.  
 California Fruit Exchange, box 2038, Sacramento, Calif. (including approximately 300 local deciduous fruit cooperatives).

## DRIED AND CANNED PRODUCTS DIVISION

- California Prune and Apricot Growers Association, San Jose, Calif. (including 30 local cooperatives).  
 Hillsboro-Queen Anne Cooperative Corporation, 31 South Salvert Street, Baltimore, Md. (including 10 local units).  
 Sun-Maid Raisin Growers of California, Fresno, Calif.

## FIELD SEEDS DIVISION

- Egyptian Seed Growers Exchange, Flora, Ill.

## GRAIN DIVISION

- American Rice Growers Association, Lake Charles, La.

## LIVESTOCK DIVISION

- National Livestock Marketing Association, 160 North La Salle Street, Chicago, Ill. (consisting of the following livestock marketing associations serving nearly 1,000 livestock shipping associations):  
 Chicago Producers Commission Association, Union Stockyards, Chicago, Ill.  
 Eastern Live Stock Cooperative Marketing Association, Inc., Baltimore, Md.  
 Evansville Producers Commission Association, Evansville, Ind.  
 Farmers Union Live Stock Commission Co., South St. Paul, Minn.  
 Illinois Live Stock Marketing Association, 608 South Dearborn Street, Chicago, Ill.  
 Intermountain Live Stock Marketing Association, Denver, Colo.  
 Iowa Live Stock Marketing Corporation, Des Moines, Iowa.  
 Michigan Live Stock Exchange, Detroit, Mich.  
 National Order Buying Co., 85 East Gay Street, Columbus, Ohio.  
 Oklahoma Live Stock Marketing Association, Oklahoma City, Okla.  
 Pacific States Live Stock Marketing Association, San Francisco, Calif.  
 Peoria Producers Commission Association, Peoria, Ill.  
 Producers Commission Association, Live Stock Exchange Building, Indianapolis, Ind.  
 Producers Commission Association, Sioux City, Iowa.  
 Producers Commission Association, 100 Live Stock Exchange Building, Kansas City, Mo.  
 Producers Cooperative Commission Association, Live Stock Exchange Building, Cleveland, Ohio.  
 Producers Cooperative Commission Association, 1139 William Street, East Buffalo, N. Y.  
 Producers Cooperative Commission Association, Live Stock Exchange Building, Cincinnati, Ohio.  
 Producers Cooperative Commission Association, Union Stock Yards, Pittsburgh, Pa.  
 Producers Live Stock Commission Association, National Stock Yards, Ill.  
 Producers Live Stock Commission Co., Springfield, Ill.  
 Producers Live Stock Marketing Association, South St. Joseph, Mo.  
 Producers Live Stock Marketing Association, Louisville, Ky.  
 Texas Live Stock Marketing Association, Fort Worth, Tex.



## NUT DIVISION

California Walnut Growers' Association, 1745 East Seventh Street, Los Angeles, Calif.  
 National Pecan Growers Exchange, Albany, Ga.  
 National Pecan Marketing Association, Macon, Ga. (including 25 regional pecan cooperatives).

## POULTRY DIVISION

Idaho Egg Producers, Caldwell, Idaho.  
 Northwestern Turkey Growers Association, Salt Lake City, Utah:  
 Colorado Poultry Association, Grand Junction, Colo.  
 Cloud Peak Cooperative Association, Sheridan, Wyo.  
 Idaho Egg Producers, Caldwell, Idaho.  
 Nevada Turkey Growers Association, Fallon, Nev.  
 Northern Montana Poultry Growers Association, Havre, Mont.  
 Oregon Turkey Cooperatives, Inc., 1319 Southeast Twelfth Avenue, Portland, Oreg.  
 San Juan Turkey Growers Association, Allison, Colo.  
 Southern Montana Turkey Growers Association, Bozeman, Mont.  
 Utah Poultry Producers Cooperative Association, Salt Lake City, Utah.  
 Washington Cooperative Egg and Poultry Association, 201 Elliott Avenue, West, Seattle, Wash.  
 Pacific Egg Producers Cooperative, Inc., 178 Duane Street, New York, N. Y.:  
 Pacific Cooperative Poultry Producers, 360 East Ash Street, Portland, Oreg.  
 Poultrymen's Cooperative Association of Southern California, 1513 Mirasol Street, Los Angeles, Calif.  
 Poultry Producers of Central California, 840 Battery Street, San Francisco, Calif.  
 San Diego Cooperative Poultry Association, 50 Twenty-second Street, San Diego, Calif.  
 Washington Cooperative Egg and Poultry Association, 201 Elliott Avenue, West, Seattle, Wash.  
 Utah Poultry Producers Cooperative Association, Salt Lake City, Utah.

## PURCHASING DIVISION

Cooperative G. L. F. Exchange, Ithaca, N. Y. (including more than 100 local units).  
 Eastern States Farmers Exchange, Springfield, Mass. (serving a number of local units).  
 Farm Bureau Services, Inc., 221 North Cedar Street, Lansing, Mich (serving nearly 100 local units).  
 Fruit Growers Supply Co., 607 South Hill Street, Los Angeles, Calif. (serving 230 local cooperatives).  
 Indiana Farm Bureau Cooperative Association, Farm Bureau Building, Indianapolis, Ind. (serving nearly 100 county cooperatives).  
 Ohio Farm Bureau Service Co., 620 East Broad Street, Columbus, Ohio (serving 50 local units).  
 Producers Cooperative Exchange, Glenn Building, Atlanta, Ga.  
 Southern States Cooperative, Inc., Richmond, Va. (serving a number of local units).  
 Union Oil Co. (cooperative), North Kansas City, Mo. (serving several hundred farmers' oil cooperatives).  
 West Virginia Farm Bureau Service Co., 756 Empire Bank Building, Clarksburg, W. Va. (serving a number of local cooperatives).

## TOBACCO DIVISION

Eastern Dark Fired Tobacco Growers Association, Springfield, Tenn.  
 Maryland Tobacco Growers Association, Conway and Charles Streets, Baltimore, Md.  
 Northern Wisconsin Cooperative Tobacco Pool, Madison, Wis.  
 Virginia Dark Fired Tobacco Growers Marketing Association, Farmville, Va.  
 Western Dark Fired Tobacco Growers Association, Murray, Ky.



## VEGETABLES AND MELONS DIVISION

Eastern Shore of Virginia Produce Exchange, Onley, Va.  
 National Fruit and Vegetable Exchange, Hudson Terminal Building, New York,  
 N. Y.:

Austin Fruit Association, Austin, Colo.  
 The Blanca Vegetable Growers, Inc., Blanca, Colo.  
 Cassia Potato Growers Association, Burley, Idaho.  
 Central Strawberry Cooperative Association, Hammond, La.  
 Conejos County Vegetable Growers Cooperative Association, La Jara, Colo.  
 Currituck Mutual Exchange, Inc., Currituck, N. C.  
 Fruitland Fruit Association, Fruitland, Idaho.  
 Gem Fruit Union, Inc., Emmett, Idaho.  
 Growers Trading & Supply Co., Hotchkiss, Colo.  
 Idaho Agricultural Industries, Caldwell, Idaho.  
 Illinois Fruit Growers Exchange, Centralia, Ill.  
 Kaw Valley Potato Growers Association, Topeka, Kans.  
 Lafourche Truck Growers Cooperative Association, Lockport, La.  
 Maine Potato Growers, Inc., Fort Fairfield, Maine.  
 Manatee County Growers Association, Bradenton, Fla.  
 Michigan Potato Growers Exchange, Cadillac, Mich.  
 Minidoka Potato Growers Association, Rupert, Idaho.  
 Mississippi Vegetable Exchange, Inc., Crystal Springs, Miss.  
 The Mountain Fruit Co., Cedaredge, Colo.  
 Mushroom Growers Cooperative Association of Pennsylvania, Kennett  
 Square, Pa.  
 The Paonia Fruit & Supply Co., Paonia, Colo.  
 Rio Grande Valley Citrus Exchange, Inc., Weslaco, Tex.  
 St. James Truck Growers Cooperative Association, Convent, La.  
 South Texas Vegetable Association, Corpus Christi, Tex.  
 Standard Growers Exchange, Sanford, Fla.  
 Surface Creek Fruit Growers, Inc., Austin, Colo.  
 Terrebonne Cooperative Association, Houma, La.  
 Union Fruit Co., Paonia, Colo.  
 Utah Fruit & Vegetable Growers, Inc., Salt Lake City, Utah.  
 Valley Vegetable Cooperative Association, Weslaco, Tex.  
 Wenatchee-Okanogan Cooperative Federation, Wenatchee, Wash.  
 Wet Mountain Valley Vegetable Growers, Inc., Westcliff, Colo.

## WOOL DIVISION

National Wool Marketing Corporation, 281 Summer Street, Boston, Mass.:

American Mohair Producers Cooperative Marketing Corporation, Uvalde,  
 Tex.  
 Arizona Wool Growers' Association, 134 South Central Avenue, Phoenix,  
 Ariz.  
 California Wool Marketing Association, 405 Sansome Street, San Fran-  
 cisco, Calif.  
 Central Wool Marketing Corporation, 281 Summer Street, Boston, Mass.  
 Colorado-New Mexico Cooperative Wool Marketing Association, Durango,  
 Colo.  
 Colorado Wool Marketing Association, 236 Continental Oil Building, Den-  
 ver, Colo.  
 Cooperative Wool Growers of South Dakota, Brookings, S. Dak.  
 Eastern Idaho Wool Cooperative Marketing Association, Box 550, Poca-  
 tello, Idaho.  
 Illinois Live Stock Marketing Association, 608 South Dearborn Street,  
 Chicago, Ill.  
 Indiana Wool Growers' Association, Lemcke Building, Indianapolis, Ind.  
 Iowa Sheep & Wool Growers' Association, 313-17 Southwest Fifth Street,  
 Des Moines, Iowa.  
 Kentucky Wool Growers' Cooperative Association, Lexington, Ky.  
 Lone Star Wool-Mohair Cooperative Association, 9 East Concho Avenue,  
 San Angelo, Tex.  
 Michigan Cooperative Wool Marketing Association, 221 North Cedar Street,  
 Lansing, Mich.



## National Wool Marketing Corporation, etc.—Continued.

- Midwest Wool Marketing Association, 140 Main Street, Kansas City, Mo.  
 Mid-Texas Wool & Mohair Marketing Corporation, Menard, Tex.  
 Minnesota Cooperative Wool Growers' Association, Wabasha, Minn.  
 Montana Wool Cooperative Marketing Association, Helena, Mont.  
 Nevada Wool Marketing Association, Elko, Nev.  
 New Mexico Cooperative Wool Marketing Association, Albuquerque, N. Mex.  
 New York State Sheep Growers' Cooperative Association, Inc., Penn Yan, N. Y.  
 North Dakota Cooperative Wool Marketing Association, Fargo, N. Dak.  
 Oregon-Washington Wool Marketing Association, 509 Miller Building, Yakima, Wash.  
 Sonora Wool & Mohair Marketing Corporation, Sonora, Tex.  
 Southwest Texas Wool & Mohair Marketing Association, Del Rio, Tex.  
 United Wool Growers' Association, 6 East Lee Street, Baltimore, Md.  
 Utah Wool Marketing Association, 408 Vermont Building, Salt Lake City, Utah.  
 Western Idaho Wool Marketing Corporation, 209 McCarty Building, Boise, Idaho.  
 Wisconsin Cooperative Wool Growers' Association, Portage, Wis.  
 Wyoming Wool Cooperative Marketing Association, McKinley, Wyo.  
 Pacific Cooperative Wool Growers, 1205 Northwest Davis Street, Portland, Oreg.

## ASSOCIATE MEMBERS

- Agricultural Council of California, 603 Plaza Building, Sacramento, Calif.  
 Arkansas Council for Agriculture, 524 Post Office Building, Little Rock, Ark.  
 Idaho, Cooperative Council, Boise, Idaho.  
 Mississippi Cooperative Council, care of Mississippi Cooperative Cotton Association, Jackson, Miss.  
 Missouri Cooperative Council, care of W. W. Fuqua, Rural Route, Columbia, Mo.  
 Oklahoma Agricultural Cooperative Council, Stillwater, Okla.  
 Oregon Cooperative Council, Corvallis, Oreg.  
 Pennsylvania Association of Cooperative Organizations, Shippensburg, Pa.  
 Texas Cooperative Council, 1100 South Ervay Street, Dallas, Tex.  
 Washington State Agricultural Council, Wenatchee, Wash.

Mr. **SEXAUER**. In large part these organizations are nonprofit membership associations. Their interests range from the basic commodities, such as cotton and wheat, to the finished products, such as milk, butter, nuts, citrous fruits, vegetables, and so forth. Just so the interests represented by the National Cooperative Council range from problems of raising commodity prices to problems of increased purchasing power for consumers in order that finished commodities such as milk, nuts, fruits, and vegetables may have a constant and expanding market.

By and large these organizations, insofar as they represent the membership of the associations, have little interest in banking as such or in money as such. They do, however, have a vital interest in the economics of money and the relationship between money and price levels, the relationship between money and employment and the relationship between money and purchasing power.

The interests of the cotton and wheat farmer are largely tied up in the relationship between prices in the United States and prices abroad. The interests of the livestock, fruit, nut, and milk farmer are intimately tied to the standard of living, purchasing power, and total income of the Nation.

In presenting the National Cooperative Council's position on the economics of money to this committee today, we desire to approach that subject from the angles of the various interests within our association. The relationship between money and cotton and money



and wheat have been presented more effectively than I could possibly present it, by Mr. O'Neal, of the Farm Bureau Federation, who comes from the cotton South and who represents so much of the grain-growing West.

The relation between money or the value of money and the relation between gold or the value of gold and these latter commodities is such a direct one that it is easy to trace. Over any extended period of time that relationship can be charted with great exactness. The effect of the value of money or the value of gold is not so directly ascertainable when applied to such commodities as milk, nuts, fruits, and so forth. A correct appraisal of the relationship between the value of gold and these commodities leads one through the various steps by which a change in the price of gold affects basic commodity prices, how basic commodity prices in turn affect business, how business in turn affects employment, how employment in turn affects wages, and how wages in turn affect purchasing power and the standard of living. From there the steps involve the relationship between the items of wages, purchasing power, and the standard of living on the one hand and the sale of these finished agricultural products on the other.

Fortunately the record of the past 2 years is sufficiently clear so that a cold analysis can be made of the happenings during that period. On April 19, 1933, this country finally and completely went off the gold basis. The dollar price of gold in the free markets of the world rose rapidly from that date until July 17. During that period basic commodity prices rose even more rapidly, first being pushed upward by the increase in the dollar price of gold and then being accelerated by the confidence that through this gold price movement prices would continue to rise for some time and business continue to improve.

The hope that business would improve was justified by the trend of business and industrial production during that same period. Were one to chart the rise in the price of gold and the rise in basic commodities together with the percentage of increase in business during that same 3-months' period, the three lines would be surprisingly parallel. They could not be exactly parallel for no one can chart the vagaries of human nature.

During this time employment rose rapidly as did also total wages and purchasing power. This was a period when on the part of some there was fear of extreme inflation. For the most part, however, it was a period during which there was a regeneration of confidence and a feeling that we were well on our way out of depression.

During this period from April 19, to July 17, there were many cross currents of opinions, ideas, and conjectures. There was a conflict between those who felt we should return to the old price of gold and those who felt the price of gold should be further increased. Those who looked forward with confidence to the future and felt that gold prices would further increase were optimistic.

May I make it clear at this point that during this period the only prices that were materially increasing were the prices of basic commodities, not the prices of finished products. The prices of finished products had not fallen to any material degree but the prices of basic commodities were only 40 percent of what they were during



the period of 1921-29. Inequality of price rise between basic commodities and finished products was very disturbing to some who did not understand that basic commodities had fallen more than finished products. Possibly as a result of this disturbance, there issued from Washington about July 20 an announcement, roughly to the effect that a great social program was to be put into effect. This program was to eliminate the chiseler, the price cutter, and the sweatshop; in addition, the intimation was that the problem would be handled through other means than through increasing and regulating the price of gold. As a result, confidence was shaken. The price of gold declined. Business activity faltered. Executives turned their attention to other matters than their businesses. Commodity prices began to decline. This decline in basic commodity prices continued until October 22. Gold in the meantime recovered some of its price until in October it stood approximately where it had on July 20. Commodities had declined to a point where they were almost exactly in line with the price of gold in the world market.

On October 22 the President announced that control would be taken of gold and that price levels would be reestablished on approximately the 1926 level. Gold again advanced in price in an irregular fashion, continued that advance until February, at which time power was given to the President to establish the price of gold, and on January 31, 1934, he did so establish that price at \$35.

During the period of declining commodity prices and declining gold prices, business suffered a severe relapse. Immediately following the announcement of the President on the 22d day of October business again increased at a rate almost parallel to the increase in the price of gold. Commodity prices started an irregular trend upward which trend reached its high point at the time when the President fixed the price of gold at \$35 an ounce. With only minor fluctuations in the meantime, the average price of basic commodities remained at the higher price level until the time of the drought of this past year.

From an economic and statistical viewpoint it is evident that basic commodity prices, business activity, employment, and purchasing power are extremely sensitive to changes in the price of gold and receive an upward impetus each time the price of gold is moved upward.

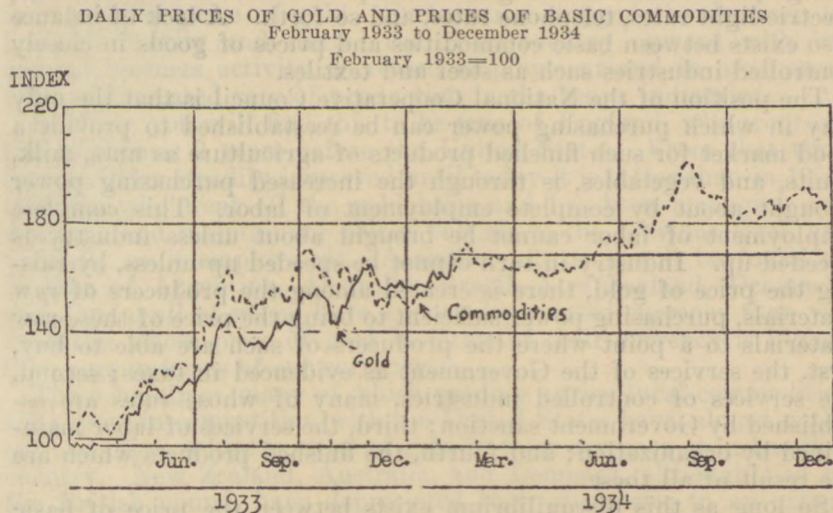
I will be glad to submit charts proving almost any of these statements if you desire to have it done. I have tried not to make any statement here which could not be pretty definitely proven statistically, and attached I have charts based upon statistical data to prove the points made.

The prices of commodities, such as butter—we represent milk—are sensitive to many influences but are particularly sensitive to employment conditions. While a change in the price of feed grains may increase cost of production and through this the price of butter, the long-time effect is for the butter price to follow a course very definitely parallel to total wages and total employment. From the viewpoint of the producer of butter, it is highly desirable that a good wage income be maintained, not on the part of the few but on the part of the many. Any program which tends to raise the wages of the few and dispossesses more and more people of their



jobs is in nowise beneficial to the producer of butter. I assume this must also be true of all finished agricultural products, such as nuts, oranges, apricots, vegetables, and so forth.

Here is a chart.



Basic commodities represent the Journal of Commerce Index of 30 Basic Commodities as drawn from a chart by G. F. Pearson of Cornell University.

The credit for any information which I may have on this problem belongs primarily to Dr. Warren and Dr. Pearson, of Cornell University, whom I have known for a period of 18 years. During that period they have never hesitated to predict continuously and specifically as to price trends. Immediately following the World War they pointed out to me that a price decline was inevitable and pointed out the time at which that price decline would take place. When questioned as to the reason for their prediction they pointed out that after every major war, prices of basic commodities seek a level which can be very closely ascertained by weighing the total volume of world production against the total quantity of world gold.

During the period from 1921 to 1929, when most people were saying we were in a new economic era, when under the leadership of the Federal Reserve, managed by such men as Mr. Strong, control of credit was being used to maintain average prices at a fairly constant level, these two men were continuously saying that prices of basic commodities would decline at least as low as the pre-war level unless there was a repricing of gold in terms of our currency. Dr. Warren was in my office one day in the year 1930 and I asked him how long this so-called "depression" was likely to last. His reply was:

This in my opinion is the depression which we have discussed for so many years, and insofar as business is concerned it will last from 6 to 10 years and insofar as agriculture is concerned it will last 20 years unless we are able to bring about a repricing of gold to adjust the price of basic commodities back to their previous level.

That was the prevailing state of mind in 1930.



The National Cooperative Council's position is that the prices of commodities which farmers and other basic producers create are so low as to bring about a disequilibrium between the prices of basic commodities and the prices of finished goods, wages, taxes, fixed charges, and costs based on guaranteed profits such as railroad rates, electric-light rates, telephone rates, and so forth. A lack of balance also exists between basic commodities and prices of goods in closely controlled industries such as steel and textiles.

The position of the National Cooperative Council is that the only way in which purchasing power can be reestablished to provide a good market for such finished products of agriculture as nuts, milk, fruits, and vegetables, is through the increased purchasing power brought about by complete employment of labor. This complete employment of labor cannot be brought about unless industry is speeded up. Industry in turn cannot be speeded up unless, by raising the price of gold, there is created among the producers of raw materials, purchasing power sufficient to bring the price of these raw materials to a point where the producers of such are able to buy, first, the services of the Government as evidenced in taxes; second, the services of controlled industries, many of whose rates are established by Government sanction; third, the services of labor maintained by organization; and fourth, the finished products which are the result of all these.

So long as this disequilibrium exists between the price of basic commodities and those items of fixed charges, such as wage rates, taxes, controlled products, and finished goods, the National Cooperative Council feels that there can be no material return to prosperity, business activity, employment, purchasing power or the free movement of finished commodities produced by farmers.

An examination of the record will show that only three times in the last 4 years has there been any trend toward equilibrium among prices. One period was during the last few months of 1932 and most of 1933 when wages and finished product prices were declining rapidly and bankruptcies were taking place in wholesale numbers. Undoubtedly a continuation of this program, if the country could have stood it, would have brought about deflation of capital, reduction of wages, shrinkage of finished product prices and a greater equilibrium between finished products, fixed charges, and raw materials. This would have been equilibrium but equilibrium at its worst. At no time has the National Cooperative Council been in favor of such a program.

The only other times during which the trend was toward equilibrium between prices, wages, and fixed charges, were during those two periods, April 19 to August 1, 1933, and October 22, 1933, to January 31, 1934, when rapidly rising prices for gold were causing rapidly rising prices for basic commodities.

Again I repeat that a complete and cold examination of the record will show that at no other times has there been anything but increasing disequilibrium between the component parts of our economic society. The National Cooperative Council feels that equilibrium between prices of basic commodities, taxes, fixed charges, and wages must be reattained. Furthermore, it can see no way in which this can be accomplished other than through increasing the



price of gold. There is nothing in the record of the past year to alter the council's opinion in this respect.

Evidence of the soundness of this program of maintaining the price level through increasing the price of gold in the currency of any country can be found in those countries which have effectively increased the price of gold. Such action stopped the decrease in business activity and started the given country upward with increased business activity, increased employment and in most cases with an increased rate of production in the heavy industries.

I believe you will find this to be true of England, who went off the gold basis 2 years before the United States. From that time her condition steadily improved until today it is better than in 1929. Sweden, who went off the gold basis and has been managing her currency and maintaining prices well above the previous level, has virtually no unemployment. A similar situation will be found to be true of Argentina, Australia, Brazil, New Zealand, Denmark, and Japan, all of whom have a more depreciated currency than we, countries whose price of gold in terms of their currency is higher than ours in terms of our currency.

These countries, many of which produce agricultural commodities for export in competition with the United States have, almost without exception, a higher price of gold in their currency than has this country. New Zealand, Australia, and Denmark, although tied to the British pound, have depreciated their currencies to an extent 25 percent greater than have we.

Argentina has—even the past Saturday—depreciated its currency to an even greater extent, as has also Brazil. To put the United States producers of butter on a competitive basis with New Zealand and Australia, it would be necessary to have the pound at least at a ratio of 6.07.

The net result of this is that in those raw material producing countries their price level is 25 percent nearer to their debt level, to their fixed charges, and to their labor cost than is ours.

Such a situation puts this country and its raw material producers at a tremendous disadvantage in foreign trade. Denmark, New Zealand, and Australia are all competitors with this country for markets for butter. Australia is a competitor with this country for markets for wool. Other English dependencies are competitors with us for markets for cotton.

There are those who maintain that the average price level can be raised and maintained through the use of credit and credit inflation. This may or may not be true, I do not attempt to say. The National Cooperative Council maintains, however, that any rise in the average price of goods brought about through credit inflation will not increase the price of basic commodities in this country, except insofar as it raises world prices in terms of gold. Such a situation leaves farmers in the same disadvantageous position that they were in during the period 1922-29.

Prices of the finished goods which they must buy reflect the full effect of the credit expansion, but the prices of the basic products which they sell are benefited only to the extent of the domestic market. Credit inflation of this type cannot affect the world price of basic commodities and thus cannot aid the exporter of farm prod-



ucts. Accordingly farmers, in their dealers with the rest of industry find themselves approaching the same state of price inequality which in the past forced many of their number to lose their farms and homes. The hundreds of thousands of foreclosed farms, the thousands of closed banks all through the Middle West bear testimony to the dangers to such a situation.

It is the opinion of the National Cooperative Council that a return to these unfortunate conditions can best be avoided through raising prices of basic commodities by the method already described, namely, increasing the domestic price of gold.

The council do not attempt to determine what kind of bank bill should be passed for handling money as a commodity. They are primarily interested, as I stated in the beginning, in having a policy established which will so regulate the economy of money that it will maintain a commodity price level that will bring about employment, that will bring about a relationship between basic commodity prices and finished goods and wages such that there can be a proper exchange. When that is done we feel it will not make much difference, some difference but not much difference as to the type of banking structure, that once we have reestablished an equality between basic commodity prices, not only farm products but the basic commodity prices, wages and finished goods, that will bring about a free exchange of these, then you gentlemen will take care of the banking situation.

Mr. FORD. The previous speaker referred to Japan's valuation policy as though it had been a wise policy. Japan apparently adopted the policy on the lines of the greatest production possible within Japan, her purpose being apparently the expanding of her exports, which is very successful, but it seems to me that even a superficial study of the subject of conditions in Japan shows that she has adopted this policy without any concern as to the standard of living of her people, and while she has been able to export a great many commodities at a low price, under the price of the yen, which has resulted in her goods being bought all over the world, she has been successful in that, but if a person takes into consideration what is happening in Japan, I do not believe that anyone, at least in the United States, will have the temerity to say that living conditions in Japan as we know the conditions from reports are anything that any nation ought to seek.

Mr. SEXAUER. I think in the major premises we would agree with you that there should be no desire to talk about living conditions in any country upon the basis of Japan's living conditions. There is this point, however, that is often lost sight of. Japan has only revalued to the point where her prices are back to the average of the 1922-29 level. In other words, Japan has brought back within her country an equilibrium between prices. Her whole industry is on a low basis but she has brought back an equilibrium in her prices and every one is employed—I will admit at low wages, but at no lower wages than previously, nor have living costs gone up in Japan. In other words, she has brought about an equilibrium.

There is a great deal of discussion about warfare and depreciation in currency and the idea that too much depreciation of currency is bad for a nation. I assume that is true, but on the other hand there



is a correct point in depreciation of a nation's currency which brings about equilibrium in business conditions. Once that is reached that country is in the best situation. The country that can reach that point and stay there longest can educate all the rest of the countries. But on a cold analysis of the situation you will find that Japan in her currency has gone back to an equilibrium that no other country yet has. That is a question of warfare and depreciation of currency, perhaps, and the sound thing is to get back to a level of values, and Japan is forced out into the open, but up to the present time Japan has depreciated her currency so that the price of gold has been raised 190 percent.

Mr. BROWN of Michigan. What is that in American figures?

Mr. SEXAUER. It would be equivalent to our putting gold on that basis.

Mr. FORD. What is the yen now to the dollar?

Mr. SEXAUER. I can find that for you here. You mean what the depreciation would make it to the dollar?

Mr. BROWN of Michigan. Thirty-five?

Mr. SEXAUER. If you figure our present dollar is 59 cents, previous gold value, that would bring it down to 40 cents. It raises the price of gold to probably \$60.

Mr. BROWN of Michigan. Fifty dollars now?

Mr. SEXAUER. I will point out that that program, in the minds of the farm organizations, would be extremely dangerous if there were not tied to it a provision, as a result of our investigation, for increased prices of goods in terms of gold throughout the world, and if that brought about steadily increasing prices and inflation of a different character, I believe the farm organizations, and particularly the council, would be in favor of lowering the price of gold or increasing the gold content to stop inflation, which some might say would threaten. In other words, use that as a method of adjusting rather than a method of raising.

Mr. BROWN of Michigan. Do I understand that Japan is now virtually equalizing the amount of the tariff which we have against their products?

Mr. SEXAUER. In subsidies?

Mr. BROWN of Michigan. Yes.

Mr. SEXAUER. I could not answer that question.

Mr. FORD. She has done it by cutting the yen, which was normally 50 cents, so that now it is 31 or 33; therefore you get more yens for a dollar.

Mr. SEXAUER. Quite often those who discuss the farm organizations' position run off into the development of foreign markets, and while most agriculture wants to develop foreign markets, we are far more interested in the internal price level because the facts are these, that when you develop the internal price level approximately or more nearly to what it ought to be, immediately business starts an improvement, and the moment business starts you have a tremendous increase in imports and exports regardless of what the exchange rate may seem to be at that moment. For instance, between the 19th of April and the 1st of August there was a tremendous increase in the production of automobiles, and consequently a tremendous increase in the importation of rubber, and a tremendous increase in



goods made of rubber that people buy and you might have exports to England through that exchange. That immediately stimulates business because that in itself stimulates imports and exports. There are those who say that the minute a country depreciates its currency it puts other countries at a disadvantageous position, but the fact remains that our exports to Japan are greater since they depreciated their currency than before.

Mr. FORD. The reason for that is that they sold us more goods and therefore are able to buy more goods.

Mr. SEXAUER. Partly so. They sold our people more goods and were willing to take more of our raw materials.

Mr. CROSS. There is one thing I want to make clear, and that is this question of purchasing power. The higher the price of gold per ounce in relation to the monetary unit, the less purchasing power of the monetary unit?

Mr. SEXAUER. That is right.

Mr. CROSS. And the lower the price of gold per ounce in relation to the monetary unit the greater the purchasing power of the monetary unit, because we heretofore have been talking about the purchasing power of the dollar being small.

Mr. SEXAUER. That is right. There is this compensating thing, that the higher price of gold, the higher the prices of basic commodities, but fortunately that is not reflected in higher prices in finished commodities to any material degree. When gold was going up 69 percent, basic commodities went up 67 percent—I do not find those figures here right at the moment, but as a result the cost of living went up not over 5 percent until that time came when we boosted things artificially that increased the cost of living. For instance, when leading business men got together and raised the price of lumber it was not contemplated in the monetary program because it was never intended to raise the prices of other than basic commodities.

Mr. CROSS. That was the monopolistic feature.

Mr. SEXAUER. It did some other things. They raised the price of wages. Some people say that is a good thing and I do not disagree, but as an organization employing 3,000 people this is what that did. We have no profits, a cooperative organization with no profits but employing 3,000 people. Wages were increased by the N. R. A. to the extent of \$200,000. There was no place to get that, no business, nothing we could do about it except to take it out of the producer or the consumer.

Then it becomes a tax on the producer of milk in our organization and we had to immediately set out to find a way to relieve the milk producer of that and did it by plant consolidation and more efficient operation until we got rid of enough men so that the milk producers got the proportion they formerly did, and that meant total wages of the same amount but it meant many of the men were unemployed. We immediately made some consolidation. Farmers wanted to build and improve houses and other buildings. They are not building and improving houses and farm buildings, since prices of finished products such as lumber and cement have been artificially advanced. This means that a great many men are not employed.



The same thing applies to commodities which we bought in our business. Milk bottles immediately went up \$1 a gross. That has to come out of the consumer who gets the milk or the producer insofar as our distribution is concerned because we have no profit. It was on the very day that that happened that business began to go down hill, right after the 1st of August. That was no strange thing. It happens that the statistician in our organization wrote an article on the divergence between two policies, one of raising prices of basic commodities and what that would mean, or raising the finished products and what that would mean, and this happened in August 1933.

I only cite this to point out that the program of the national farm organization on revaluation, increasing the price of gold, reducing the gold content of the dollar, put three million men back to work before any other program got to work and the minute it got working it affected our business, and if you go into it you will find exactly what happened, that there was a tremendous expansion of our business in all our departments, and on the 19th of April, when we went off the gold basis, a complete embargo, I had said get ready to expand business.

But on the 1st of August I called them together and said we cannot expand business unless we have purchasing power.

Mr. CROSS. In other words, N. R. A., as you see it, is a bad thing?

Mr. SEXAUER. I only repeat what our farmers say and they say it is bad.

Mr. WOLCOTT. I wish we might get again that point of the relationship of gold valuation to the price commodity index. We have been told by most of the economists who appeared before us that there is no relationship between devaluation of gold and the commodity price level, the retail commodity price level. But it has a noticeable influence on our foreign trade.

Mr. SEXAUER. I would be very glad to discuss that. I have here a chart which I will pass around.

Mr. WOLCOTT. I think the members of the committee will recall, some time after the devaluation because there was no reaction on the domestic market the question was asked of Mr. Morgenthau, Secretary of the Treasury, as to what the policy of the Department was going to be if prices kept going down in the face of the devaluation policy, and that is when he made that famous remark, that is, the Secretary of the Treasury: "We are on a day-to-day basis." They did not know at that time what they would do from day to day. Since then economists who have been before us, if I understand them correctly, have credited the rise in commodity prices to other influences and have given no credit whatsoever to the devaluation of gold as applied to the domestic prices.

Mr. SEXAUER. I would like to distribute this chart and then I will tell you a personal experience about economists.

Mr. WOLCOTT. We have had some experiences.

Mr. GOLDSBOROUGH. They do not ever agree.

Mr. SEXAUER. I had this experience that is illuminating and might in the course of time mean quite a lot. I might tell you I studied Dr. Warren, who has predicted for years and he was the only economist I ever knew from my early farm days through the war up



to this time when I am the head of an organization doing a business of \$65,000,000 a year—he was the only economist I knew who could predict accurately, and he alone continued to predict for me what was going to happen. I attribute a large part of our success in our program to his predictions.

This happened to me. One day I sat in the office of Dr. Warren and Dr. Myers stepped into the office at noon and said: "We have a luncheon engagement", and they suggested I go with them. I said, "What is it?" "It is a meeting of the economists of the university." I was very glad to go because I had never met any of the other economists. I spent about an hour at that lunch. This was in September 1932. We had that little rise in prices and business activity, and the discussion drifted to prices and business, and as I sat there man after man said: "This depression has taught us one thing and that is, the things we say will be so today will not be so 2 weeks from today. We cannot predict as to the future; no one knows the course of things." We have to follow a plan to drag in business, every thinking business man and cooperative farm leader must plan and must predict. Going across the campus I said, "I do not understand this." I repeated to them what I said to you.

It was then I got my first insight into economics. Drs. Warren and Myers said economics has been only a philosophy. Men philosophize about this and about that, take facts and put them together and say this is so, and it has only been within the last 50 years that there has been academic research into economics.

Suddenly I saw what it meant. I knew that the College of Agriculture had the largest volume of research material on prices and economics there was in the world. I knew that and I imagined that everyone else knew the same thing.

I knew they maintained a statistical research organization that cost them \$50,000 a year. I assumed other economists did the same thing. Suddenly I discovered that 90 percent of the economists of the country are still philosophers and only 10 percent of them are scientists.

Mr. WOLCOTT. My experience with economists in general is that early in their study they come to a certain conclusion and then in their writings and in their research from then on they endeavor to substantiate those early conclusions that they have come to in the beginning.

Mr. SEXAUER. That is right. I do not know whether you have ever read this book I have here, entitled "Gold and Prices." It is valuable. It is Dr. Warren's new book.

Mr. WOLCOTT. This has a great deal of interest. Professor Pearson was here last year and the monetary authority people told us very definitely that all prices, external and internal, wholesale prices and retail prices, were tied to the price of gold, and I think that Professor Pearson was the only economist who appeared before us who would not at least say that the volume and velocity had some influence on retail and wholesale, gold, and commodity prices. He said that volume or velocity had no relationship whatever, no influence on prices.

Mr. SEXAUER. That is probably why they charted in here the relationship between prices and velocity of money and I think probably that statistical research on that item will prove that as prices went



up velocity followed, but when we started N. R. A. and business declined velocity went down. Velocity follows business. Business does not follow velocity.

Mr. CROSS. What is the title of that book?

Mr. SEXAUER. Gold and Prices.

Mr. WOLCOTT. That is the second edition of the book?

Mr. SEXAUER. The last edition, in the last few days. I will be very glad to give any man on the committee a copy of this book who will read it. This is an up-to-date issue which brings the thing past where the other stopped up to within 2 or 3 months.

Mr. WOLCOTT. Does this book attempt to explain why that previous philosophy was incorrect?

Mr. SEXAUER. Perhaps I should have gone into that—that previous philosophy was not incorrect. That philosophy was correct. If you will look at this chart here you will find that the increase in the price of gold before the President revalued it, that little increase which came from the middle of December until the first of February—that it was only an increase in the price of gold of maybe 5 or 10 percent. During the period before Congress passed the law determining the policy, from the 19th of April when we went off the gold basis, gold increased in price from \$20.67 to approximately \$32 or \$33, and the increased price the President put on gold was not more than \$3. Everybody expected prices to have a 69-percent increase after the President started to reprice gold. It had already had a 60-percent increase and there was only room for an additional 7-percent increase.

If you will look at this chart showing the price of gold and the prices of commodities, you will note every time we started to increase the price of gold there was a direct and definite relationship in your price increases, the price of gold and the increase in the prices of commodities. When the President started to increase the price, the day we went off the gold basis, when we embargoed gold on the 19th of April, the price of gold began to work up and the commodities went up, too. That edict increasing the price of gold only affected it 5 or 10 percent and consequently affected commodities by that much and this will follow every time the price of gold is changed. Between the 19th of April, the gold embargo, and February 1, during that period you will find there was 69-percent increase in the price of gold and approximately 67-percent increase in the price of basic commodities, not all commodities but basic commodities.

Mr. WOLCOTT. If we knew surely that was the controlling influence, I think we would probably solve this problem.

Mr. SEXAUER. That is right.

Mr. WOLCOTT. So, taking that into consideration, after we devalued gold we started to pump credit in, and pumped a billion dollars of credit with the idea that we would increase velocity and give acceleration to currency and credit, and we adopted the policy of the A. A. A. and N. R. A., everything designed to bring the price commodity level up to the 1926 basis. Now, I am not certain, and I have not talked to anyone else that is certain whether devaluation of gold has caused prices to go up or whether this policy of having adopted the economics of scarcity as against the demand has caused the price to go up, but if we could determine once and for all whether it was the economics of scarcity or whether the devaluation



of gold has caused the increase in prices of commodities, I think we would have our feet at least upon some ground, but we do not know that. If we throw overboard the A. A. A. and the N. R. A., I think we are all fearful that our judgments of the relationship between the devaluation of gold and the commodity price index may not be well founded, and if we stabilize gold I am not so sure that the other would have that influence because on your chart here after March 1, 1934, gold tapers off and has remained constant ever since at 35.

Mr. SEXAUER. That is the fixed price.

Mr. WOLCOTT. But the prices of commodities have fluctuated so that since 1934 the price is wholly out of proportion to gold. There must be some other influence.

Mr. SEXAUER. There was another influence there. The dust clouds from the West signifying droughts started commodity prices upward along about the middle of June. Those commodities that went upward are the farm products, not copper or zinc, but they are farm products primarily raised in the West and from that point on they went up until the peak. That was the drought. Here is a curious thing. We have finally got to the point where we do not think we will have a shortage of food before the next harvest and we will see a curve of commodity prices that is right back to the gold price—that is the drought effect—down to the gold level.

The CHAIRMAN. I want to ask you particularly about wheat and cotton, the effect of the gold proposition in relation to the other factors.

Mr. SEXAUER. It is almost definitely chartable. Again this is somewhat of a scientific process and I am not familiar with all the details. At a given amount of scarcity and changing prices, there is a certain definite amount of change. This is a relationship between supply and demand. When a certain amount of scarcity affects the crop so much as 20 percent, decreases of that amount in the crop total may affect the price 40 percent, and there is a distinct curve of relationship. If you take that curve of relationship on cotton and wheat, the scarcity and supply and demand, and apply that all together with the effect of revaluation, you will just about get the prices you now have. There is a joint relationship in the price of cotton between the A. A. A. program and repricing of gold. To the 6-cent price of cotton add 69 percent due to rise in price of gold; deduct from this, 7 percent to offset the further rise in the world value of gold, and whatever is the price of cotton above that figure may be attributable to the A. A. A.

The CHAIRMAN. Take the case of cotton. I do not know but what with the curtailment of production we shall still have an enormous quantity of cotton on hand above the amount being consumed.

Mr. SEXAUER. Of course, Mr. O'Neal can discuss the matter of cotton far better than I can. I might go through the realm of cotton and find something to criticize, some farm activity, but my primary purpose here is to define and offer something.

The CHAIRMAN. There is no harm in criticizing anyone.

Mr. SEXAUER. This cotton situation was discussed completely with the agriculture committee of the Chamber of Commerce. It seems to me that when a price of 12 cents was established by the Government and the world price was only 11½ cents, and the world supply



of cotton was already high, that there was a supply which we could not export. The Farm Board bought up the wheat. The Farm Board bought wheat and in buying wheat held that wheat above the world market. The result was that Canada shipped wheat to all the other countries of the world while we were piling up our surplus. We got all the wheat on the world's market and could not ship it.

The CHAIRMAN. I do not know that I quite get what you have in mind as to the effect on the price of cotton of the gold policy.

Mr. SEXAUER. The gold policy affected the price of cotton just this way. The price of gold affected the price of cotton. The price of cotton went down 7 percent in terms of gold. Cotton went up 69 percent in terms of our currency due to revaluation. Then we plowed up some cotton and prices were raised some more. There is a definite relationship between the two. Neither one can claim all the credit. Now, a curious thing has happened.

The CHAIRMAN. I am wondering if the scarcity factor would exercise the same influence in the case of cotton, where you still had an enormous stock on hand, that it would have on a commodity like wheat where it would come well within the limit.

Mr. SEXAUER. I think that does not enter into it. There is 6-cent cotton in terms of gold, using the gold basis. Cotton has changed in price in terms of gold less than 2 cents.

The CHAIRMAN. You account for that by a factor other than the gold product?

Mr. SEXAUER. The 2 cents; yes.

The CHAIRMAN. The other 4 cents you account for by the gold policy.

Mr. SEXAUER. Sixty-six percent of 6 is 4, roughly speaking.

Mr. CROSS. As to the gold price, here is what I am thinking of. Suppose it takes 100 bushels of potatoes to do the people in this room, to feed them, and out yonder there are 120 bushels, 20 bushels more. Everybody scrambles to sell his potatoes because he knows he has a surplus and the price will not shoot up until you destroy the surplus, and when there are only 99 bushels we begin to grumble and the price shoots up. But you get a tremendous surplus of cotton, 10,000,000 bales surplus, we will say, and destroy 2,000,000 bales. You still have 8,000,000 bales hanging over. What effect would destroying the 2,000,000 bales have upon the price when you still have 8,000,000 bales?

Mr. SEXAUER. The actual records show that the effect of destroying the 2,000,000 bales on the world's market, the Liverpool market, in terms of gold value, is about 2 cents. This chart shows it, insofar as the price of cotton moves up or down in terms of gold, so many ounces of gold.

Mr. CROSS. I can see the gold effect, but I do not see if you have 8,000,000 bales how that effects the world's price when you have that surplus. Of course, as long as we loan 12 cents on it, they have to go out in Brazil or Egypt or India and buy cotton. But I do not see how that affects the world price until you whip out good competition with the rest of the world on it. I see how gold will affect it, our monetary unit. For instance, the price of cotton is 5 cents, that is, at the old value of the dollar, 23.21, and I think if you put it up 2 cents the price would immediately go to 10 cents.



Mr. SEXAUER. In our currency?

Mr. CROSS. Sure.

Mr. SEXAUER. The 2-cent price would be changed.

Mr. CROSS. No.

Mr. SEXAUER. That is right. Destroying 2,000,000 bales of cotton changes the price just as much as you think, and what 2,000,000,000 people in the world think it should be changed. If we all think there is a shortage the price will go up, and just as soon as we find there is no shortage then it will come down.

Mr. CROSS. Are you familiar with what happened in France when she devalued her franc, in other words, made 5 francs out of 1? Did the price go back where it was before, 19 on what was 10, or did the price multiply itself by 5 at that time?

Mr. SEXAUER. France did not do that. France went to the point where her money was less than 20 percent. Then prices went up proportionately. She let her franc drift and the franc drifted to a point where it was worth less than 20 percent and arbitrarily one day she said, it will be 20 percent. You must measure from the time she first went off the gold basis to when she finally fixed her prices. There is definitely a relationship between the prices of the average basic commodities throughout the world in terms of gold. The gold values of commodities in England, France, Sweden, Australia, and the United States are within 4 or 5 percent of being the same. The price in terms of currency in those same countries changes exactly with the change in the price of gold in terms of currency of each country.

Mr. WOLCOTT. I cannot understand when Belgium had 290 milligrams of gold in their monetary unit,  $4\frac{1}{2}$  grains, Belgium devalued her Belga and made 7 out of 1, less than half a grain, and yet she is in distress again and talking about going off the gold standard, whatever gold standard they are on. If you put the price up, I do not see why she is so badly affected again.

Mr. SEXAUER. Let us take France. I have that information. I have not the information from Belgium but I have some on France. This is primarily a question of unemployment. The factor that causes social disturbance is unemployment, and unemployment has definite causes. Back in 1932 when we were way down in the depths and had between 11 and 12 million people unemployed, France on the basis of the same population—she has one-third of the population we have, using League of Nations figure—and when we had 12,000,000 unemployed on the basis of the same population, multiplying the number of her unemployed by 3, she had 888,000. But what France was affected with was the increase in value of gold that took place between 1930 and the present time, due to the worldwide depression in all the other countries without revaluation.

Gold should have buying power today about what it had before the war, but we are hoarding it so much that our price level in terms of gold purchasing power is about what it was before the war.

France went through the situation in 1932 comparatively well. The increased buying power of gold since has dragged her down until today I do not know just what her position is in terms of employment, but it is not good.

She is going down because we have dragged her down by our depression. Up to the time when we got so far in the depression,



France's situation was relatively good, 1,000,000 unemployed against the comparative figure of 10,000,000. I would expect the same situation in Belgium, that Belgium had been dragged down by the world depression. When we have something like 40 percent of the business of the world in this country generally, and only do half of what we normally do, that means a 20 percent loss of world business which means that there is no normal flow of commerce between other countries. Belgium being primarily dependent on imports and exports obviously is tremendously hit by that and hit by the decline of the price level brought about by excessive appreciation in currency and the excessive increase in the purchasing power of gold.

That is philosophy.

Mr. WOLCOTT. With respect to what we were talking about, the philosophy of credit, I think very possibly the emphasis is that the philosophy means availability of credit, because the effect of the increase in the Federal Reserve bank reserves to \$2,400,000,000, is velocity of credit. That is available credit. That does not show velocity as not being used.

Mr. SEXAUER. May I illustrate that in our own business? I have to use some philosophy. Our organization has a line of credit in the banks of New York City and can go to any large bank in New York City and borrow a million dollars on our note. That is available credit. There is no velocity of credit there. That is a desire on their part to loan money. It is lack of a desire on our part to borrow. Why don't we want to borrow? Without any question it is because we do not see how we can expand our business under these conditions. On April 19 I thought we could. From April 19 to August 1 I said, "we will expand business"; we are going to have more employment because of this rise in commodity prices. The minute something was done that squelched that I said, we do not want to borrow money.

The velocity of credit was growing in that period. Our credit remained. Our credit was as good the middle of August as at first, but we did not want to do it.

Mr. WOLCOTT. You had no desire to use it in that situation.

Mr. SEXAUER. Yes. It was not the velocity of credit, but the velocity of money in the business we were in.

Mr. WOLCOTT. There was credit available to whip the depression?

Mr. SEXAUER. It might whip the depression as far as business is concerned, but as long as our currency is tied to a fixed amount of gold, corn, wheat, cotton remain fixed to the world's level of prices. You may by velocity of credit raise the price of finished products, but farm products will stay down, and if you go back to the 1922-29 period you will find that the purchasing power of farmers broke down. The reason for that was the rapid expansion of the credit policy that made business active for a time and kept the average of prices up but the farm prices down and the net result was that by and by most of our people in the West went busted and mortgaged their farms, the banks went busted and some people thought it was the bankers' fault.

Mr. WOLCOTT. I have read that approximately 55 percent of the purchasing power of the Nation is ordinarily in the hands of the farmers.



Mr. SEXAUER. I think that could be substantiated but I think you would have to figure it on the basis of income from the basic commodities; it is not the total income, Mr. Wolcott.

Mr. WOLCOTT. As far as round figures are concerned, that is approximately correct.

Mr. SEXAUER. I would say yes, but it would be subject to a considerable argument and some people would say wages are purchasing power and others would figure on production of basic commodities and purchasing power on that basis. You probably can substantiate it.

Mr. WOLCOTT. That is all.

The CHAIRMAN. The committee will recess until 3 o'clock.

Mr. SEXAUER. Here are some groups of figures and I will just leave these charts for each member.

(Thereupon, at 1 p. m. the committee recessed until 3 p. m.)

#### AFTER RECESS

Upon the expiration of the recess, the hearing was resumed.

The CHAIRMAN. Before we begin with Mr. Foster, I will ask him to yield to Mr. O'Neal, who desires to read a telegram to the committee.

#### STATEMENT OF EDWARD A. O'NEAL—Resumed

Mr. O'NEAL. Mr. Chairman, among the farm witnesses that we asked to come today to help us present our case, was a very distinguished man, who could not come, but he sent the following telegram, which I would like to read.

(The telegram is as follows:)

MIAMI BEACH, FLA., March 25, 1935.

E. A. O'NEAL,

*American Farm Bureau, Washington, D. C.*

Greatly regret my inability to reach Washington in time to appear before the committee which will discuss today the monetary problem. It is supremely important that we immediately adopt a managed currency. Recently I returned from Europe where I made a careful investigation of economic conditions. Everyone knows that the gold-bloc countries, those still clinging desperately to a fixed price for gold, are in extreme distress. Deflation in those countries is still going on and the end is not in sight so long as they fail to recognize that gold has tremendously increased in value and that in exchange for gold today one must give much more of any commodity. In other words, the increased value of gold made things cheap, depressed prices. On the other hand, the British Empire which has been wisely managing its pound sterling is enjoying great prosperity and is happy that it has a monetary unit varying from day to day sufficient to stabilize prices. I talked with many British leaders of industry, banking, and finance and found a great unanimity of opinion, that Great Britain would not for a long, long time, if ever, abandon its managed pound and return to a fixed gold standard such as prevailed before many countries of the world abandoned the gold standard. For 100 years we have had a commodity dollar but the base has been a single commodity, gold.

We should have instead a monetary unit based on a large number of commodities. The average value of these commodities would not fluctuate so violently as has the value of the single commodity, gold. A few months ago I was in Argentina and saw the prosperity that country is enjoying because it has recognized the increased value of gold and devalued the peso sufficiently to compensate for the change in the monetary base. The Argentina farmer is getting a high price for his products and in spite of the tariff might sell wheat even in America at a profit in competition with the American farmer. The situation is so plain that it seems strange that we as a Nation have been so slow to adopt the policy which is working so well in other countries. Sweden and Australia present more evidence which we should recognize. The American farmers seem to understand the gold question better than our bankers or our business



men. I hope your efforts before the committee on banking will be successful and that you succeed in arousing members of Congress to an appreciation of the vital importance of adopting a managed currency so that we may stabilize prices, prevent great fluctuations and the recurring depressions which have raised havoc with our whole economic situation. Another collapse of prices which might come with the further rise in the value of gold under our present monetary system would bring us a greater disaster than we have yet experienced and might threaten all our institutions and democracy itself. It would be a great tragedy if Congress should fail to enact legislation that will give us relief and protection for the future. We must end the "money illusion" which already has almost destroyed us.

FRANK E. GANNETT,  
*President the Gannett Newspapers.*

That is from Mr. Frank E. Gannett, president of the Gannett newspapers.

Now, Mr. Chairman, there is one other witness that we were to have today, and I am sorry that he could not come; Mr. Louis J. Taber, of the National Grange, and I would like to ask the privilege that he may file his statement later. He regrets his inability to be here.

The CHAIRMAN. All right. Without objection, that will be done. Now, Mr. Foster, you may proceed. Give your initials, and your connections.

**STATEMENT OF E. S. FOSTER, OF ITHACA, N. Y., GENERAL SECRETARY NEW YORK STATE FARM BUREAU FEDERATION**

Mr. FOSTER. Mr. Chairman—

The CHAIRMAN. We would be glad to have you discuss this bill, Mr. Foster, and you may have such time as you wish without interruption. I suggest that you indicate to the committee when you desire to be interrupted.

Mr. FOSTER. All right.

Mr. Chairman and members of the committee, I have prepared a rather voluminous statement here that runs about 20 or 25 pages, and I hesitate to ask your committee here this afternoon for permission to read that.

The CHAIRMAN. I suggest to you that you read so much of that statement as you desire to read to the committee, and any further part that you wish incorporated in your remarks may appear consecutively, without having to read it in full.

Mr. FOSTER. All right, thanks. I think I choose to file the brief, if possible, and merely extemporize here for a few minutes.

The CHAIRMAN. Without objection, that will be done.

(The brief referred to is as follows:)

**HIGHER COMMODITY PRICES AND STABILIZED PURCHASING POWER OF THE DOLLAR ARE THE GREATEST NEEDS OF AGRICULTURE**

Most farmers are agreed that steps should be taken by the Federal Government to correct and prevent the hazardous conditions which result from wide fluctuations in the purchasing power of the dollar. Farmers have long experienced rise and fall in commodity prices, and they recognize the absolute necessity of developing a system to correct this condition, to bring about greater stability in our economic life.

In the first place, why are farmers so vitally interested in this problem of stabilizing the dollar? The answer to that question is to be found in all the things that have happened to us and to agricultural countries of the world since 1920. The great wars of modern times have been financed by a resort to inflation. After every one of these wartime inflationary periods we have experienced violent deflation in the final analysis. The general level of commodity prices that is driven away up during the inflation periods goes into an equally



violent collapse when the current is reversed and deflation sets in. In the last episode the turn came in 1920, and the wreckage resulting from that headlong plunge of commodity has strewn our land for 15 years.

When prices rise the man to profit first is the producer of raw materials. Likewise, he suffers first and most severely during declining prices. Farm products are basic in nature, and naturally they are extremely sensitive to changes in price levels.

When deflation overtakes a community the bottom drops out of all primary products, raw materials, and especially those having the broadest markets. Those producers whose income depends upon these things see their income wiped out. They are unable to meet even current obligations, let alone paying debts of longer standing—debts contracted back under a higher price level. Thus, one of the unfailing effects of such a deflation period is a great mass of unpayable debts. The whole community is waterlogged by an overwhelming burden of debt. The farm business is sunk; and taxes, as well as private debts, become uncollectible.

It is unnecessary to recite the details of this chapter of history we have just been living through. The story of all the thousands of failures in farming, of foreclosures, of bankruptcy, and of general poverty is familiar to all. Already it has been with us for half a generation and the end is not yet.

In few words, this is why the farmer is interested in the problem of price level and consequently of money. It is because he has always been and will always be one of the keenest sufferers from the ravages of these great deflation periods. The whole community suffers in these times, but it is on the farmer that the blow falls first and most severely.

#### WHAT CAN BE DONE TO HELP THIS SITUATION?

In attempting to correct the wide fluctuations which take place in commodity prices, it is first of all necessary that we recognize the factors which determine price levels. Great confusion seems to exist among individuals as to just what these factors are. Some claim that changes in the price level just automatically happen. Some say that over and under production is the cause. Some claim that bank credit, with its contraction and expansion, is the major factor. Some say that foreign trade, or the lack of foreign trade, is responsible. Some say that gold is the important factor.

Scientific research shows clearly that gold is the most potent of all factors in governing the rise and fall in commodity prices. The evidence clearly indicates that the violent world-wide ups and downs in commodity prices during the last 20 years have been due primarily to changes in the value of gold.

Gold is a commodity just the same as wheat, or copper, or rubber, or any other commodity. Its value is subject to the same forces of supply and demand as any other commodity. The supply of gold is a relatively stable thing, but the demand for it varies widely. When the western nations abandoned gold during the war and ceased to bid for it, the value of gold went down, and commodity prices rose to an index of 220 in this country.

After the war many of the European countries that had abandoned the gold standard began a mad scramble to place their currencies back on the gold basis. As a result, the value of gold rose abruptly, and commodity prices fell with extreme violence down to an index of about 150. Eventually they went down to 87.

The war-time inflation was a phenomenon of the gold-using countries, and so was the post-war deflation. It was the gold-standard country whose prices marched up the hill and then marched down again. The silver-using countries did not go through this experience. China did not have our war-time inflation nor our post-war deflation. It seems clear that these wide fluctuations in commodity prices have been due to sudden changes in the world's demand for gold.

The value of gold is determined by the world forces, and no one country can control it. Neither we nor any other country can control the purchasing power of an ounce of gold.

The price level of commodities is determined by the relationship which exists between the supply of and demand for commodities and the supply of and demand for gold and the price of gold.

There is a widespread belief that the expansion of bank credit, currency excess reserves, and/or velocity will raise commodity prices and gold is of little or no consequence.



There is a fundamental relationship between corn and hogs, between corn and cotton, and between gold and cotton. When a nation is on the gold standard an exchange of a bank check or paper money for cotton is an exchange of a given weight of gold for a given weight of cotton. With gold at \$35 per ounce and cotton at 10 cents, a bale of cotton is worth 1.43 ounces of gold. Expanding bank credit, excess reserves, velocity, and the like cannot materially change this ratio.

When the dollar price of gold is suddenly changed, the amount of gold to buy a bale of cotton does not change, but the price of cotton does change. The advance in the price of gold is equivalent to reducing the gold content of the dollar and, if the ratio of gold to cotton does not change, the ratio of the dollar to the cotton does change, and this is the dollar price of cotton.

The price level of a country is the product of the world level of commodity prices in gold and that country's price of gold.

The world level of basic commodities in gold in six countries fell from 135 to 62 percent of pre-war, and for the past 17 months has been very stable, varying from 62 to 64. In February 1933 basic commodities in the world were 67 percent of pre-war and 30 basic commodities in the United States were 66 percent of pre-war. In January 1935 the basic commodity index was 112 and had advanced about as much as the price of gold would call for. ( $66 \times 1.69 = 112$ )

Our price level is a product of the world level of commodity prices in gold and our price of gold. We cannot control the world price level, but we can control our price of gold and thereby control our price level.

Since the United States is on the gold standard, it follows that the United States cannot keep its price level far out of line with the world level of prices in gold by the discount rate, by velocity, by greenbacks, by silver certificates, by Federal Reserve notes, by unbalanced budgets, by confidence, by public works, by tariffs, by quotas, by crop destruction, or by giving away money. This is regardless of how meritorious or injurious any of these may be from other standpoints. No country can keep its price level far out of line with the world level and no country has been able to strikingly affect the world level of prices.

It is definitely recognized that change in the price of gold in the United States has been a potent factor in raising commodity prices. It is also recognized that further use of the existing power to raise the price of gold can be a material influence for a further upping of commodity prices.

## COTTON

Most of the advance in the dollar price of cotton since February 1933 has been due to the rise in the price of gold. From February 1933 to March 18, 1935, prices of cotton at New York were 6.1 and 10.65 cents per pound. The price of cotton has advanced 75 percent, slightly more than the 69 percent advance in the price of gold. In terms of the old gold dollar the price of cotton in the United States has risen 3 percent. In February 1933 the price of cotton at Havre, France, was 209 francs, and on March 18, 1935, cotton was worth 222 francs, or cotton had advanced 6 percent at Havre. France is on the gold standard and there is no question but that cotton in gold has advanced only 6 percent. Therefore, the 75 percent advance in the price of cotton is largely attributable to the depreciation of the dollar—the 69 percent advance in the price of gold.

The price of cotton in the United States is a product of the world price of cotton in gold and the dollar price of gold in the United States. If the world gold price of cotton did not change and we raised the price of gold from \$35 to \$45 an ounce, the price of cotton at New York would be about as follows:

Price of gold	Price of cotton	Price of gold	Price of cotton
\$35	\$10.3	\$40	\$11.8
36	10.6	41	12.1
37	10.9	42	12.4
38	11.2	43	12.7
39	11.5	44	13.0



The advantage in the price of gold from \$20.67 to \$35 is a 69 percent change. All commodities rose from 87 to 115, or a 32 percent increase. All commodities did not rise by the full amount of the 69-percent advance in the dollar price of gold because of the Bureau of Labor index of all commodities was not completely deflated in February 1933. Therefore, the answer to the latter part of the question, "How much would it be necessary to raise the price of gold to bring the general price level to that of 1926", involves an analysis of prices, basic commodities which were completely deflated.

In February 1933 our index of 30 basic commodities was 66 percent of pre-war and at present is 112, and is in adjustment with the depreciation of the dollar ( $66 \times 1.69 = 112$ ). If our basic price level was in adjustment with the world level of basic commodities in February 1933 and if the world value of gold does not change, a price of gold of \$45.68 would be required to bring basic commodities into line with the 1926 level. ( $146 \div 66 = 2.21 \times \$20.67 = \$45.68$ )

If basic commodities were brought to the 1926 level they would have to rise 121 percent from the low of February 1933. All commodities would rise by a smaller percent, 68, because they were in a state of incomplete deflation in February 1933.

If commodity prices in gold throughout the world should rise 10 percent and this was reflected in our basic price level, a \$41.34 price of gold would bring basic commodities and all commodities to about the 1926 level ( $146 \div 73 = 2.0 \times \$20.67 = \$41.34$ ).

If commodity prices in terms of gold throughout the world should rise 15 percent, about a \$39.69 price of gold would bring basic and all commodities to the 1926 level ( $146 \div 76 = 1.92 \times \$20.67 = \$39.69$ ).

If commodity prices in terms of gold throughout the world should rise 20 percent, a price of about \$38.24 would be required to bring basic and all commodity prices to the 1926 level ( $146 \div 79 = 1.85 \times \$20.67 = \$38.24$ ).

If commodity prices in terms of gold throughout the world should rise 25 percent, a \$36.38 price of gold would bring basic and all commodities to the 1926 level ( $146 \div 83 = 1.76 \times \$20.67 = \$36.38$ ).

If commodity prices in terms of gold throughout the world should rise 30 percent, a \$35.14 price of gold would bring basic and all commodities to the 1926 level ( $146 \div 86 = 1.70 \times \$20.67 = \$35.14$ ).

But while we cannot control the world value of an ounce of gold, we can measurably control the internal value of the dollar by either changing the price of gold or flexing the number of grains of gold in the dollar, thereby controlling our domestic price level of commodities. This has been demonstrated conclusively since the spring of 1933. While the dollar was tied to gold in the fixed quantity of 23.22 grains, our commodity prices were firmly lashed to these tremendous swings in the world's value of gold. Following 1929, when that world value of gold finally soared to the highest level of modern times, we saw our commodity prices conversely go down to depths at which equities were wiped out, our farms and industrial business were paralyzed, our banks ruined by the thousands, and our whole economic life reduced to the verge of chaos. But once our dollar was cut loose from that fixed quantity of gold, prices of our basic commodities instantly moved upward and our farmers and producers generally were once more given a fresh breath of life.

The farmers of this country are convinced that a basic remedy for this whole trouble is to free the American dollar from these disastrous swings in the world value of gold. They are convinced that the chains by which the dollar is linked to gold must be flexible enough so that they will not periodically throttle the internal prices of the products of our farms and factories.

Mr. Frank A. Vanderlip said the other day before the Senate Agricultural Committee that our gold dollar of a fixed number of grains is not a measure of value at all, it is merely a measure of weight. He is right. We are convinced that what is needed above all else is to establish a domestic measure of value, one that will have a fairly constant purchasing power one month with another and one year with another. We are convinced that President Roosevelt was taking the soundest and most forward-looking position possible when he said in his message of July 3, 1933, to the London Economic Conference, "Let me be frank in saying that the U. S. A. seeks the kind of dollar which a generation hence will have the same purchasing and debt-paying power as the dollar value we hope to attain in the near future."



The farmers certainly have as great a stake in this proposition as any group. We have been among the worst sufferers from the old monetary system where under our internal prices have been wide open to the wild swings in world value of gold. If the American farmer and the American manufacturer and worker could be assured that the general level of commodity prices would be relatively stable over long years in the future, the greatest single hazard in our productive life would have been removed.

#### VARIOUS GROUPS MUST BE IN BALANCE

It is impossible for business to progress unless all groups are in reasonable balance. The so-called "delicate economic balance" existed during the period 1910-14. At that time little was heard about the need for farm relief and little was heard about the high cost of living. Farm taxes and farm wages were in proper adjustment with commodity prices and earnings of factory workers were also in proper adjustment.

Because of the declining value of gold which followed 1914, commodity prices increased rapidly. By June 1917 the price level of 30 basic commodities had reached an index of about 225 compared with an index of 100 during the 1910-14 period. Taxes, interest, farm wages, cost of living, the articles farmers buy, and the hourly earnings of factory workers lagged far behind the commodity price levels. It was then that we heard much about the high cost of living for city workers found their income far out of balance.

By 1920 things were getting back in a fair state of adjustment and our delicate economic balance was being restored. Then came an increase in the demand for gold, with a tremendous increase in its value. This resulted in a drastic lowering of commodity prices and by February 1933 we found that our economic balance was in the worst possible condition of maladjustment. The price level of 30 basic commodities sank to little more than one-half the 1910-14 level. The price of all commodities fell far below the 1910-14 level, while the prices received by farmers for food products fell to one-half the 1910-14 level. In February 1933 the index number of the articles farmers buy stood exactly at the 1910-14 level, while farm taxes and interest payments dropped but little below the high of 1920. While hourly earnings of factory workers had dropped considerably in 1933, still these wage rates were almost double that which prevailed in 1910-14.

In September 1934 we find that the prices of 30 basic commodities and all commodities were slightly above the pre-war level, while the prices received for food products were closely approaching an index of 100. In September 1934 hourly earnings of factory workers reached a new high, with an index of about 240.

It makes little difference over a long period of time to what level we stabilize prices, provided of course that all groups are in proper adjustment. It is impossible to bring down the level of fixed costs, including debts, freight rates, and the like, to the level of commodity prices, therefore the only sensible and logical thing to do is to raise commodity prices in line with fixed costs and debts.

Much progress has been made since March 1933 in raising commodity prices by adjusting the purchasing power of the dollar. We still have considerable distance to travel in bringing commodity prices in line with the level of fixed costs and debts. Unless this is accomplished there is little hope for farmers, regardless of all the many programs that might be undertaken in his behalf.

When prices are in proper adjustment, with fixed costs and debts, they should then be held at that point through stabilization of the purchasing power of the dollar.

#### A STABILIZED DOLLAR THE REMEDY OF THE GREAT EVIL

What is the so-called "commodity dollar"? In few words, it is a dollar that contains an amount of gold that will buy a given quantity of commodities at all times. It is a dollar that will vary slightly from time to time in the number of grains of gold that it contains, but will be stable in the actual quantity of things that it will buy.

It is not the intention here to discuss the technical details by which such a currency system would be set up, but it may be noted that the adjustment of such a dollar should not be left to political influence, nor even to fallible human judgment. Its adjustment should be made virtually auto-



matic to changes in the commodity price level. An accurate and comprehensive index of commodity prices would be set up by the Government. Then a governmental monetary authority or similar body would be charged with the duty of keeping the gold content of the dollar adjusted to counter-balance exactly any wide fluctuations in the price level.

To the farmer, to the worker, to the man on the street, these automatic changes of a few grains in the gold content of the dollar would mean practically nothing; he would pay no attention to them. The thing that he would know and that would be all-important to him is that his money would be dependable. His dollar would buy substantially the same amount of things in general next month, next year, and 10 years hence as it will buy now.

That kind of a dollar would allow us to enter into long-time contracts with complete assurance. It would absolutely prevent the situation where, because of rising prices as in 1915 to 1920, the creditor gets back actually only part of his loan; or, because of falling prices, as after 1920 or 1929, where the debtor is pressed beyond endurance and becomes wholly unable to pay. It would free us from these terrible deflation experiences which have overtaken us five times in the history of this country and each time have wrecked the fortunes and lives of a whole generation of hard-working people.

Attention should be called to the fact that a commodity dollar in the United States is no new thing, for today we actually have a commodity dollar; but unfortunately our dollar is based on just one commodity, namely, gold. To emphasize the fallacy of basing the dollar on just one commodity, it is only necessary to review what has happened over a long period of time in connection with the changing value of this commodity.

From 1814 to 1843 the value of gold rose 170 percent. From 1843 to 1872 it fell 39 percent. From 1872 to 1896 it rose 97 percent. From 1896 to 1914 it fell 34 percent. From 1914 to 1920 it fell 58 percent. From 1920 to 1934 it rose 281 percent.

If we ask any group of men to name the period when we had the greatest inflation in this country, about 9 out of 10 would answer by stating that we had our greatest inflation when greenbacks were issued. That answer would be wholly wrong, for our greatest period of inflation took place in 1896 to 1920 as a result of the extreme decline in the value of gold.

To base our dollar on a single commodity, which fluctuates so violently in value over a period of years, is extremely hazardous to the producers of commodities and therefore hazardous to our whole economic well-being.

It is interesting to compare the fluctuation in value of numerous commodities which took place from 1873 to date. In spite of the fact that the value of corn has been rising, it has been more stable over this long period than has the value of gold. The value of hides has been about as variable as the value of gold. The value of lard has been much more stable than gold. Although the value of pig iron has declined about 0.4 of a cent per year, it has been more stable than the value of gold. The value of copper is about as variable as the value of gold, while cotton has been more stable. Over this long period of time the value of wheat has been considerably more stable than the value of gold. Therefore, it is evident that as far as stability of purchasing power of the dollar is concerned, it would be better to have it hooked to wheat instead of gold in case we adhere to a one-commodity balance.

When we combine the values from 1873 to date of eight commodities—namely, corn, wheat, cotton, pig iron, copper lard, hides, and gold—we find that the combined value of these eight commodities has fluctuated but relatively little. What we need is a multiple commodity dollar in order that we may avoid the wide ranges in value which are bound to result in a single commodity.

Farmers have long recognized the wisdom of diversity in farming as a means of avoiding the hazards which frequently result in single-crop farming, just as in investments have long recognized the soundness of multiple investments. Exactly the same principle applies to the dollar.

It is sometimes charged that the proposal to reflate commodity prices in line with the level of debts and fixed costs, and then to stabilize the purchasing power of the dollar by means of a commodity dollar which would be controlled by the price level of numerous basic commodities, is wild, radical, and an untried scheme.



It is sometimes argued that it would keep the foreign exchanges in confusion, etc., etc. But such contentions lose their force in the light of the experience of other countries as well as our own in the last few years. England's experience alone supplies the answer to all that sort of talk.

England found in 1931 that she could not continue the process of deflation. She did follow it, in fact, until her industries and agriculture were paralyzed and her gold reserves exhausted. Then, in September 1931, England cut the pound loose from gold. The simple legislative act under which this was accomplished went through both Houses of Parliament on September 21, 1931. It repealed "Subsection 2 of section 1 of the Gold Standard Act of 1925", which was the subsection making British currency redeemable in gold. This law and the subsequent Finance Act of 1932 thus suspended redemption in gold and established a so-called "Exchange Equalization Fund" (of ultimately some 350 million pounds) which was to be used in the stabilization of the foreign exchanges. The legal sanction was very simple indeed.

Great Britain cut her pound loose from gold 3½ years ago. She has never since that time tied it up to gold. She maintains her free gold market in London where gold is bought and sold subject to all the free play of world influences. The English fiscal authorities have proved themselves thoroughly able to manage the pound, obviously with the fixed objective of keeping their commodity price level stable. They have not worried as to whether the theoretical content of the pound was 100 grains or 90 grains from day to day or from week to week. As a matter of fact, what they actually did over the long period was to raise the price of gold from 85 shillings an ounce to 143 shillings, which is simply another way of saying that they devalued the pound by about 40 percent.

England has demonstrated conclusively that a currency can be managed, that the theoretical gold content of the monetary unit can be changed frequently and that the commodity price level can thereby be fairly well stabilized. There are still persons in England who call this radical and who decry it as an experiment, but the weight of British opinion apparently is now firmly against going back to a pound of fixed gold content, and certainly it is dead against going back to a pound of the old gold parity.

What England has done with the pound has not been confined in its effects to that small island. A substantial part of the modern world is linked in its commercial and financial affairs to the sterling mechanism and has followed closely the lead of sterling. That includes Finland, Norway, Sweden, Denmark, Ireland, Canada, India, Australia, New Zealand, Bolivia, Argentina, and Brazil. In those so-called "sterling countries" which are predominantly agricultural, such as Argentina, Australia, and New Zealand, the effects of this monetary policy have been strikingly helpful. They have raised and stabilized their internal commodity prices. They have started agricultural production and incomes back upon the road toward recovery once more, and likewise general business activity.

#### OUR PROGRESS UNDER THE THOMAS AMENDMENT

Little time need be spent in pointing out the progress that has been made in restoring economic balance as a result of the Thomas amendment. When the gold standard was suspended internally and externally by unpegging the dollar in terms of foreign exchange, commodity prices advanced immediately and substantially in the United States.

That cutting of the dollar loose from a definite amount of gold in March and April of 1933 was like cutting the noose from a strangling man. Within a year after February 1933 the depreciation in the value of the dollar had been equivalent to a 69-percent advance in the price of gold. Within that same period the New York Journal of Commerce price index of 30 basic commodities had advanced 63 percent. Most of the rise in prices actually came in the first 7 months.

The Federal Reserve Bulletin of June 1933 carried an interesting study of the price of cotton, lard, silver, copper, tin, and rubber. There you have six basic commodities which include representative leaders among our domestic export and import items. The study showed that these commodities advanced 60 percent from March 1 to June 1, 1933. American prices responded at once when the dollar was freed from the pressure of the high world value of gold.



The previous speaker has outlined at length the economic improvement which has resulted in many lines of business since we left the old gold standard early in 1933. He has pointed out that industrial employment has improved, that pay rolls have increased, that bankruptcies have declined, that foreclosures have diminished, that tax payments have improved. The whole economic picture changed for the better beginning almost identically with the abandonment of that old dollar of the fixed weight of 23.22 grains of gold.

Farm people feel that some of the other steps taken later on in the recovery program, well intentioned though they were, were unfortunate and tended to nullify some of the good effects of the new gold policy.

The dollar has again been rigidly tied up to gold at \$35 an ounce since February 1, 1934. This means that our internal commodity prices are again linked up directly to whatever deflationary forces still exist in the high world value of gold. We feel that it is a mistake to tie the dollar to gold in a fixed ratio at \$35 an ounce upon the same principle that it was a mistake and became a calamity at \$20 an ounce.

In conclusion we would do well to recall that America's experiences with these great deflationary episodes resulting from a rise in the value of gold have been progressively worse. The deflation following the Civil War was worse than that which took place after the War of 1812. This latest one, since the World War, has been worse than any of its predecessors.

Our farm people are convinced that the one thing which did most to improve our economic condition has been a revaluation of the dollar. What has been done along this line constitutes the longest single step made since the founding of this country toward the establishment of something like a scientific currency mechanism. We are convinced that Congress should take the remaining step necessary to establish economic balance by raising commodity prices in line with debts and fixed costs through adjustment in the purchasing power of the dollar, and that economic balance be maintained through a commodity-dollar mechanism.

I pointed out that I am secretary of the New York State Farm Bureau Federation, and operate a potato farm in Washington County, N. Y. Unlike Mr. O'Neal I am a small farmer, while he is a large one. I have been working very intimately and closely with farmers during the past 10 years, and am in contact with them nearly every day, and my contacts lead me to conclude that the greatest need of the farmers at the present time is a raising of commodity prices to bring about balance between various groups, and then a stabilization of the purchasing power of the dollar to ward off the disastrous ups and downs in commodity prices that get us into so much trouble.

I think that at the outset it is necessary for us to recognize what makes price levels. There has been a great deal of research in connection with this subject, and this research leads to the fact that commodity prices are determined by a formula which is the supply of commodities and the demand for commodities in relation to the supply of and the demand for gold and the price of gold.

We hear a great many different theories as to what makes price. Most of them are based on theory, and there is little research to substantiate other than the theory that price is a result of the relative values existing between gold and commodities.

There have been some charts placed on your desk during the noon hour, and I would like to refer to a few of these charts, and if you will turn for the moment to the one numbered 17, which is on the back of the pack, I think that we can see some interesting relationship between gold and commodity prices since March 1933.

Now, perhaps there are a few of those sets of charts that fail to have this little chart attached to the back, no. 17.



I wish that we had the charts which precede this, dating back in economic history for about 156 years, showing that during that entire time there has been an extremely close relationship of the value of gold to the prices of commodities. However, we have it only from March 1933.

You will note that as the administration changed in March 1933, there was practically no change in the price level of basic commodities. Following the bank holiday, and the time when we suspended gold payments, we began to get a rapid rise in the price of gold, and by July 1, 1933, we had made remarkable progress, and you will note that the increase in the price of gold practically parallels the increase in the price level of 30 basic commodities.

We travel on through the summer of 1933 with ups and downs, both in the price of gold and in the price of commodities, and then we arrive at the point where, as was pointed out this morning, a few retarding things came into the field. However, our price of gold and the price of the 30 basic commodities have held a very, very close relationship. We got over in February 1934, and the price of gold flattened out at \$35 an ounce, and it has held that ever since.

Now, about June and July 1934, we began to read much in the newspapers about the drought in the West and the shortage of certain basic crops as the result of the drought, and we saw prices on the Chicago exchange jump rapidly, due to the fact that a number of those farm commodities are figured in this group of basic commodities, and we got a substantial rise in the basic commodity price level during July and August 1934.

However, the shortage from the drought was not quite as severe as the public was led to believe, and the scare got over somewhat and prices started back down.

I wish that we had this chart brought up to date. We have it in our office at Ithaca brought up to date, and today the lines are practically coinciding again.

Mr. Cross. Have you a list of those commodities that you used?

Mr. Foster. I have not them here. I can furnish you with them. There are iron, tin, copper, wool, cotton, corn, and a whole group of those basic products. I would be very glad to furnish that list to the committee.

So, we have lots of evidence that the two things run together, the price of gold and the price of basic commodities.

Now, if you will turn to chart 1 in the same group of charts, we have the price of raw materials in six countries expressed in pre-war gold currencies. You will note the tremendous fall from 1929 down to date. If we were to plot the increase in the value of gold, we would have just exactly the reverse of that. So, if we will take our pencils and start in the lower left-hand corner and go up toward the upper right-hand corner, we would have what has happened to the value of gold.

Leaving the chart for just a moment, the commodities listed in that group of 30 basics include the following: Wheat, corn, oats, rye, barley, flour, beets, pork, lard, eggs, butter, cheese, sugar, coffee, cocoa, cotton, print cloth, wool, silk, burlap, copper, tin, zinc, lead, silver,



hides, rubber, linseed oil, turpentine, and petroleum. That is the group of the 30 basics.

Turning back again to the charts, and to page 1, we find what has happened to commodity prices in six countries, expressed in gold. The value in gold is just the reverse of that other chart.

Now, it seems to me that that is very distinct evidence that the gold program has worked. I cannot point to any more telling evidence than the relationship which the chart on page 17 here shows:

Mr. GOLDSBOROUGH. I wonder if I might interrupt.

Mr. FOSTER. Certainly.

Mr. GOLDSBOROUGH. I have something on my mind that I intended to ask the other two witnesses after they had finished, and then I forgot it.

I notice that your chart goes way up to 138 in 1929, for raw materials. Now, I do not remember that after 1920 the prices on basic commodities, so far as the farmer was concerned, were ever particularly satisfactory. So far as wheat, corn, and cotton are concerned, I do not remember that they were anything like 138 in 1929, from what I knew about it.

Mr. FOSTER. Those particular commodities that you just mentioned now, I think, were not. The general trend of basic commodities has been pretty much down ever since 1920. They have had their ups and downs, but the trend has been down, with a very severe fall following 1929.

Does that clear up that point, Congressman?

Mr. GOLDSBOROUGH. You see, you have a line there that indicates that the prices were satisfactory. It is my recollection that they were not satisfactory insofar as basic farm products were concerned at any time after 1920 and up to the present time. That is my recollection, and it is rather distinct.

Mr. FOSTER. I think that you are quite right. There has been a lot of farm commodities in there that were classed as raw materials, that were too low in price compared to the fixed costs of the farmers in that period.

The CHAIRMAN. And our tariff comes into that calculation, because some of our farm products are protected by tariffs, where some others are not.

Mr. FOSTER. Correct. There is a number of raw products in here, however, that enjoyed pretty good prices during those good industrial days up to 1929. In other words, some of the raw materials that went into industrial products were in quite big demand at that time.

If you will just turn to page 2 in that group of charts, there is some more evidence there of what happens in connection with the gold program. England got a jump on us by quite some extent in revaluing her currency. You will note that in 1931, when England revalued, it practically stopped the downward line in the commodity price level. They flattened it out very much, while the United States, clinging to the gold at \$20.67, had a constant fall in commodity prices way down to March 1933 and when we revalued we immediately shot back in line with prices in England.

Mr. GOLDSBOROUGH. I approve of devaluation very fully and heartily, but some of the arguments are not entirely clear to me. It seems to me that when you reach the point of devaluation where you have a



satisfactory supply of money, this race for devaluation between the exporting countries is more or less of a trading proposition and it becomes a matter of who can set the pace from day to day. Naturally that has to be limited, for if we deflate more than England, and then England should deflate more than we do, and then France should come along and deflate still more, that sort of a thing has to come to an end some time.

I am wondering if you could go into that and explain on what theory this devaluation is proceeding. Of course, we cannot, as a matter of propriety, base valuation on a mere matter of horse trading, don't you know, from day to day. We have to have a basic principle to guide us, and the only basic principle that I know anything about is putting more money in circulation.

Mr. FOSTER. I will try to answer your question, Congressman. I am not an economist, but I will answer it from a layman's point of view.

I think that devaluation purely from the point of view of attempting to build a world trade is futile, because there is no end to it. If you carry it on far enough, you have what we might term zero with the rim knocked off. It gets to be absolutely zero.

It seems to me that the sound point in the thing is that we have to revalue far enough to raise prices sufficiently where the producers of basic commodities in this country can cover their debt and fixed cost levels, and have some money to spend on top of that for the industrial products that they need, and, with the stepping up of general business, it puts us in a position to import the things that we need. We need a tremendous lot of rubber and that type of thing in this country, and as we step up our business internally and raise our internal prices, it puts us in position to deal with other countries.

Mr. GOLDSBOROUGH. Let us assume that we had reached the point where further devaluation internationally is economically unsound and impossible in this country; then, of course, other commodities will gradually be raised in price until your basic commodities, relatively speaking, are no better off than now or have been in the past.

Is that not so?

Mr. FOSTER. Devaluation will help the producers of basic commodities first, and much more rapidly than any other group.

Mr. GOLDSBOROUGH. But devaluation will lose its usefulness, of course, to the farmer when it has acted on other commodities to the full extent, just as it has on the basic commodities. Is not that true?

Mr. FOSTER. Of course, it will not act on other commodities nearly to the extent that it will on basic commodities.

Mr. GOLDSBOROUGH. But ultimately it will.

Mr. FOSTER. I think not.

Mr. GOLDSBOROUGH. I do not see how you can help it.

Mr. FOSTER. There are a lot of commodities that are under more or less monopolistic control, the prices of which are set pretty much by monopolies.

Many people refer to the fact that the price level of all commodities has not kept pace with the 69 percent that gold has been increased in price, and the reason for that is that a lot of the commodities listed in the general commodity group never fell very much. For example, steel rails all during the depression held at their old



level. The price was pretty much set by monopoly, and that is true of shoes, very largely, in comparison to leather.

Mr. GOLDSBOROUGH. I can understand the value of revaluation as a trading proposition. I thoroughly understand that England got off the gold standard long before we did, and we here in Congress begged the folks down town to do something about it, to let us do it, but they would not do it, but what I am trying to gather from you right now is whether, in your judgment, the economic value to this country of devaluation is not bound ultimately to cease, because if each exporting country gets into a race as to who can devalue the most, it gets to be a farce after a while.

Mr. FOSTER. I would answer that by saying that if we devalue to the point where we raise basic commodities back in line with fixed costs and debts, and then should we peg our dollar to a definite amount of gold, which in the future would make it subject to the world changes in the value of gold, over a long period of time that would not gain too much, but we will gain if we can adjust our revaluation so that basic commodities are in line with debts and fixed costs, and then set up a mechanism to maintain equilibrium in there, and stability in prices. Then we can win.

Mr. GOLDSBOROUGH. That had not been mentioned before by any of the witnesses, don't you know, and it should have been, because a great many members of this committee feel that this horse race of devaluation seems in the end to be a futile proposition.

Mr. FOSTER. Let us turn to page 2 of the group of charts now, showing the relationship of commodity prices between England and the United States following 1931, when England devalued and prevented further deflation, and when we continued as we were, and then our coming back in line with the Englishmen when we did our revaluing.

There is one thing that is pretty certain, and that is that we cannot get our prices expressed in terms of gold out of line with world prices in gold. In England, back in March 1933, it required 1.794 ounces of gold to buy a bale of cotton. Now, today it requires, in England, 1.792 ounces of gold to buy a bale of cotton. So, in England today, cotton is selling just about the same as it was in March 1933, in terms of ounces of gold.

In the United States, in March 1933, it required 1.693 ounces of gold to buy a bale of cotton. Today in the United States it requires 1.614 ounces of gold, so that cotton today in the United States, expressed in terms of gold, is almost identical in price with that of March 1933.

The CHAIRMAN. That would seem to indicate that the drift in cotton prices has been the result of our gold policy.

Mr. FOSTER. In the United States?

The CHAIRMAN. Yes.

Mr. FOSTER. That is the way I would interpret it.

Mr. CROSS. The trouble with it has been that we have taken one commodity, gold, and attempted to put everything at the mercy of that one commodity; that is, all of the other commodities at the mercy of gold.

Of course, gold costs a dentist just as much uncoined as it would if it were coined.



You referred to the price of cotton in England. The price of cotton in England, in so many ounces of gold, is the same as it is here, but, as to your monetary unit, it depends on how many grains of gold you have in it.

Mr. FOSTER. Expressed in terms of dollars, we made a nice gain in the United States, but, expressed in terms of ounces of gold, our price today is practically the same as it was in March 1933.

Mr. FORD. A bale of cotton will not buy more gold abroad today than it would then.

Mr. FOSTER. That is right, but you can exchange it for more dollars in this country.

Let us turn to page 3 of that chart for just a moment, on which there are two charts, the upper right-hand chart showing the practice in six gold-bloc countries, and then comparing France with that, showing that prices expressed in gold in one country keep in line with prices expressed in gold in other gold-bloc countries.

Down in the left-hand corner we have an example of what happened in Denmark. Up until 1931, Denmark's prices were following those in the six countries. Then they turned upward.

Mr. WOLCOTT. Do you not think that market operations might have had the same effect as increasing the price of gold? Do you contend that this whole price structure is tied up with the price of gold?

Mr. FOSTER. Yes.

Mr. WOLCOTT. Do you not think that the open market operations of the Federal Reserve Board have some relationship there?

Mr. FOSTER. I think maybe a little bit, temporarily, but I think that they are only temporary.

Mr. WOLCOTT. These charts look familiar to me. I think that they are about the same charts as Professor Pearson had before the committee last year.

Mr. FOSTER. Yes.

Mr. WOLCOTT. I called his attention to the fact that in 1932 there was quite a perceptible rise in the commodity price index, and it seems to me that he replied that it was due to the open market operations of the Hoover administration that the prices started going up.

Mr. FOSTER. I do not know. I cannot answer that.

Mr. WOLCOTT. I can cite his testimony. I asked him this:

About the middle of 1932, I would say in July—

That should have been August—

there was quite a perceptible increase in the prices of common stocks of the United States, and then they leveled off and started down again. How do you account for that?

His answer was:

That was the attempt of the previous administration to raise commodity prices.

Then I asked him if that was as the result of the open-market operations, and he said "yes."

At least the open-market operations are recognized as useful.

Mr. FOSTER. There was some pegging of wheat about that time. It probably brought that up to some extent.



Mr. WOLCOTT. I thought that that was a remarkable concession on his part, because he had told us very definitely that nothing mattered except the rise and fall in the price of gold.

Mr. FOSTER. It seems to me that anything that tends toward being monopolistic in nature, such as the steel men have been able to do in holding the price of steel rails up, that where that can be accomplished, it is naturally a factor in holding the price up a little, but the hazardous thing about that is that it reduced volume at a tremendous rate for the particular commodity concerned. It seems to me that equalization of groups is the immediate goal that the farm people at least have been working toward for a long time.

Let us turn to page 10 in the set of charts. The first chart indicates the condition that we were all familiar with from 1910 to 1914.

Mr. GOLDSBOROUGH. What is the number of that chart?

Mr. FOSTER. It is on page 10. It is in pencil at the bottom.

From 1910 to 1914 is a period that we are all familiar with, when we were supposed to have the rather delicate economic balance that caused all groups of people to be reasonably happy, finding the various things flattened out at an index of about 100.

By June 1917 we had an entirely different picture, at the bottom of the page, with the 30 basic commodities responding very rapidly to the price raise which followed 1914, the basic commodities going up faster than anything else when prices rose. We found that all commodities made a very substantial increase but not as large as the basic commodities, because they are not as sensitive during periods of price rises as are the 30 basic commodities.

Then we next find the farm food prices going up very rapidly, of course, because food was in much demand during that war-time period, and food prices respond rapidly as prices advance, and that is the time when we heard so much about the high cost of living and when the papers were filled with the "H. C. L."

Farm taxes did not come up very fast; interest payments did not come up very fast; farm wages did not come up very fast; and way over on the right-hand corner you will find the average earnings of factory workers, which came up slowly until 1917. The people working in the factories had a hard job of it to buy at the high prices of commodities.

Now turn to page 12, and there we find the condition that existed in April 1920, with the 30 basic commodities clear up to about 250—all commodities well up to that line—and see what had happened to hourly earnings by that time. Farm taxes came up, interest payments came up, and we were attempting to seek equalization again, or reach equalization, about 1920. We did see various things getting back pretty much in adjustment.

Then, by February 1933, at the bottom of the page, we find an extremely serious condition from the farmers' point of view as well as from the point of view of other groups, with the 30 basic commodities sinking down to little more than one-half of the pre-war level, with farm food prices sinking just about to one-half of pre-war, and with farm taxes remaining at an index of about 160, with interest payments at about 175, and farm wages came down very, very rapidly, because the farmers did not have anything to pay them



with, and the hourly earnings came down to quite some extent, however stopping at about an index of 175.

Now, if we turn back to the page marked "11", we find the condition that existed in September 1934, after we had had some revaluation. We find there that the 30 basic commodities had gotten up. The index line of 100 was for all commodities. Farm food very closely approached it, and it is closer today than it was in September. Retail food has not gone up so very much, although we hear quite a good deal about retail food being so high. The articles that the farmers buy have gone up to quite some extent but not nearly as fast as farm food prices.

The interesting thing to note here is that farm taxes are still indexing at about 155, interest payments at about 160, and the hourly earnings of factory workers have gotten clear up to about 240 at the present time. You will notice that that has gone up very, very rapidly since the previous charts that we were looking at here for February 1933. Wage rates have increased materially in some industrial lines and, we claim, have gotten up to a point so that they are higher now than they ever have been.

Now we are getting back toward a much better balance than we had in February 1933, but we have to go some more yet.

Mr. BROWN of Michigan. I think that you ought to explain this more fully. The term "hourly earnings" is rather confusing to me. It is hard to say that wages are higher today than they ever were. Do you mean the hourly wage or the flat day's pay?

Mr. FOSTER. No; I mean the hourly wages of the factory workers.

Mr. BROWN of Michigan. Of course, that does not give any indication of the total wages paid.

Mr. FOSTER. No. If we had a figure on here showing what we might call the "gross wages" of all earners, we would find that they have not come up anything like it is claimed here they have come up.

Mr. BROWN of Michigan. Could that be attributed to the National Industrial Recovery Act—that increase in hourly pay?

Mr. FOSTER. I do not know what that would be attributable to. I would imagine from what contact I have had with quite a number of industrial men that that certainly has been somewhat of a factor in there. There has been a tendency to shove wage rates up and to cut hours.

Mr. CROSS. I do not know how far wages have gone up over the country as a whole, but they have not gone up down in Texas. If anything, they are lower today than they ever were.

Mr. FOSTER. Farm wages have been lagging behind.

On this chart, September 1934, farm wages are just about on the same line as farm food for the United States. Farm wages never got as high in the index as farm food, but they are again about the same level. Farm wages have made quite a little come-back but no such come-back as industrial wages.

The important thing seems to be balance between these various groups for distribution of income, and a good many people think that instead of raising the prices of basic commodities there we ought to tear down these other things. That is just a tremendous job that will probably never get accomplished while many of us are alive, because



to do that we first have to get fixed costs way down, which means tremendous cutting of all types of mortgages, all types of debts. It means tremendous cutting of taxes; it means tremendous cutting of wages way down, and that type of thing just cannot be done. If it is attempted, and it is attempted to carry it through to a conclusion, it is bound to result in tremendous disorder if not a good many cracked skulls, and it just is not a practical thing to do.

The only practical thing to do seems to be to raise these other groups up to a reasonable level of balance, and that can be done. There is plenty of evidence that a lot of progress has been made toward that goal, but we can see clearly that there needs to be some more progress made yet. Commodity prices should, by all means, be raised above their present levels. Otherwise the producers of basic commodities, and especially farm commodities, cannot possibly cover their debts and their fixed costs and have anything to spend.

Now, we have talked here about the desirability of equalization in regard to the various groups; and if and when we can get into a stage of higher, desirable, economic balance, we then ought to set up some type of mechanism to keep ourselves as nearly as possible at that level. Certainly history shows that the system that we have followed in the past has led us into long periods of prosperity and long periods of depression, time after time, and that the worst part of it is that each one seems to get a little bit worse than its predecessor.

We should not let that condition run on as we have. There must be some means of controlling it, and steps should be taken just as soon as possible to develop some system of holding ourselves in balance, once we attain that balance.

I have a few more charts here; but, unfortunately, I think that I only have 10 of them; but I would like to have you look at them for just a second.

The CHAIRMAN. Do you think that we are in a situation now where we could satisfactorily set a goal and a definite point at which to arrive?

Mr. FOSTER. That is a hard question to answer. As I said before, I am not an economist, but I think it is awfully difficult to arrive at any place unless we have a goal toward which we are trying to arrive. So I think that we ought to set up our goal; we ought to set it up something on this basis and follow it as a policy that we are going to get commodity prices back in line with the average which existed between 1921 and 1929, and then hold them at that point as nearly as possible.

I think that we ought to have that as a goal. I know that it would put a lot of heart into the farmers.

The CHAIRMAN. You do not mean certain commodities, but you mean the general level?

Mr. FOSTER. That is correct.

The CHAIRMAN. A sort of an equilibrium?

Mr. FOSTER. That is correct.

The CHAIRMAN. And yet you tell us that the gold policy can be so managed as to accomplish a part of that but that it can not be successfully employed to effect the entire situation?

Mr. FOSTER. I do not know that I get your question quite clearly there. What I mean to convey is that as far as commodities as a



group are concerned, if we take the average of, say, the 30 basics we can very definitely affect that average, either raising or lowering through the one program.

For any specific one commodity in that group, we may not be able to govern that thing for any one year by gold.

The CHAIRMAN. If I understand the situation, you say that we can, by the regulation of our gold valuation, accomplish the adjustment of the prices we may desire as to basic commodities, but not as to all commodities or finished goods.

Mr. FOSTER. Well, I do not know that I have the question in mind quite straight yet.

One thing I have tried to bring out here is that any raising of the price of gold, or devaluing the dollar, will send the basic commodities up in price much faster than all commodities, because in the entire group of commodities—and we have something over 700 of them—we have a lot that are just like steel rails, the price of which is set by a board of directors. In other words, it is a monopolistic control pretty largely, and not free to play in markets, so that with any raising of the price of gold, the price of things that did not come down certainly should not be raised. There are a lot of those 700 commodities which, during the deflation, came down but relatively little.

The CHAIRMAN. Yes; but if the policy has a general effect, the result would be necessarily to raise the price of all commodities.

Mr. FOSTER. Let us see. For all commodities the increase since March 1933 has been approximately 32 percent, and for the 30 basic commodities the increase has been approximately 67 percent.

The CHAIRMAN. So your theory is that you may continue your operations until you reach a balance between the two?

Mr. FOSTER. Or a reasonable balance; that is right.

Mr. CROSS. In that connection, I might say that some years ago I sold cotton at 42 cents a pound, so that a bale of cotton would buy  $11\frac{1}{2}$  ounces of gold. I think that in 1932 I sold cotton for about  $5\frac{1}{2}$  cents, so that a bale of cotton would buy about an ounce of gold.

When wheat was down, I sold it for about 20 cents a bushel, which would take 100 bushels of wheat to buy an ounce of gold. When wheat was \$3 a bushel, it took about 7 bushels to buy an ounce of gold, and that will run true when it comes to cattle and wool, because I know especially about those two, because I raise and sell wool and cattle.

So I imagine that on most basic commodities, at least agricultural commodities, it turned that kind of a somersault, and it shows you what gold has done; it had increased purchasing power enormously, for we were on the gold standard then.

Mr. GIFFORD. I want to inject a question.

This variable dollar has always interested me very much. I once tried to figure out how much of my income I spent for life insurance, for taxes, for travel, and for other things, and I found that the amount spent for commodities was a very small percentage of the dollar.

Mr. FOSTER. I do not know that I caught what you were saying. Is it your point that the rise in basic commodities does not influence the individual consumer very much? If so, it does influence tremendously the producer of those commodities.



Is that the point you had in mind?

Mr. GIFFORD. The point is that we are willing to pay more for our commodities, but what have you done to real-estate values, and to my insurance and taxes, for instance, and to all of these other things, which do not seem to have been helped by these methods?

Mr. FOSTER. The way they are helped seems to be this; that had we continued the deflation which we were in, and had not attempted revaluation, the life insurance which I hold and you hold, and the property which we hold would probably be worth a whole lot less today than it actually is. In other words, we have retained a lot of the values of the things that practically every man is interested in, such as insurance, land, and that sort of thing.

Mr. GIFFORD. But that is very indirect.

Mr. FOSTER. It may be indirect, but it seems to me that that is so.

Mr. GIFFORD. We are willing to give you a high price for your commodities, but if you are going to manipulate the dollar so that it will hang the rest of us, we are then not so much interested.

Mr. FOSTER. I do not think it would hang anybody, but that it would save a lot of people.

Mr. GIFFORD. As Mr. Goldsborough says, when you get the dollar down to 10 cents, where will you be?

Mr. FOSTER. I think that that would be wholly unwise, and I see no real reason for ever attempting it to the point where it would be destructive. I think that it would cause so much internal difficulty to do that, that it would be impossible to carry on.

Mr. GIFFORD. Are you trying to prove that the overproduction of basic commodities can be overcome by any manipulation of the dollar?

Mr. FOSTER. That brings up the point, first of all, as to whether or not we have excessive overproduction. We certainly know that we have excessive underconsumption in nearly all lines. We certainly have the farms for all industrial products, and we know that in the cities there is a great underconsumption of many farm products, so that it is difficult to say that we are really smothering any surpluses.

Mr. GIFFORD. My sympathy is with you if you want to get your commodities up, but it is not with you where I am made to sacrifice 30 percent of my holdings.

Mr. FOSTER. I do not think that it would be a sacrifice, but a gain.

Mr. CROSS. As I understand it, you want a dollar bill that will do justice to all at the present time. You want a dollar that, regardless of the number of grains of gold in it, whether it is 10 grains or some other figure, is neither feeble nor healthy, but a dollar with 10 grains in it that will buy as much as those dollars bought that had 22 or 23 grains in them at the time I loaned money to you—a dollar that will buy just about all the things that I need to live on, as the dollars that I loaned to you did?

Mr. FOSTER. We want the type of dollar that will buy the same quantity of things 10 years from now that it will buy today, if we do it on the right basis.

Mr. WOLCOTT. That is, a commodity dollar?

Mr. FOSTER. A commodity dollar; and in that connection there is one thing that I think we ought to keep in mind. We talk about



a commodity dollar. We already have one today. We have had a commodity dollar for years in this country, but it is a one-commodity dollar. It has been tied up with gold, and based entirely on that.

Mr. WOLCOTT. That is the point that I would like to clear up with respect to this whole situation. The criticism of our present system, or past system, is that we have been tied up with gold, and yet Professor Warren, Professor Pearson, and yourself, and all of the other people that I have heard that advocate gold deflation, still keep that dollar tied to gold. So I cannot appreciate the argument myself, where you denounce the gold standard, and at the same time say that you have to tie to gold, because if the gold dollar was wrong in 1926, as they claim it was, and you want to return to the 1926 standard, what difference does it make whether we devalue to a 59-cent dollar or a 50-cent dollar, as far as those arguments are concerned, so long as they are tied to gold, and we have the same influence in the world market as we would if we had a 100-cent dollar?

Mr. FOSTER. When we are tied to a definite weight of gold, we are subject to the world-wide increase in demand for gold. We increase the value of gold, or the reverse.

Mr. WOLCOTT. But this bill advocates the purchase of silver up to 1,000,000,000 ounces, and, of course, we know that there are not a billion ounces of silver. The most that is available is possibly 200,000,000 ounces.

Mr. CROSS. I think that there is a little more than that, but nobody knows how much there is to be had.

Mr. WOLCOTT. That puts us on sort of a bimetallic base, and if what I have read is correct, no country in the world has been on a bimetallic base for nearly 70 years, and the reason that I bring that up is this: What opportunity is there for this country, if it should be on a bimetallic base, to sit down around the table at The Hague or anywhere else at an economic conference and work out an international exchange on any base unless we first adopt an international base or some base which the major countries have adopted? If we stand as a bimetallic country, in what position would we be with England or Germany, or with France or any of those nations that are on a gold standard?

On the other hand, if we continue our gold-purchase program, and acquire 80 or 90 percent of the world's gold, and, of course, the same thing is true with respect to silver, if we should acquire or have 89 percent of the world's silver, then the other countries will be forced to abandon any sort of an international agreement with us, and all that we will have in our Treasury is a commodity. We might as well have so many bushels of wheat as to have gold, because there will be no market for the gold that we have. They will be off of the gold standard, or off of the silver standard, by reason of the fact that we have acquired all of the gold or all of the silver, and they will say, "We do not care about your gold or silver standard; we are on some other kind of a standard."

So I cannot get the consistency of this program, if you still keep it tied to gold.



Mr. FOSTER. Gold seems to be one commodity that practically all of the world wants, and it is one that is accepted very readily in foreign exchange.

Mr. WOLCOTT. I understand that.

Mr. FOSTER. It seems to be one of the best single commodities from that point of view that has ever been developed.

Mr. WOLCOTT. I understand that that applies to the gold standard, but I cannot subscribe whole-heartedly to the idea that the United States should abandon for all time or for all purposes the gold standard.

Mr. FOSTER. I think that we agree with you perfectly on that. What we want is a dollar based on gold, but with the grains of gold or the price of gold flexible. In other words, what we want is the type of gold dollar—

Mr. WOLCOTT. You want a gold dollar, but you want the standard to be fixed in such a manner that it can fluctuate and keep the price of commodities stable.

Mr. FOSTER. That is what we want.

Mr. CROSS. In other words, you want the number of grains in the dollar to fluctuate in response to the whole commodity price level.

Mr. FOSTER. Correct.

Mr. WOLCOTT. So that a bushel of wheat costing \$1 today will cost \$1 20 years from now.

Mr. CROSS. No; that means taking the whole 30 basic commodities.

Mr. WOLCOTT. I am taking the one commodity as an example. Let us take a bushel of wheat worth a dollar today. You want to create a situation with reference to the dollar 20 years from now, by fluctuating the value of the gold instead of maintaining the constant value of gold and causing the value of the wheat to fluctuate.

Mr. FOSTER. That is correct.

Mr. WOLCOTT. That is perfectly simple; we are all agreed that, that is simple up to the point where the consumption and the production of those commodities are more or less stable, but the condition such as we have had during the last year, and which confronts us this year, with the drought, and so forth, seems to knock that whole theory into a cocked hat.

Mr. FOSTER. It would knock it in this sense, that what we want is a dollar with a purchasing power that is constant over a period of years for a good sized group of basic commodities, but in any one year, the price would be arrived at by a formula, which is supply of and demand for a specific commodity in its relationship to the supply of and demand for gold, so that in any one year, even under a commodity dollar, we might find wheat way up in price because of a drought or extreme shortage in production.

Mr. WOLCOTT. Wheat is a basic commodity.

Mr. FOSTER. Yes.

Mr. WOLCOTT. What would happen if we adopted this dollar and created a Federal monetary authority which had as its objective the maintenance of a stable commodity price, and then because of some peculiar condition in wheat, due to drought or something of that nature, the price of wheat dropped down to 20 cents? Every wheat.



farmer would be here on our necks to do something for wheat. If the growers of some other commodity had their price drop way down, they, too, would be on our necks to do something for them, and what could we do? We would just simply tell them that we could not adjust that, excepting as the fall in the price of that commodity affected the index, taking into consideration the average of 784 commodities.

Mr. GOLDSBOROUGH. As I understand it, your proposition is not to interfere in any way with the law of supply and demand.

Mr. FOSTER. That is right.

Mr. GOLDSBOROUGH. Your proposition is to maintain a stable average price for basic commodities, and there is no price fixing in your program whatever?

Mr. FOSTER. Not at all.

The CHAIRMAN. That does not get away from what Mr. Wolcott says.

Mr. CROSS. I can get away from that. When any commodity like cotton goes too low, then I go in and plant oats, or put it in pasture and raise sheep, and I shift things to meet that situation.

Mr. WOLCOTT. You know, in order to meet that situation, the A. A. A. was created to curtail the production of wheat and to curtail the production of cotton and everything, including sugar beets, but the people did not respond as it was expected they would. The wheat farmers insisted upon growing wheat, and the cotton growers insisted upon growing cotton, whether they were justified in that or not, nevertheless they sought relief. If what Mr. Cross says is true, all that they needed to do in the cotton belt was to start growing carrots, but when the production of wheat reached, as it did in 1921, if I remember the figures correctly, when we consumed 20 percent per capita less wheat in 1921 than in 1913, and we were producing 20 percent per capita more wheat in 1921 than in 1913, it resulted in a total disparity of nearly a 40 percent surplus of wheat.

Now, what I do not understand is this: I am heartily in agreement with some plan that might accomplish what I understand to be your purpose, but I am trying to get the practical side of it. Of course, we are all theorists on this thing, but, to get the practical end of it, how can we manipulate this to prevent a situation where the wheat farmers in our great wheat belt, and where the cotton farmers in our great cotton-growing South, will be up against it because of a drought or because of over-production, and who will be urging us to manipulate this currency to meet their own situation?

Mr. FOSTER. It seems to me that the answer would be this, that when you bring basic commodities in line, so far as price is concerned, with the existing debt level, it will erase a lot of difficulties that you have cited here now.

Another thing that occurs to me is this, that you have raised the question, suppose that we had 40 basic commodities governing the purchasing power of the dollar, and something went wrong with one of those commodities, such as would be caused by a drought, an extreme short crop, or extreme overproduction because of too much rain or something, and the point that you raise is, what would the producers of that particular commodity be seeking from Congress to correct their problem?



Mr. WOLCOTT. Yes.

Mr. FOSTER. It does not seem to me that when you use a base as broad as 40 commodities, very much is going to get wrong with many of those commodities for any specific year. In other words, as far as the base is concerned, one commodity going out of line for 1 year will not affect the total, because it may be but one-fortieth of the whole group, and I think that if one of those groups of producers finds that something is terribly out of joint in any one particular industry, that group as a unit has got to do some adjusting of its own supply and demand.

Mr. WOLCOTT. Now, if India, Chile, and other cotton-producing countries continue to increase their production as they have during this last year or so, to the prejudice of our exports of cotton, there will be a constant and continual decline in the world demand for our cotton. We have to meet that situation, because I think it is here, and I do not mind saying frankly that I think it is here because the administration has so forced up the price of cotton that the foreign countries cannot afford to purchase it. That is my own personal opinion; I do not expect anybody to agree with me. But I think that we are losing our possibilities of marketing rural products because of this program of artificially forcing up prices, so that foreign markets cannot afford to buy from us, and if that continues for 3 or 4 years, we cannot expect any other result than that the cotton growers are going to considerably restrict their market.

The same is true of wheat, and we have to reconcile ourselves to the fact that we cannot continue to compete with the acceleration in the production of wheat in foreign countries, to the extent that we are ever going to get back the wheat markets that we had years ago.

It is very well to say that the wheatgrowers should go into the business of growing something else, or that the cotton growers should go into the business of growing something else; that diversified farming is what we have been trying to sell the farmers for a good many years, but if wheat happens to be ordinarily 50 percent of the value of the farm crop, a change such as has been referred to in any one year in the situation with respect to wheat would throw the whole thing out of balance.

So, after all, we cannot rely upon these 40 basic commodities, or even upon the 784 basic commodities which the Department of Labor takes in establishing their price index. We have to get more or less specific instances. This Congress is always dealing with specific crops or with specific individuals, and so if we could adopt any plan which would meet this whole situation, it would be very simple, but I know that our subcommittee last year—and I think that Mr. Goldsborough will agree with me—for 7 steady weeks lived, slept, and ate with this problem, and that was constantly confronting us, what we could do to stabilize the individual crops when they became divorced from the basic commodities.

Mr. FORD. You say that we cannot sell cotton because it is too high. We exported less cotton at 5½ cents than we are exporting today.

Mr. WOLCOTT. You will recognize, will you not, that something has happened to the cotton market?



Mr. FISH. In the first place, I question the gentleman's figures very seriously. We have lost 60 percent of our cotton exports.

Mr. FORD. Since when?

Mr. FISH. In the last year and a half, and you might want to know, because I have the figures here, what our wheat export situation is.

We have exported, from July until March 16, 3,000,000 bushels, and we imported 16,000,000 bushels.

I do not think that the Congress or anyone else has the slightest idea of what is going on in the cotton market.

Mr. FORD. You will find that there was less cotton shipped when the price was down to 4½ and 5 cents than since it went up.

Mr. FISH. In the last year and a half we lost 60 percent of our export trade.

Mr. GOLDSBOROUGH. As I understand Mr. Foster, he is not here making an argument on behalf of any of these various "initialed" organizations downtown. His argument is that if we had adopted a commodity dollar in 1920, for instance, we would not have had this terrible catastrophe that we have had, and it would not have been necessary to create these various "initialed" organizations.

Is that right?

Mr. FOSTER. Correct.

Mr. DIRKSEN. He does not mean that.

Mr. GOLDSBOROUGH. That is what he says he means, and that is what I think is true, also.

What I think is this: I think that if we could have had a compensated dollar in 1920 up to the present time, the price of all basic commodities would have been stabilized, and our whole industrial and credit system would have been stabilized and placed on the same level, and overproduction would have been very greatly minimized in any given commodity, and, furthermore, this depression never would have taken place.

Mr. GIFFORD. Do you think that it has any relation whatever to overproduction?

Mr. GOLDSBOROUGH. Of course I do.

Mr. WOLCOTT. I think that it is generally agreed that our problem of overproduction is more one of distribution than it is of production.

Mr. GOLDSBOROUGH. And underconsumption.

Mr. WOLCOTT. Underconsumption is directly affiliated with distribution, because if you can distribute your crops in the United States, they will be consumed.

I do not know, and I hope that what Mr. Goldsborough says is correct, but I cannot see where the establishment of a commodity dollar would help the farmers on 5,000 acres of sugar beet ground in the State of Michigan which have gone out of production, because of the sugar allotment policies of the A. A. A. I cannot for the life of me see where the commodity dollar would affect materially the fact that in Portland, Maine, today, in the midst of the largest potato area in the world, they are selling fewer potatoes and the farmers are getting less than 40 percent of the cost of the production because they are selling these Cuban potatoes in Boston by reason of the fact that this reciprocal treaty allows them to do it.



I think it may be called demagogic, but the statement "America for Americans" nevertheless has its appeal.

But there are so many things entering into this question that I wonder if we do not have to take them all into consideration before we say that the commodity dollar is a panacea for all of our industrial ills.

Mr. FISH. I would like to put into the record here, because that matter was brought up, that the cotton export business has diminished from 8,000,000 bales down to less than 4,000,000 bales in the last 2 years.

Mr. CROSS. Would it not be appropriate for you to observe here as to whether or not the same amount of cotton has been exported from other countries?

Mr. FISH. Yes; 3,000,000 bales more have been exported from other countries.

Mr. CROSS. Where?

Mr. FISH. Brazil, India, Egypt, China, and parts of Africa.

Mr. CROSS. Brazil produces very little cotton.

Mr. FISH. I have given you the last figure; 3,000,000 bales more this year from those countries, and I do not want to make a prediction, but it will be a great deal more than that next year, too.

Mr. FOSTER. Getting back to our commodity dollar now, and I will attempt to close as soon as I can, for I do not want to hold you here too long, I have already referred to the fact that gold goes through a wide fluctuation of value, that we did have a single-commodity dollar, and that if we have our dollar tied to that commodity, with a definite number of grains, we are bound to have wide fluctuations in purchasing power over a period of years.

In the charts that I just recently passed out, you will note that although the value of corn has been rising, it has been more stable than the value of gold, that is, from 1873 on.

You will notice that the value of hides has been about as variable as the value of gold over a long period of time, and that the value of lard has been much more stable than the value of gold.

Pig iron has been declining about four-tenths of 1 percent per year, but it has been considerably more stable in value than gold. The value of copper has been about as variable as gold. The value of cotton has been more stable than the value of gold during that same period.

Over a long period of time, the value of wheat has been more stable than the value of gold, and when you average out the 8, as you will see in the last chart, the 8 commodities are far more stable than any one of the 8 taken individually, which would lead to the conclusion that if we could have our dollar based on gold, with the quantity of gold in the dollar or the price of gold fluctuating to keep the purchasing power of the dollar in line with a good-sized group of basic commodities, we could iron out a lot of troubles and a lot of our ups and downs, that get people into debt when prices rise and get them to the sheriff's door when prices fall.

I think that anything that we can accomplish along the line of stability is exceptionally good and should be accomplished.



I appreciate the opportunity of making these remarks here this afternoon, and we shall—

Mr. WOLCOTT. In respect to this last chart, it seems to me that gold has gone up. I assume that that line means that it has gone to \$35 an ounce?

Mr. FOSTER. In your last 8 years.

Mr. WOLCOTT. It seems to me that there is more disparity now between the price level of your eight commodities and the price of gold than there ever has been. If your theory is right, that the price of commodities follows the price of gold, why didn't these basic commodities try to keep up with the price of gold?

Mr. FOSTER. They did. You will notice that the average of the 8 commodities has turned up almost parallel, but has not gone as high.

Mr. WOLCOTT. The disparity was about 50 points, and now it is about 60 points.

Mr. FOSTER. Will you state that again?

Mr. WOLCOTT. The widest variation here, between 1890 and 1900, seems to be 50 points.

Mr. FOSTER. Yes.

Mr. WOLCOTT. And the disparity at the present time is about 60 points.

Mr. FOSTER. The reason for that is that the value of gold has gone up tremendously since about 1896, and the value has gone way out of line with the value of commodities.

Mr. WOLCOTT. You do not mean 1896, do you?

Mr. FOSTER. The value of gold has been increasing ever since about 1896.

Mr. WOLCOTT. According to your chart, the value of gold has been steadily going down since 1896, and reached a low in 1920, and now it is way up to an index of about 160.

Mr. FOSTER. You are correct as to from 1920 on, but we had a fall from 1896 on.

Mr. WOLCOTT. In 1933 there was a rise in the price of commodities, but still there was the widest disparity between the price of gold and the price of commodities.

Mr. FOSTER. That line represents the value of gold to the value of commodities. The value of gold has gone up at a tremendous rate, much faster than prices have gone up.

Then, the price of gold and the value of gold are two different things. Value is its exchange for commodities, and price is the exchange of currency for gold.

Mr. WOLCOTT. What is it you claim, that the price of commodities follows the price of gold?

Mr. FOSTER. The price of commodities follows the price of gold very closely.

Mr. WOLCOTT. But it does not necessarily follow that the value of gold does?

Mr. FOSTER. No. When gold becomes more valuable, the price of commodities goes down.

Mr. WOLCOTT. That is value in terms of purchasing power.

Mr. FOSTER. Purchasing power for commodities.



Mr. WOLCOTT. And we should not be too technical in reducing the purchasing power in terms of dollars, because when we reduce it in terms of dollars, we get this wide disparity which we do not get in terms of purchasing power.

Mr. FOSTER. Yes.

Mr. GOLDSBOROUGH. You had a statement that you also desired to include?

Mr. FOSTER. Yes; I have it here.

Mr. GOLDSBOROUGH. Without objection it is so ordered.

The CHAIRMAN. The committee will adjourn until 10:30 o'clock tomorrow morning.

(Thereupon, at 5 p. m., an adjournment was taken until Tuesday, Mar. 26, 1935, at 10:30 a. m.)

(The statement referred to was previously incorporated in this record; but the charts referred to by the witness follow.)

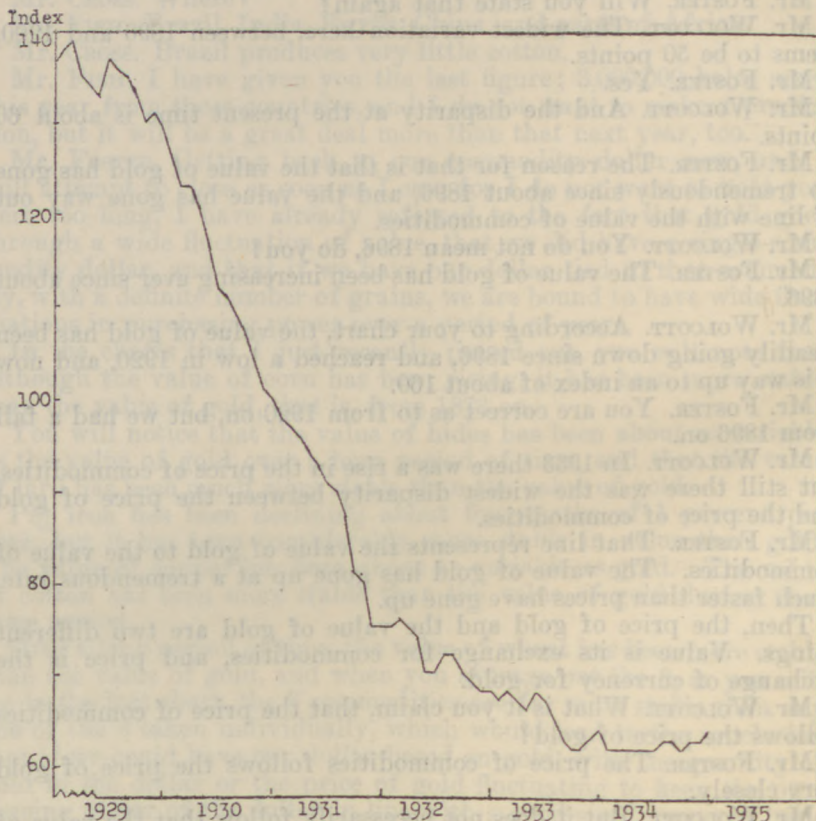


FIGURE 1.—Prices of raw materials in six countries expressed in pre-war gold currencies.

1913=100

Prices declined with great rapidity for three years, less rapidly for one year, and have been nearly stationary for about a year and a half.

Apparently the rapid increase in the value of gold has been checked.

Prices in gold are lower than at any previous time for a century and a half.



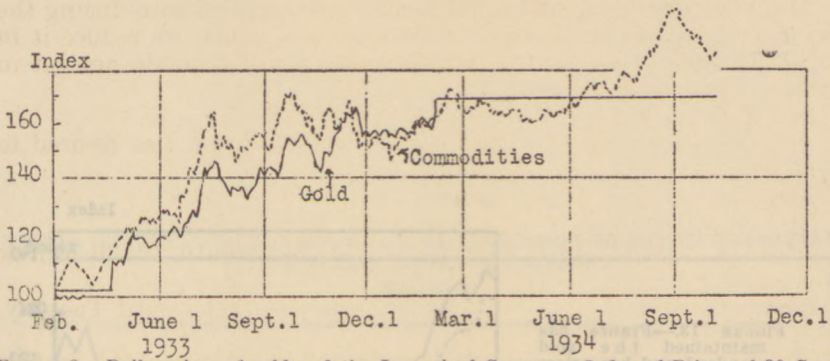


FIGURE 2.—Daily prices of gold and the Journal of Commerce Index of Prices of 30 Commodities, February 1933 to October 1934.

February 1933=100

Since prices in gold-standard countries have declined only a little during the year, prices in the United States moved approximately in proportion to the dollar price of gold.

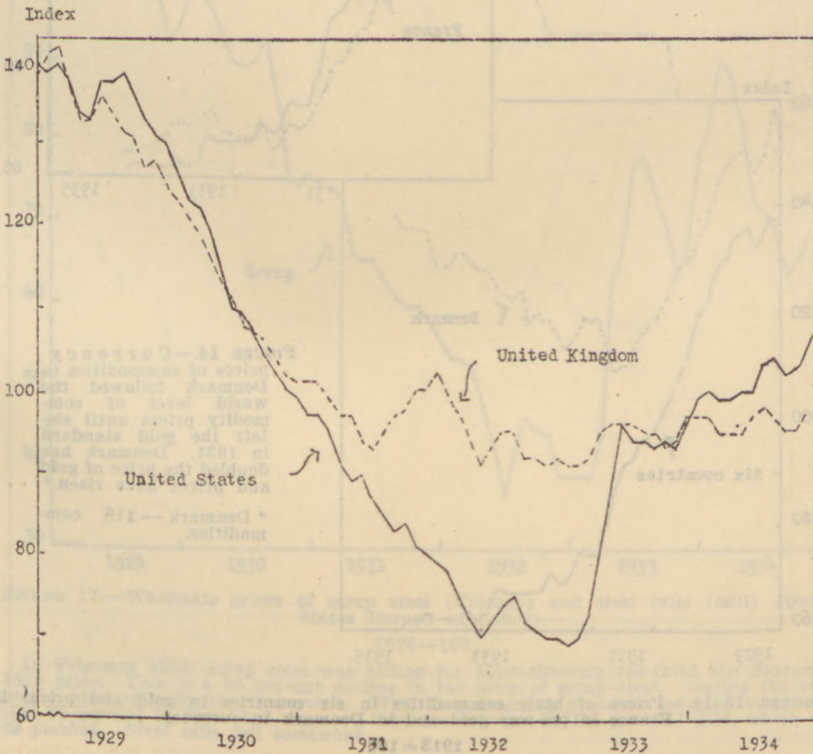


FIGURE 3.—The Sauerbeck-Statist index number for England and a comparable index number for the United States.

1913=100

PRICES IN CURRENCY

By suspending the gold standard and raising the price of gold in September 1931, at a time when gold was rapidly rising in value, England stopped the decline in prices. By raising the price of gold in 1933, prices in the United States were brought to the English level.



FIGURE 13.—France has maintained the gold standard and her prices have followed the world level of commodity prices in gold.

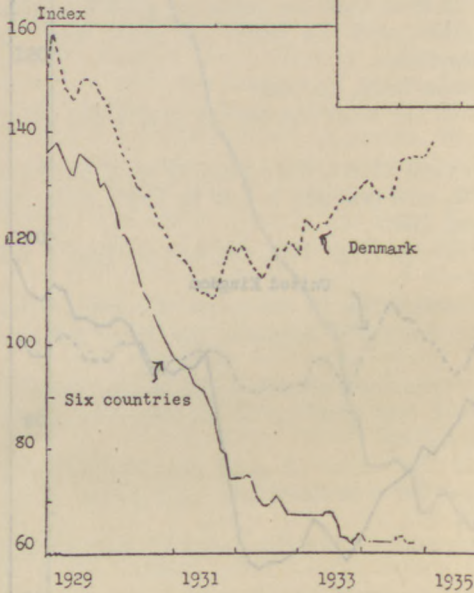
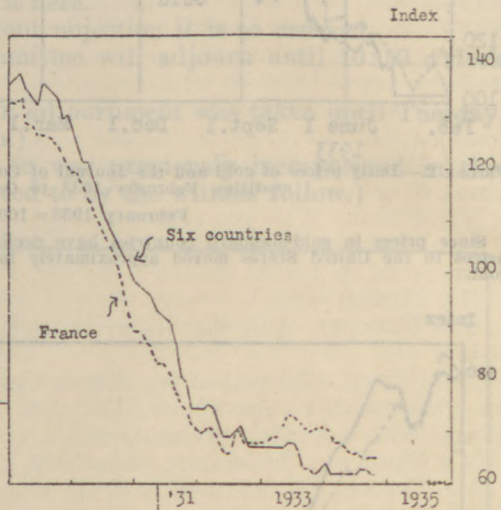


FIGURE 14.—Currency prices of commodities in Denmark followed the world level of commodity prices until she left the gold standard in 1931. Denmark has doubled the price of gold and prices have risen.\*

\* Denmark — 118 commodities.

FIGURES 13-14.—Prices of basic commodities in six countries in gold and prices in France in pre-war gold and in Denmark in currency. 1913=100



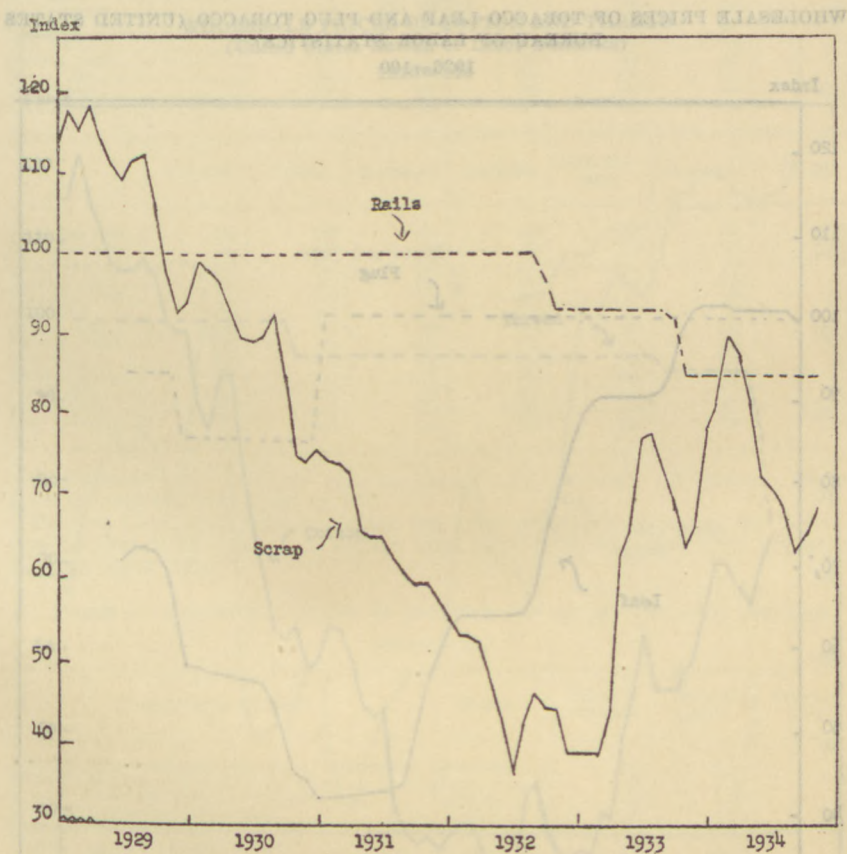
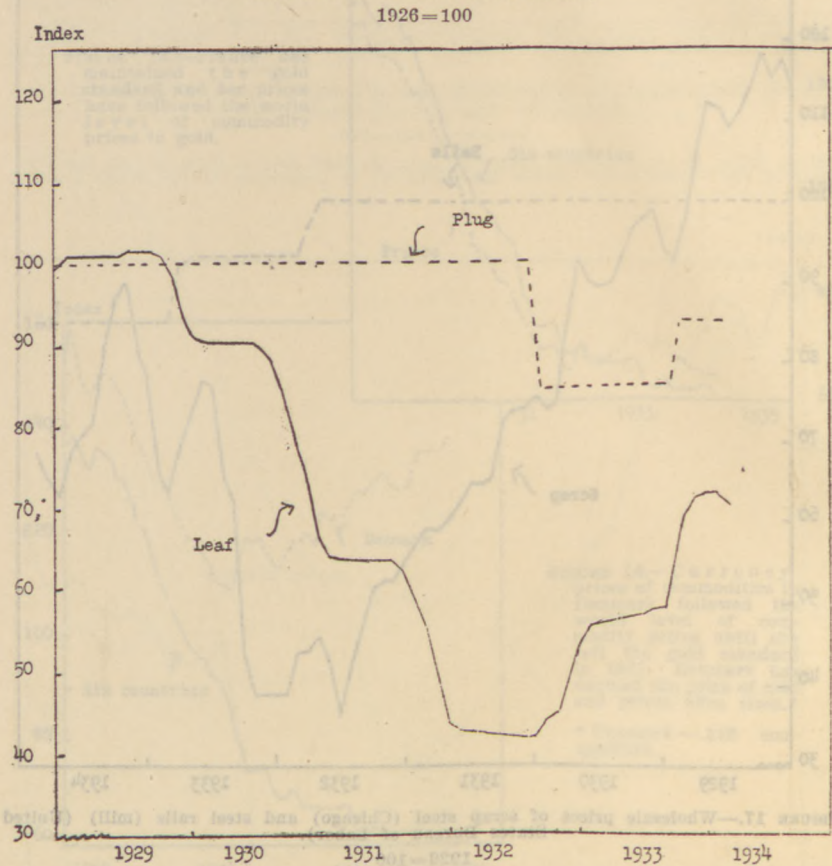


FIGURE 17.—Wholesale prices of scrap steel (Chicago) and steel rails (mill) (United States Bureau of Labor).  
1926=100

In February 1933, scrap steel was selling for approximately one-third the September 1929 price. This is a 65 percent decline in the price of scrap steel. During the same period, steel rails declined 7 percent. With the advancing premium for gold, scrap steel rose 76 percent in November, or more than the advance in the price of gold, which was 69 percent. Steel rails fell somewhat.



WHOLESALE PRICES OF TOBACCO LEAF AND PLUG TOBACCO (UNITED STATES  
BUREAU OF LABOR STATISTICS)



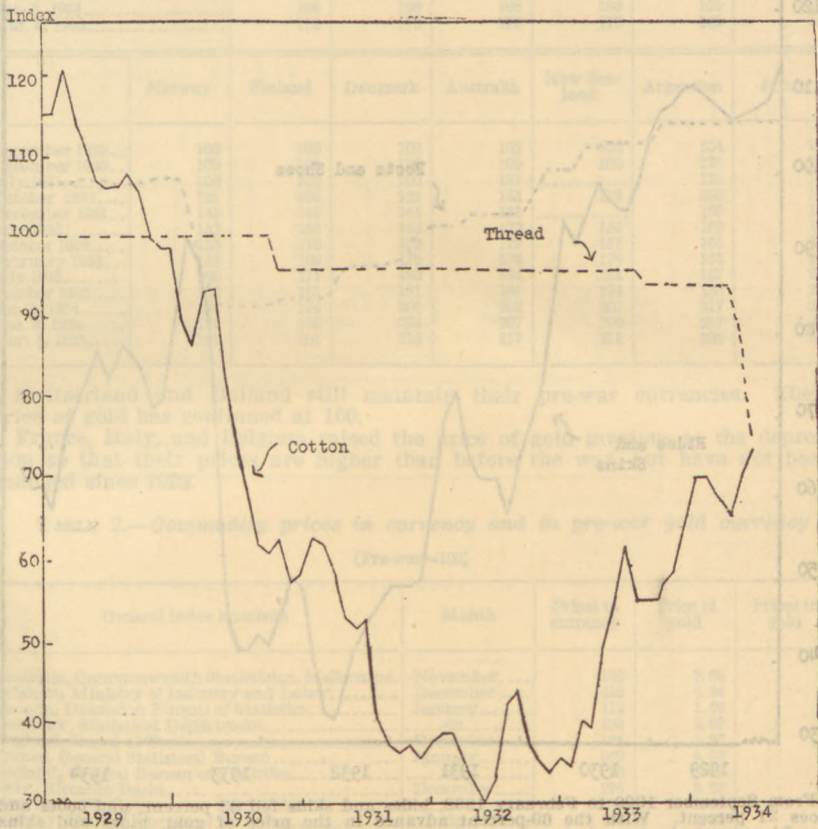
From September 1929 to February 1933, wholesale prices of leaf tobacco fell 46 percent, and plug tobacco 16 percent. This resulted in a striking disequilibrium in the price structure. Reflation was accompanied by an advance of 27 percent in the price of leaf tobacco and a 9-percent advance in plug tobacco. Remarkable progress has been made in establishing an equilibrium in the price structure.



Table 1.—Index numbers of the price of gold in various countries

Country	1929	1930	1931	1932	1933	1934
France	100	100	100	100	100	100
Italy	100	100	100	100	100	100
Germany	100	100	100	100	100	100
Japan	100	100	100	100	100	100
United States	100	100	100	100	100	100

WHOLESALE PRICES OF COTTON AND THREAD  
(United States Bureau of Labor Statistics)  
1926=100



From September 1929 to February 1933, cotton declined 68 percent in price, while thread declined only 4 percent. From February 1933 to April 1934, cotton advanced 97 percent, but thread declined 2 percent.

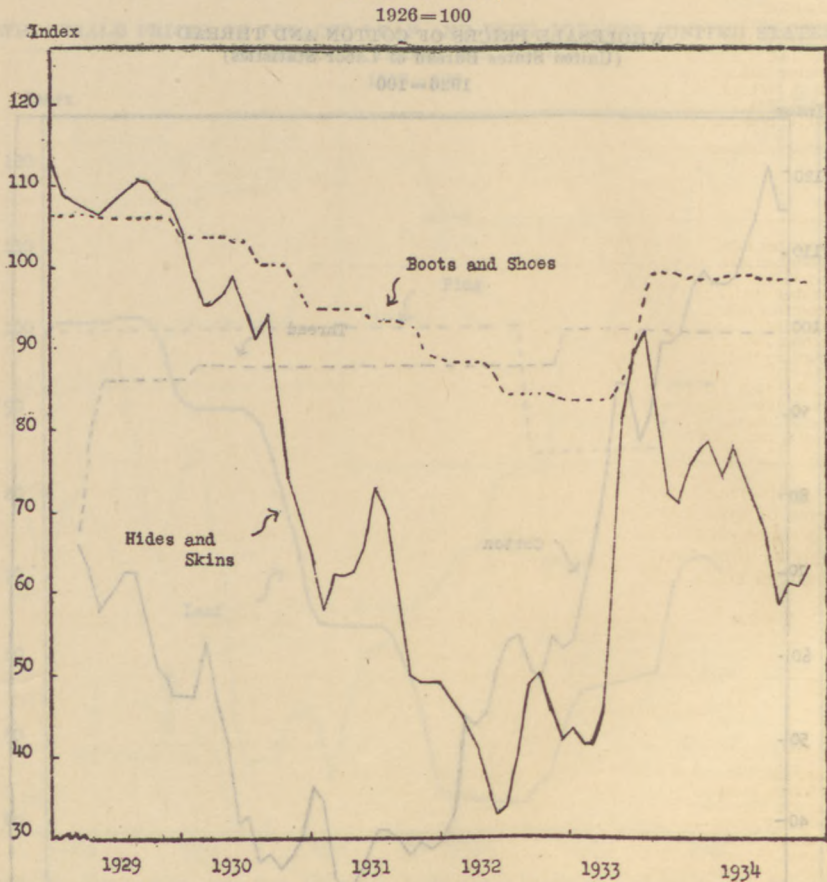
No country can keep its price in gold far out of line with world prices. Prices in the United States are about as much above the world level as we have raised the price of gold.

No further important advance is to be expected unless there is (1) a world-wide rise in prices in gold, i. e., a fall in the value of gold; or (2) an increase in the price of gold.

Since February 1933 the general index for Italy has fallen 3 percent, for Belgium 11, and for France 14 percent. Conditions in these countries have grown steadily worse.



FIGURE 18.—Wholesale prices of hides and skins and boots and shoes (United States Bureau of Labor)



From September 1929 to February 1932, hides and skins fell 63 percent, and boots and shoes 21 percent. With the 69-percent advance in the price of gold, hides and skins rose 54 percent; boots and shoes rose 17 percent. After a period of incomplete deflation a rise in the price of gold causes a rapid increase in the prices of those commodities which declined sharply and little change in those inflexible prices which lagged in the price collapse. A rise in the price of gold relieves inflexible prices from falling.



TABLE 1.—Index numbers of the price of gold in various countries

	England	South Africa	India	Canada	United States	Sweden
December 1929.....	100	100	100	100	100	100
December 1930.....	100	100	102	100	100	100
July 1931.....	100	100	101	100	100	100
October 1931.....	125	100	127	112	100	116
December 1931.....	144	100	144	121	100	143
July 1932.....	137	102	137	115	100	147
October 1932.....	143	102	142	110	100	153
February 1933.....	142	144	141	120	100	147
July 1933.....	146	148	146	148	140	156
October 1933.....	155	157	155	152	149	165
Oct. 5, 1934.....	167	167	166	165	169	178
Dec. 3, 1934.....	166	166	165	166	169	177
Mar. 6, 1935.....	173	173	172	172	169	185

	Norway	Finland	Denmark	Australia	New Zealand	Argentina	Japan
December 1929..	100	100	100	102	100	104	100
December 1930..	100	100	100	109	100	128	100
July 1931.....	100	100	100	131	-----	138	100
October 1931..	121	109	122	163	138	186	101
December 1931..	145	149	144	181	-----	165	115
July 1932.....	152	164	140	172	150	165	182
October 1932..	156	170	152	179	157	165	216
February 1933..	153	169	176	179	178	165	240
July 1933.....	160	171	180	184	183	167	242
October 1933..	170	181	191	195	194	166	267
Oct. 5, 1934..	183	194	206	209	207	217	292
Dec. 3, 1934..	182	193	204	207	206	217	291
Mar. 6, 1935..	190	201	213	217	215	226	302

Switzerland and Holland still maintain their pre-war currencies. Their price of gold has continued at 100.

France, Italy, and Belgium raised the price of gold previous to the depression so that their prices are higher than before the war, but have not been changed since 1929.

TABLE 2.—Commodity prices in currency and in pre-war gold currency

[Pre-war=100]

General index numbers	Month	Prices in currency	Price of gold	Prices in gold
Australia, Commonwealth Statistician, Melbourne.....	November....	136	2.08	65
Belgium, Ministry of Industry and Labor.....	December....	458	6.94	66
Canada, Dominion Bureau of Statistics.....	January.....	112	1.69	66
Denmark, Statistical Department.....	.....do.....	135	2.07	65
England, Board of Trade.....	December....	104	1.66	63
France, General Statistical Bureau.....	January.....	349	4.92	71
Holland, Central Bureau of Statistics.....	.....do.....	78	1.00	78
Italy, Riccardo Bachi.....	December....	276	3.67	75
New Zealand, Government Statistician.....	.....do.....	134	2.08	64
Norway, Central Bureau of Statistics.....	.....do.....	125	1.82	69
Sweden, general index.....	January.....	116	1.80	64
Average, 11 countries.....	-----	-----	-----	68
United States (Bureau of Labor Statistics "All-commodity").....	January.....	115	1.69	68

No country can keep its prices in gold far out of line with world prices.

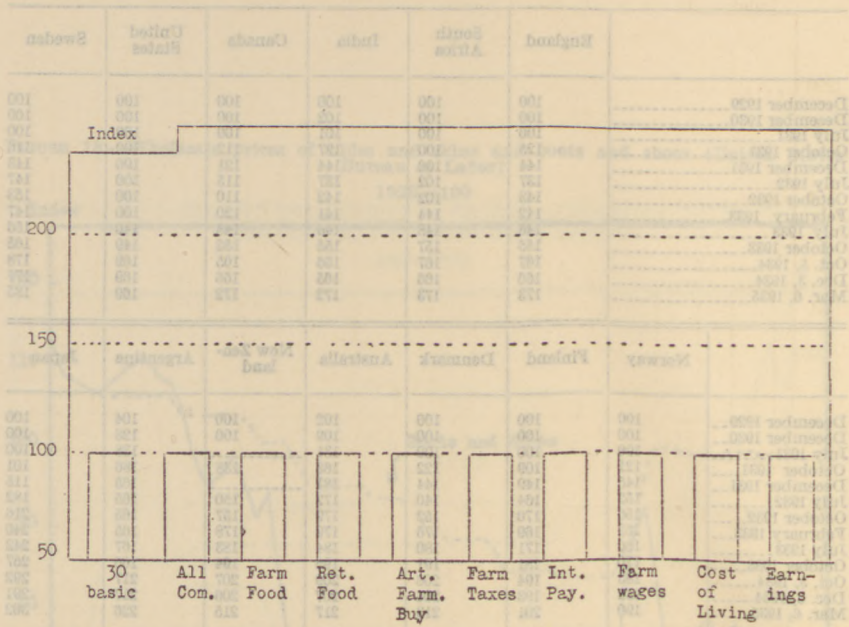
Prices in the United States are about as much above the world level as we have raised the price of gold.

No further important advance is to be expected unless there is (1) a world-wide rise in prices in gold, i. e., a fall in the value of gold; or (2) an increase in the price of gold.

Since February 1933 the general index for Italy has fallen 3 percent, for Belgium 11, and for France 14 percent. Conditions in these countries have grown steadily worse.



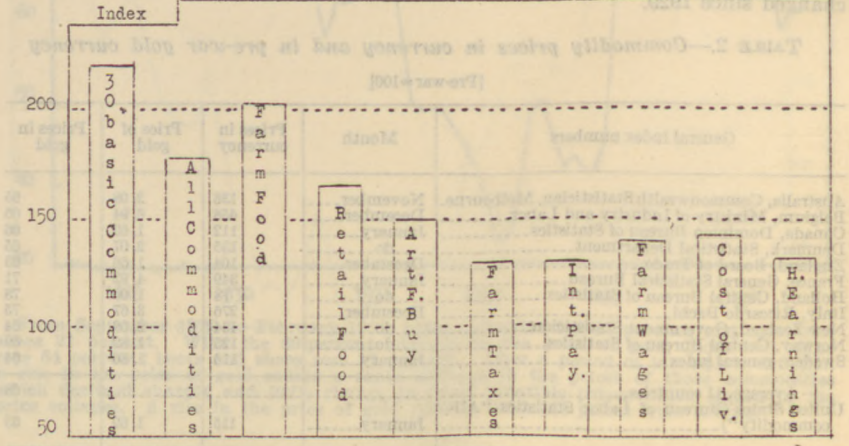
TABLE 1.—Index numbers of the price of gold in various countries



1910 - 14 ← Equilibrium →

Switzerland and Belgium still maintain their pre-war currencies. Their price of gold has remained at 100.

France, Italy, and Britain raised the price of gold previous to the devaluation so that their prices are higher than before the war, but have not been raised since then.



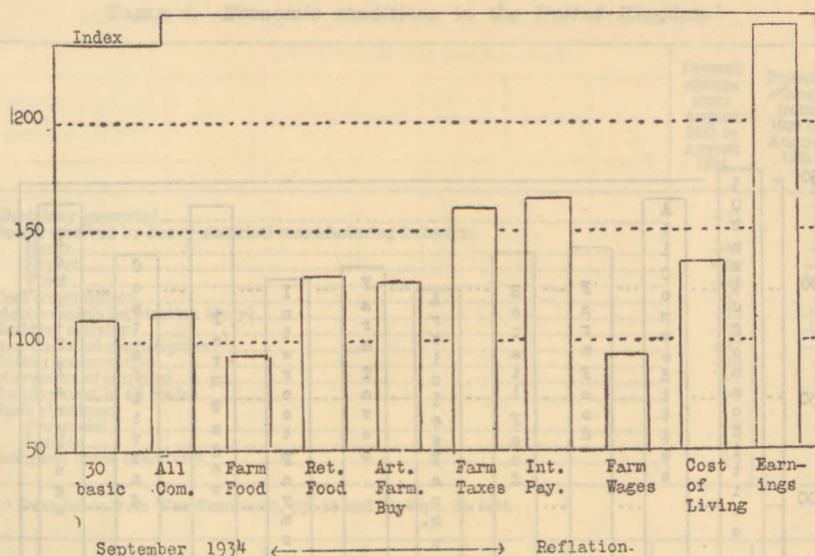
June 1917 ← Rising Prices →

No country can keep its price in gold for out of line with world prices. Prices in the United States are about as much above the world level as we have raised the price of gold.

No further important advance is to be expected unless there is (1) a world-wide rise in prices in gold, i. e., a fall in the value of gold; or (2) an increase in the price of gold.

Since February 1933 the general index for Italy has fallen 3 percent, for Belgium 11 and for France 14 percent. Conditions in these countries have grown steadily worse.





The United States Bureau of Labor all-commodity index, which includes many prices that had not declined much, has risen 32 percent. Raw materials rose 59 percent. The Journal of Commerce index for 30 basic commodities has risen 98 and prices paid to farmers 95 percent. Those things which fell most have, in general, risen most, but are still low compared with things that fell little.

TABLE 3.—Comparison of business activity and currency prices of gold

	Industrial production <sup>1</sup> July or August 1934 (1928=100)	Index of price of gold, July 1934 (par=100)
Japan.....	149	282
Chile.....	128	200
Denmark.....	125	201
Norway.....	110	179
Sweden.....	108	174
Great Britain.....	105	163
Italy.....	87	100
Canada.....	85	167
France.....	76	100
Austria.....	74	126
Czechoslovakia.....	70	120
Belgium.....	70	100
United States.....	69	169
Netherlands.....	67	100
Poland.....	62	100

<sup>1</sup> Comparative Recovery, New York Times, p. 14, Nov. 3, 1934.



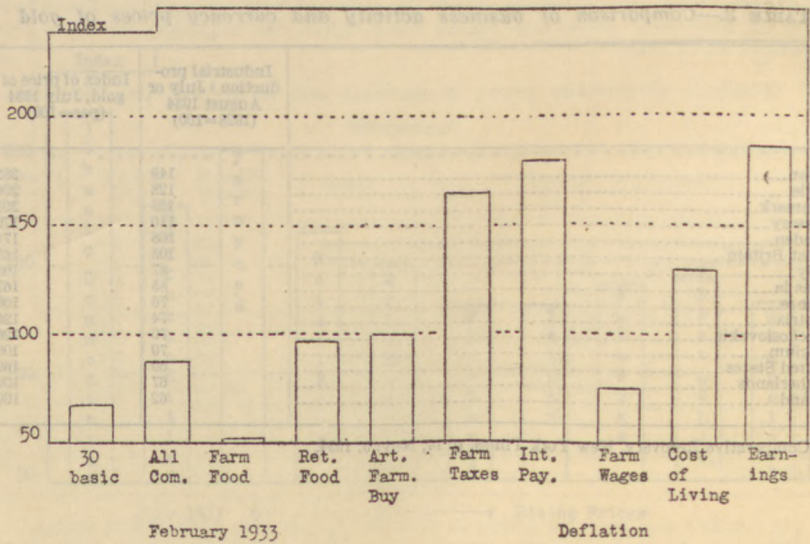
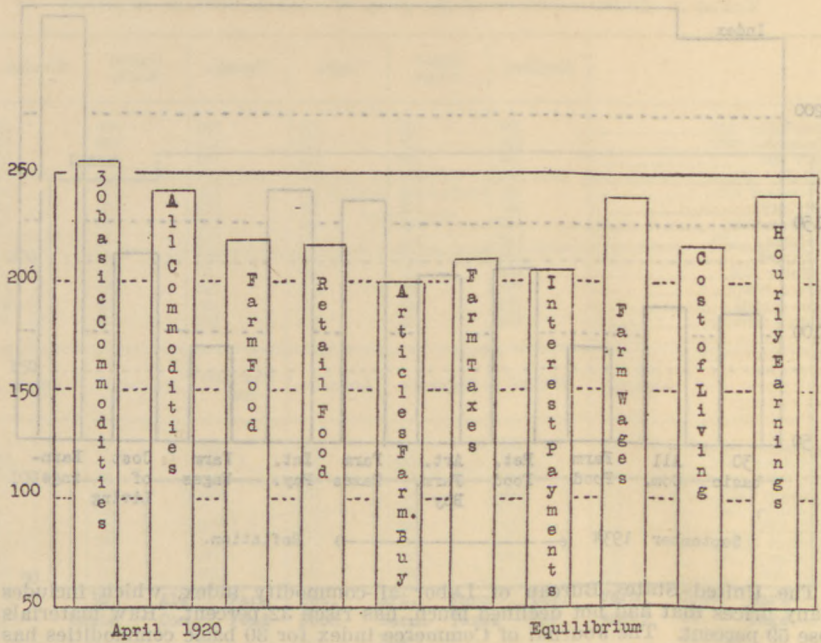




TABLE 4.—Economic conditions in the United Kingdom<sup>1</sup>

	Percent change from August 1933 to August 1934	Percent change from 1929 to August 1934
Electricity generated.....	+11	-4
Orders received by heavy electrical manufacturing industry:		
Home.....	+37	-19
Export.....	+38	-12
Total.....	+43	-15
Coal consumption.....	+11	-8
Motor-vehicle registration (July).....	+12	+14
Building activity.....	+11	+57
Iron and steel consumption.....	+47	-18
Cotton consumption.....	-10	-6
Movement of shipping.....	+3	-3
Employment in all trades.....	+4	0
Bank clearings:		
Provincial.....	-3	-5
London.....	+4	-5
Complete index of activity.....	+6	0

<sup>1</sup> Data taken from The Economist, pp. 18 and 19, Sept. 29, 1934.

Year	United States Bureau of Labor wholesale prices all commodities (1910-14 = 100)	United States Bureau of Labor raw materials (1913 = 100)	United States Department of Agriculture prices paid to farmers (1910-14 = 100)	Farm wages (1910-14 = 100)	National Industrial Conference Board hourly earnings males (July 1914 = 100)	Cost of living (1913 = 100)
1928.....	141	144	149	169	228	171
February 1933.....	87	70	55	74	183	132
January 1935.....	115	111	107	86	230	139

<sup>1</sup> January 1933.

<sup>2</sup> December 1932.

<sup>3</sup> November 1934.

TABLE 2.—Wholesale prices of cotton in the United States and in France

	Prices in currency	Prices in gold
New York: Middling upland, cents per pound:		
February 1933.....	6.1	6.1
March 18, 1935.....	10.65	6.3
Percent advance.....	75	3
Havre, France: American cotton, francs per 50 kilograms:		
February 1933.....	209	209
March 18, 1935.....	222	222
Percent advance.....	6	6

<sup>1</sup> November.



TABLE 1.—Index numbers of the value of gold in six countries

[In pre-war gold currencies, 1913=100]

	England	Sweden	Canada	France	Italy	United States	Average six countries
1926	68		64			65	
1929	74	77	65	79	81	74	75
1930	88	84	78	93	101	88	88
1931	110	103	108	123	125	111	112
1932	147	152	132	145	141	135	141
1933	156	169	156	141	145	152	152
1932:							
January	141	145	128	143	135	125	135
February	139	145	125	143	135	127	135
March	135	141	125	141	133	128	133
April	133	147	125	143	137	133	135
May	141	147	130	147	143	139	141
June	147	147	137	152	145	143	145
July	147	152	135	152	147	139	145
August	147	154	133	145	141	135	143
September	147	154	132	143	139	133	141
October	156	161	133	147	143	139	145
November	161	164	139	147	145	141	149
December	164	161	145	147	145	143	149
1933:							
January	156	161	143	147	143	143	149
February	156	164	149	147	143	145	149
March	156	161	147	145	143	143	149
April	154	164	147	145	145	143	149
May	154	167	152	141	147	145	149
June	149	164	149	137	143	139	147
July	152	167	149	137	143	145	147
August	154	175	154	139	145	145	152
September	164	182	164	141	145	159	159
October	169	179	169	143	149	159	159
November	164	179	172	143	147	169	161
December	159	172	169	141	147	169	159
1934:							
January	159	167	167	141	145	167	156
February	169	172	172	143	143	169	161
March	167	172	175	147	141	169	161
April	167	169	175	147	143	169	161
May	169	169	172	149	143	169	161
June	172	169	167	152	145	169	161
July	169	169	167	152	143	169	161
August	167	169	161	154	145	164	159
September	169	172	161	154	145	161	159
October	175	175	164	154	145	167	161
November	172	169	164	154	143	164	161
December	172	169	167		141	161	

TABLE 2.—Index numbers of the currency prices of gold in various countries, December 1934

	Index		Index
Belgium	100	United States	169
France	100	Straits Settlements	174
Germany	100	Sweden	178
Holland	100	Norway	182
Italy	100	Finland	195
Poland	100	Denmark	205
Switzerland	100	New Zealand	208
Czechoslovakia	120	Australia	210
Austria	127	Argentina	218
Yugoslavia	131	Uruguay	218
Egypt	<sup>1</sup> 163	Greece	234
India	166	Spain	239
England	166	Colombia	255
Portugal	166	Japan	292
Canada	167	Mexico	303
South Africa	168		

<sup>1</sup> November.



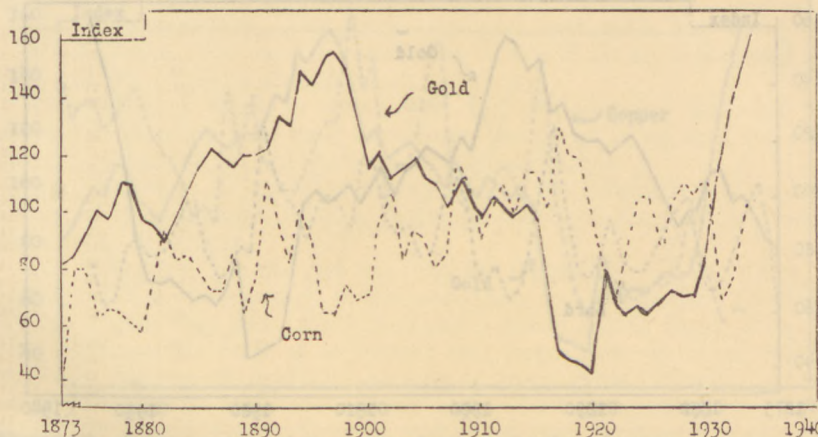


FIGURE 24.—Index numbers of the value of gold and value of corn in terms of 30 basic commodities, 1873-1934

Although the value of corn has been rising, it has been more stable than the value of gold.

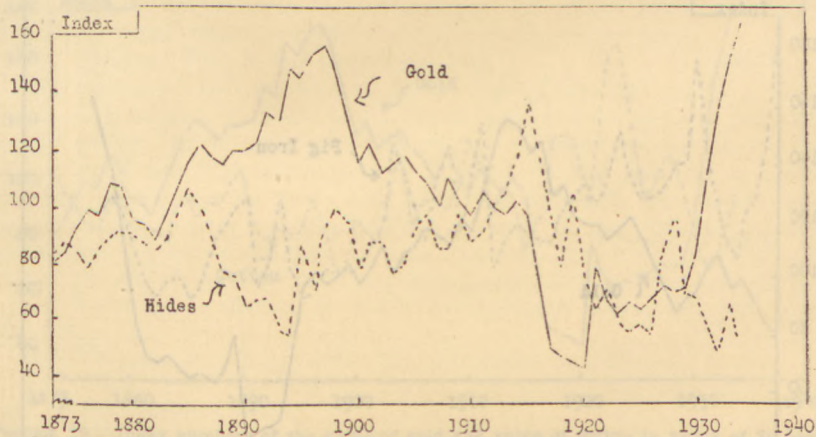


FIGURE 25.—Index numbers of the value of gold and value of hides in terms of 30 basic commodities, 1873-1934

The value of hides has been about as variable as the value of gold.

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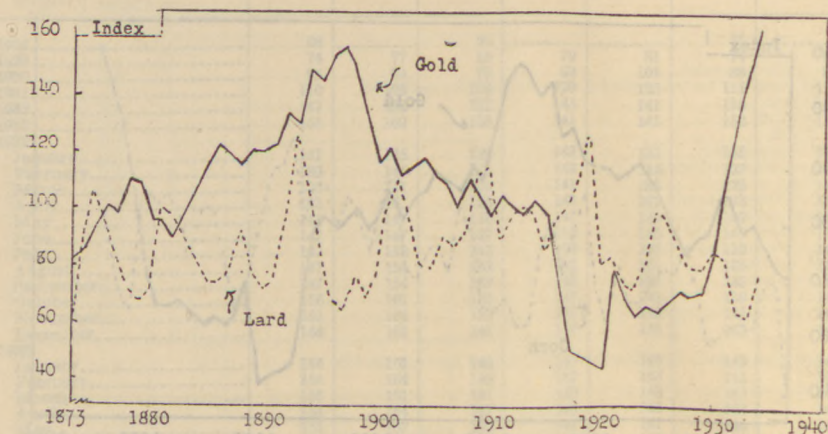


FIGURE 26.—Index numbers of the value of gold and value of lard in terms of 30 basic commodities, 1873-1934

Over long periods of time the value of lard has been much more stable than the value of gold.

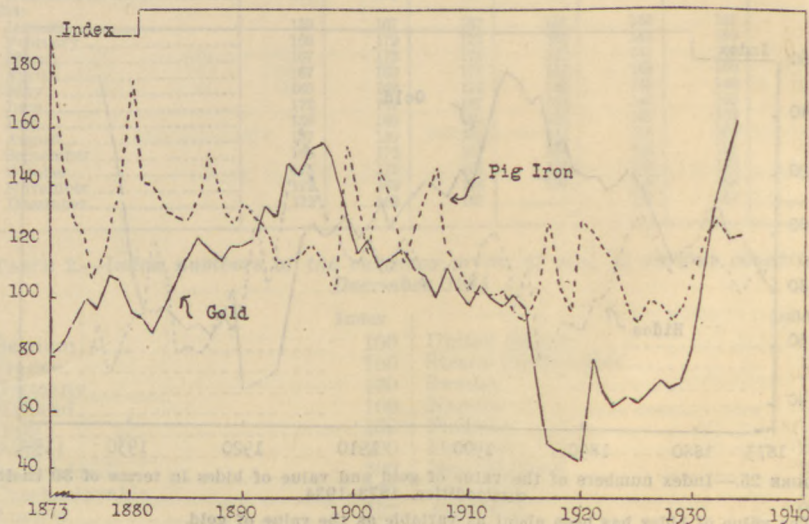


FIGURE 27.—Index numbers of the value of gold and value of pig iron in terms of 30 basic commodities, 1873-1934

Although the value of pig iron has declined about 0.4 percent per year, it has been more stable than the value of gold.



FURTHER STATEMENT OF R. A. O'NEAL

Mr. Commissioner, Mr. O'Neal, have you any other witness that we would like to have heard?

Mr. O'Neal, That is all that we had struggled for today. I asked Chairman Stewart if he would call Mr. O'Neal to the stand.

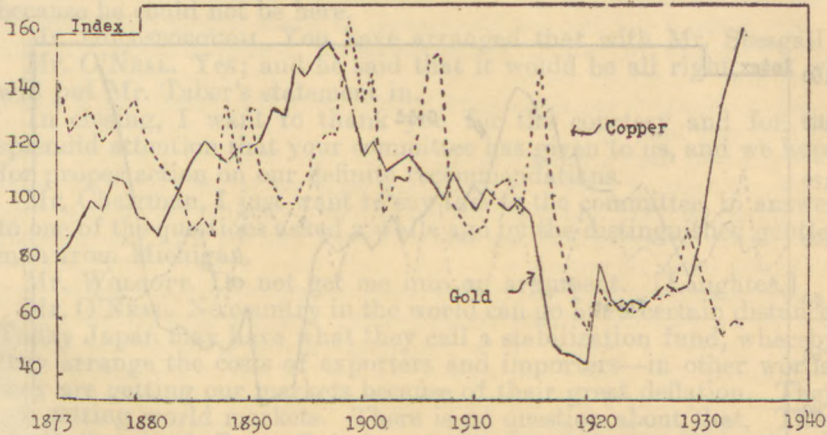


FIGURE 28.—Index numbers of the value of gold and value of copper in terms of 30 basic commodities, 1873-1934

The value of copper is about as variable as the value of gold.

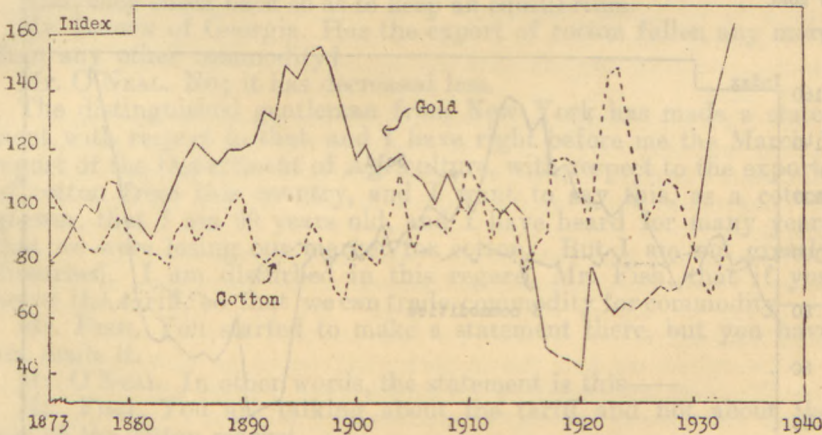


FIGURE 29.—Index numbers of the value of gold and value of cotton in terms of 30 basic commodities, 1873-1934

The value of cotton has been more stable than the value of gold.



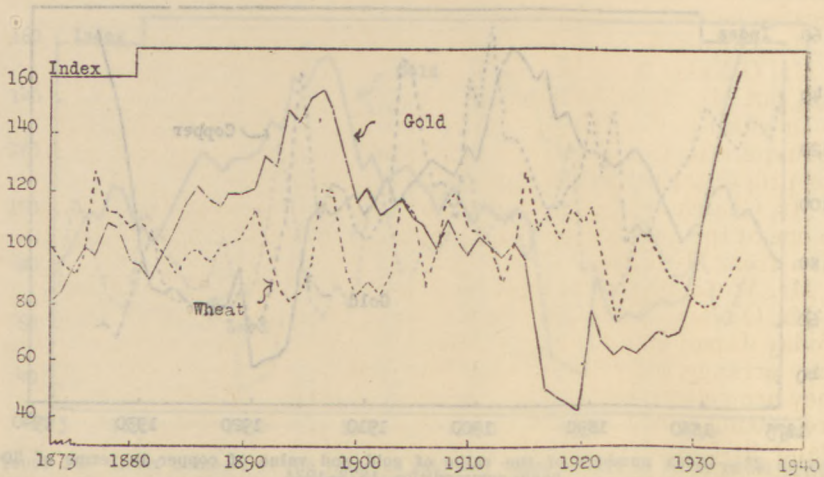


FIGURE 30.—Index numbers of the value of gold and value of wheat in terms of 30 basic commodities, 1873-1934

Over long periods of time, the value of wheat has been more stable than the value of gold.

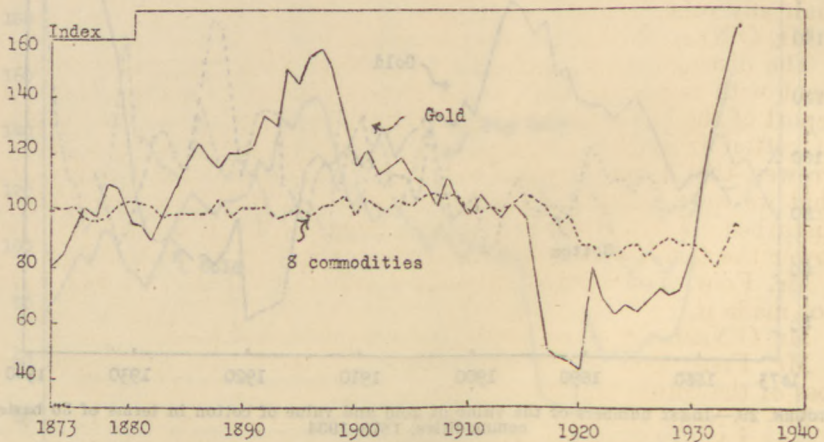


FIGURE 31.—Index numbers of the value of gold and the average value of 8 commodities, 1873-1934

The average of 8 commodities—corn, wheat, cotton, pig iron, copper, lard, hides, and gold, is much more stable than the value of gold. Our one-commodity gold dollar has been much more variable than an eight-commodity dollar would have been.



## FURTHER STATEMENT OF E. A. O'NEAL

Mr. GOLDSBOROUGH. Mr. O'Neal, have you any other witness that you would like to have heard?

Mr. O'NEAL. That is all that we had arranged for today. I asked Chairman Steagall if he would allow Mr. Taber to file his statement, because he could not be here.

Mr. GOLDSBOROUGH. You have arranged that with Mr. Steagall?

Mr. O'NEAL. Yes; and he said that it would be all right, and we will put Mr. Taber's statement in.

In closing, I want to thank you for the courtesy and for the splendid attention that your committee has given to us, and we hope for proper action on our definite recommendations.

Mr. Chairman, I just want to say this to the committee, in answer to one of the questions asked a while ago by the distinguished gentleman from Michigan.

Mr. WOLCOTT. Do not get me into an argument. [Laughter.]

Mr. O'NEAL. No country in the world can go but a certain distance. Today Japan may have what they call a stabilization fund, whereby they arrange the costs of exporters and importers—in other words, they are getting our markets because of their great deflation. They are getting world markets. There is no question about that. They stand first, and Great Britain stands second in world commerce today. When they buy their raw materials, necessarily, with the great deflation, they have to pay in their currency and it reaches into a very high price.

Now, they check back so as to keep an equilibrium.

Mr. BROWN of Georgia. Has the export of cotton fallen any more than any other commodity?

Mr. O'NEAL. No; it has decreased less.

The distinguished gentleman from New York has made a statement with respect to that, and I have right before me the March 1 report of the Department of Agriculture, with respect to the exports of cotton from this country, and I want to say this, as a cotton grower, that I am 60 years old, and I have heard for many years that we were losing our market for cotton. But I am not greatly disturbed. I am disturbed in this regard, Mr. Fish, that if you lower the tariff, so that we can trade commodity for commodity—

Mr. FISH. You started to make a statement there, but you have not made it.

Mr. O'NEAL. In other words, the statement is this—

Mr. FISH. You are talking about the tariff and not about the loss of the cotton market.

Mr. O'NEAL. The tariff has a great deal to do with it. In other words, I have heard for many years—

Mr. FISH. We are talking about facts, and not about what you heard 40 years ago.

Mr. O'NEAL. I knew facts 40 years ago as well as you do now, I believe.

Mr. FISH. I sort of doubt it.

Mr. O'NEAL. In those years, I heard that we were going to lose our foreign market of cotton, and we have not yet.



Mr. FISH. Mr. Chairman, he questioned my statement, and I want to know whether he questioned my statement that we have lost 50 percent of the markets in the last 2 years.

Mr. O'NEAL. We have lost, Mr. Fish, our market to a considerable degree, but the main reason for losing that market was because they have not the buying power in Europe to buy cotton.

Mr. FISH. I did not ask the reason. I made a definite statement, and if you are contradicting that statement, I want to know what the facts are.

Mr. O'NEAL. I am not contradicting your statement, but I heard such things long ago.

Mr. FISH. You are denying it.

Mr. O'NEAL. I heard such things long years ago, that we were losing our market, but yet cotton has lost a smaller percentage than any of our exports, and this record shows that in 1934 we exported 5,753,000 bales of cotton.

The present situation is, as I said, because Europe cannot buy, but if we will do a little trading with Europe, and if we follow Great Britain's policy, of a managed currency, or a commodity dollar—

Mr. FISH. May I ask the gentlemen a question?

The CHAIRMAN. Let him finish.

Mr. FISH. He has made his statement, that he thinks the tariff should be reduced. He made the statement that the tariff should be reduced in order to provide buying power abroad, but I would like to call attention to the fact that this processing tax is nothing but a tariff in our country. How can we consistently advocate a processing tax, which is a tariff within our own country, in the 48 States, and then suggest that we should reduce the tariff for somebody else?

Mr. O'NEAL. Might I answer that I have been a free trader on cotton up until the time we had the Agricultural Adjustment Act, and I myself helped to try to persuade some of our associates in Congress to put a tariff on cotton textiles, to help the cotton manufacturer.

We paid the bill, believe me; the cotton producers paid it. The 50 or 45 percent of our cotton farmers in the South have a standard of living no higher than a Chinese. We paid the bill with the tariff system.

Now, when we had the opportunity, we came to Congress and the President and asked if we might have a little tariff or a little butter on bread in the way of a processing tax, and if you will compare the processing tax on cotton to the tariff on textile mills today dollar for dollar with yards of thread, you will see that we are getting a very small tariff as compared to the textile industry in this country—very small.

Mr. FISH. One is against farmed goods, and the other is on goods produced in our own country.

Mr. O'NEAL. We produce cotton ourselves. In other words, you have a shirt on that I grow the cotton for. Your shirt has about a pound of cotton in it; that is all. The processing tax is 4.2 cents a pound on the raw cotton, and when a mill in the State of New



York, or in Connecticut, gets a pound of cotton from Alabama, they have about 0.71 of a pound of material that goes into cloth; the other is waste. So you are paying me a nice little tariff of about 3 or 4 cents, and your manufacturers in New York are getting an ad valorem tariff there of about, I think it amounts to, 37½ cents on each shirt.

Mr. FISH. It is not enough; that is all I tell you.

Mr. O'NEAL. You fixed it, all right.

In some instances you get over 100 percent ad valorem.

Mr. FISH. They only brought in 20,000 square yards of Japanese cotton goods last month.

Mr. O'NEAL. In other words, what is butter for your bread is not good for my bread; that is your conclusion. Why should you hold an argument that you would penalize the very poor agricultural population of the United States, where in the South especially the standard of living is lower than that of a Chinese? You let them sweat their lives, blood, and flesh for generations producing cheap raw material, in order that you could have a 100-percent ad valorem tariff. That is very consistent!

Mr. FISH. What you have done by this processing tax is that you have put a tariff on commodities raised in this country which we never had before, and that is nothing but a processing tax against your consumers. And I want you to remember this, that I am an American before I am a northerner, and I think that the future of the South is just as important as the future of the North, and I am positive that if this thing continues another 2 years, you will not have any exports at all, regardless of what happened 40 or 50 years ago.

Mr. O'NEAL. We come before your committee recommending very definite steps to improve the situation, and, as I see it, I think that with a managed currency we will take a long step toward the solution of this problem, and I know this, that the Congress of the United States in 1933 voted on this Adjustment Act, and we had to take it because we were in that situation, and Congress was wise when it wrote the law. It took the three great fundamental things that the farmers had been fighting for and put them in one bill, parity of prices to the farmers, rural credits for farmers, and the Thomas amendment.

Now, we are making progress, and we come to you, and we ask you in your judgment to come along with another angle of it, and let us be sure to use the wit and judgment that Yankees had the reputation of using, meaning Americans, over the years. We have that opportunity, or we will move the ball, and I think that we would do well to look at and study Great Britain's policy. They are pretty wise.

May I just stop with this, that if you were to ask me what are the important things in producing a crop, I might be so cranky as to tell you that the only thing you ever use is water, and another man over here might say that the only thing you have got to have is land, and another fellow over here would say good seed and cultivation, and yet I see men charged with responsibility in this country that advocate all water, all land and all cultivation to raise a



crop, and I say that we have a policy that we are engaged in that is as involved as producing the crop. Fundamentally, with us, we simply have got to have an honest medium of exchange, and what we are recommending to you will help to solve the cotton problem and all of these other problems.

Thanks; I did not mean to make a speech to the committee.

The CHAIRMAN. We are certainly glad to have heard you again.

The committee will adjourn until 10:30 o'clock tomorrow morning.

(Thereupon, at 5 p. m., an adjournment was taken until Tuesday, Mar. 26, 1935, at 10:30 a. m.)

Mr. O'NEAL. In other words, what is your basis for your bread is not good for my bread; that is your conclusion. Why should you hold an argument that you would penalize the very poor agricultural population of the United States, which in the South, especially the standard of living is lower than that of a Chinese? You let them sweat their lives, blood, and flesh for generations producing cheap raw material in order that you could have a 100-percent advantage. That is very consistent. I am a very consistent man, and I will not talk. Mr. FEAR. What you have done by this processing tax is that you have put a tariff on commodities raised in this country which we never had before, and that is nothing but a processing tax against your consumer. And I want you to remember, that I am an American before I am a Southerner, and I think that the future of the South is just as important as the future of the North, and I am positive that if this thing continues another 2 years, you will not have any exports at all, regardless of what happened 40 or 50 years ago. Mr. O'NEAL. We come before your committee recommending very definite steps to improve the situation, and as I see it, I think that with a managed currency we will take a long step toward the solution of this problem, and I know that the Congress of the United States in 1903 voted on the Adjustment Act, and we had to take it because we were in that situation and Congress was wise when it wrote the law. I took the true great fundamental things that farmers had been fighting for and put them in one bill, party of great to the farmer, rural credit, for farmers, and the Thomas amendment. Now, we are making progress, and we come to you, and we ask you in your judgment to come along with another amendment. Let us have to see the wit and judgment that you have had the reputation of being, meaning Americans, over the years. We have that opportunity, as we will move the ball, and I think that you would do well to look at and study Great Britain's policy. They are pretty wise about it. I think you have got a pretty good idea. May I just stop with this, that if you were to return what the important things in producing a crop, I might be so much to tell you that the only thing you ever see is water, and another man over here might say that the only thing you have got to have is land, and another fellow over here would say good seed and what I see men charged with responsibility in this situation and yet I see men charged with responsibility to raise it, that advocate all water, all land, and all cultivation to raise it.



BANKING ACT OF 1935

TUESDAY, MARCH 26, 1935

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C.*

The committee met at 10.30 a. m., Hon. Henry B. Steagall (chairman) presiding.

The CHAIRMAN. Gentlemen, we have with us this morning Mr. J. F. T. O'Connor, the Comptroller of the Currency, who will discuss title III of the bill.

I assume, Mr. O'Connor, you desire to make a preliminary statement, and if so, we will be glad to have you do that without interruption. When you conclude members of the committee will interrogate you.

**STATEMENT OF J. F. T. O'CONNOR, COMPTROLLER OF THE CURRENCY; ACCOMPANIED BY F. G. AWALT, DEPUTY COMPTROLLER OF THE CURRENCY**

Mr. O'CONNOR. Mr. Chairman and gentlemen of the committee, practically all of the amendments we suggest were before this committee a year ago, and the bill was approved by this committee unanimously and sent to the House. It was also approved by the Senate committee and reported to the Senate, but it was lost on the last day of the legislative session in June of last year.

Practically all of the things I am going to talk about are technical matters, largely corrections in language, with just a very few new sections suggested.

The majority of the amendments in question are based upon H. R. 9876 and S. 3748, submitted at the last session of Congress, which bills were mutually acceptable to the Federal Reserve Board and to the Comptroller's office and were favorably reported by the Banking Committees of both Houses.

A general statement of the object of the various amendments suggested in last year's bill and now resubmitted, and those added thereto in title III of this bill, are as follows. Where these amendments were not emplaced in last year's approved bills or are substantially different from those presented, the notation that they are new will appear in connection with this explanation.

Section 301, which is new gives the Federal Reserve Board discretion to exempt so-called "accidental" holding-company affiliates from the burdensome and expensive elements involved in obtaining a voting permit where such affiliate is not engaged as a business in holding bank stock.



Section 302 amends section 20 of the Banking Act of 1933, which requires the divorcement of member banks from affiliated securities companies so as to make it clear that its requirements do not extend to a securities company which has been placed in formal liquidation and transact no business except such as may be incidental to the liquidation of its affairs. This is in accord with rulings by the Federal Reserve Board and the Comptroller's office as to a proper interpretation of the law.

Section 303 (a) makes it clear that the provisions of section 21 (a) (1) of the Banking Act of 1933, prohibiting dealers in securities from engaging in the business of taking deposits, does not prevent banking institutions from dealing in, underwriting, purchasing, and selling investment securities to the extent expressly permitted to national banks under the National Banking Act and does not prevent banking institutions from selling mortgages without recourse. It will be observed that national banks are limited in dealing in and underwriting securities to doing so as to Government obligations, general obligations of States or political subdivisions, obligations issued under authority of the Federal Farm Loan Act, by the Federal Home Loan Board, or the Home Owners' Loan Corporation.

Section 303 (b) makes it clear that section 21 (a) (2) of the Banking Act of 1933 does not require that business institutions which accept deposits only from their own officers, agents, or employees need submit to examination and publication of reports of condition. Hundreds of corporations, such as the B. & O. Railroad, Chrysler Motors, Deere & Co. permit employees to leave part of their wages on deposit and in turn loan these funds to other employees so as to encourage thrift and be of assistance thereto.

This section also makes it clear that the expense of examining private banks by this office or by the Federal Reserve Board shall be paid by the institution examined, as there are otherwise no funds available to bear the expense of such examination.

Section 304, which is new, eliminates the double liability of shareholders of national banks on July 1, 1937. This provision is considered desirable because of the fact that such liability has already been eliminated as to banks organized since July 16, 1933, and as to new capital issued since that date, with the result that at the present time many banks are in the awkward position of having outstanding some common stock with liability and other common stock without liability, resulting in needless confusion. Provision is being made in section 314 of this bill for banks gradually increasing their surplus out of earnings until the same equals the bank's capital, thereby giving the creditors of the bank substantially the same additional protection which is now afforded by the assessment liability.

Section 305, which is also new, corrects the accidental omission of national banks in Alaska and Hawaii from the benefits of an act passed at the last session repealing the requirement of section 31 of the Banking Act of 1933 that directors of national banks and member banks increase the amount of their share holdings therein. This law was repealed incidentally because it was found physically impossible to enforce its requirement, with the result that many banks would have been forced to cease operations for lack of a qualified board of directors.



Section 306, which is also new, gives the Federal Reserve Board power to control relationships of officers, directors, and employees of banks with securities companies through regulation, thereby saving the great burden involved in present procedure of issuing individual permits.

Section 307 (a), which is also new, in part, makes it clear that section 16 of the Banking Act of 1933 was not intended to prohibit national banks or member banks from buying or selling stocks solely for the account of their customers and as an accommodation thereto and not for their own account.

This is extremely important, particularly in communities remote from financial centers, and since there is involved no investment by the bank of its own funds, no objection can be seen thereto. The amendment further limits national banks in purchasing investment securities for their own account to the purchase of the same in an amount as to any one issue limited to 10 percent of the bank's unimpaired capital and surplus. The present law permits such investment in any one issue to an equal amount to 15 percent of the unimpaired capital and 25 percent of surplus, except where the total issue does not exceed \$100,000 and does not exceed 50 percent of the capital of the institution.

Section 307 (b) merely restates in a clearer form the existing prohibition against national banks purchasing stock for their own account.

Section 308, which is new, enacts into law present requirements of the Comptroller's office as a matter of policy that newly organized national banks have a paid-in surplus equal to 20 percent of capital before being authorized to do business, which requirements may be waived where necessary in connection with a State bank converting into a national bank.

Section 309, which is also new, eliminates any possibility of section 18 of the Banking Act of 1933 being construed as preventing corporations other than a bank from conditioning transfer of their shares on the simultaneous transfer of shares of bank stocks, but preserving the unimpeded free and unconditional transfer of bank stocks.

Section 310 (a) permits a holding company to vote on the question of placing a bank in voluntary liquidation without having to go through the expensive routine incidental to obtaining a voting permit.

As to section 310 (b), under present law, shares held by a bank as sole trustee cannot be voted. It consequently sometimes results, where a large number of shares are so held in trust, that it is impossible to obtain the requisite number of votes required by law to accomplish certain steps such as reduction in capital, amendments to articles, et cetera, or to vote to go into voluntary liquidation where such is necessary.

Provision is accordingly made that the shares so held in trust shall be excluded in determining whether the resolution in question has been adopted by the requisite number of shares. For example, a bank has 1,000 shares outstanding. Four hundred of the shares, however, cannot be voted because held in trust by the bank as sole trustee. Consequently, in determining whether or not a resolution has been adopted by the required two-thirds vote,



the 400 shares held in trust will be excluded, leaving a balance of 600 shares as the basis for determining whether a two-thirds vote has been obtained, in which case a vote of 400 shares in favor of the matter would be the requisite two-thirds majority of the shares entitled to vote.

Section 310 (c), which new, eliminates any doubt that a holding company, which has met the requirements for obtaining a voting permit, may cumulate its shares in the same manner as other shareholders are permitted to do. This is in conformity with the construction placed under the present law by the Federal Reserve Board and by the Comptroller's office.

Section 311 gives discretion to the Comptroller to permit a State bank converting into a national bank to carry over and retain, subject to certain conditions, such sound assets as a State bank may have which do not conform to the requirements as to assets held by national banks.

SECTION 312 permits the Comptroller to delegate the manual labor of countersigning bond transfers in connection with substitution of securities held to secure circulation issued by national banks.

Section 313 permits branches of national banks, which branches are located outside of the United States, to charge the same interest rate permitted by local law to competing institutions.

Section 314, which is new, provides that before the declaration of dividends, national banks shall carry not less than one-tenth part of their net profits of the preceding half year to surplus until the same is built up to an amount equal to the capital, instead of the present requirement that the same need only equal 20 percent of the capital. This change is deemed desirable in connection with the recommendation that assessment liability be eliminated from bank stock and is further desirable from the standpoint of building up a proper capital structure.

Section 315, which is new, extends the terminal provisions of existing law relative to embezzlement, false entry, et cetera, by officers and employees of member banks to include any insured banks.

Section 316 gives the Comptroller closer supervision over national banks in voluntary liquidation as distinguished from those in receivership by requiring reports to him and to the shareholders and subjecting the banks to examination. It also enables the shareholders to remove an incompetent liquidating agent.

Section 317, which is new, extends the present prohibition on the use of the word "national" by banks other than national banks, to include any combinations of such word.

Section 318, which is also new, corrects an oversight in the present law to require member banks of the Federal Reserve System to reduce the amount of their shareholding in a Federal Reserve bank to correspond with the reduction of the bank's surplus.

Section 319 authorizes the Federal Reserve Board to prescribe the form and contents of reports of condition to be made by State member banks and prescribes the manner in which such reports must be published.

Section 320 extends to State member banks the same privileges now enjoyed by national banks with respect to the amount of loans which



may be made where secured by Government obligations. This is considered desirable, because paragraph M of section 11 of the Federal Reserve Act is susceptible to a contrary consideration. As to section 321, which is new, the present law permits a Federal Reserve bank to make direct loans to private business on adequate endorsement and security. The amendment permits such loans on adequate endorsement or security.

Section 322, which is also new, has reference to par value of Federal Deposit Insurance Corporation stock in the loans to industry act, changed to "the amount paid for said stock."

Section 323 (a), which is partly new, authorizes the Federal Reserve Board to define "deposit" and related terms for reserve and interest requirements respecting deposits.

Section 323 (b), which is also new, permits amounts due from other banks to be deducted from gross deposits instead of amounts due to banks, in determining reserve requirements.

Section 323 (c) extends the power to regulate the rate of interest payment by member banks to include the rate paid by all insured banks except mutual savings banks, and Morris Plan banks which are not members of the Federal Reserve System.

Section 323 (d), which is new, requires member banks to maintain the same reserves against Government deposits as against other deposits.

Section 324 permits the Federal Reserve Board or the Comptroller of the Currency, as the case may be, to permit a waiver of report and examination of affiliates of a bank where such report and examination is not necessary in a particular case to disclose the relationship existing between the bank and the affiliate. This eliminates the burden and expense now involved in hundreds of cases where there is no beneficial object to be gained in requiring submission and publication of such report, due to the fact that the affiliate is merely a technical accidental affiliate having no relationships whatsoever with the bank, such, as for example, newspaper, clothing stores, lumber yards, et cetera, which become technical affiliates because of the accident that a majority of their directors happen to be directors of the bank.

Section 325 (a), which is also new, extends the present provisions of the law prohibiting loans and gratuities to examiners of member banks to include examiners of all insured banks.

Section 325 (b), which is also new, extends to Federal Deposit Insurance Corporation examiners the present prohibitions of law against disclosure of confidential information by examiners.

Section 325 (c), which is partly new, corrects impractical features of the present law relative to loans to executive officers of banks by vesting certain discretions with the Federal Reserve Board to issue regulations governing the same and substituting removal from office for the present criminal provisions of the law. There is also a 3-year extension of time within which present loans must be retired, such extension, however, being operative only if the board of directors adopts a resolution determining that it is to the best interest of the bank to make the extension and that the officer has made every proper effort to reduce his obligation.

Section 326 is partly new. Under the present law there are certain rigid requirements and limitations on loans to affiliates. Exception



to these requirements is provided for where the affiliation arose out of foreclosure by the bank on collateral. It is often necessary to advance funds to an affiliate, control of which has been obtained through foreclosure in order to enable the bank to salvage the real value out of its assets and reduce the bank's loss.

Under the circumstances, such affiliate manifestly cannot borrow elsewhere. There is also excluded the accidental type of affiliate, control of which is obtained by the bank in a fiduciary capacity, as, for example, where the bank becomes executor and/or trustee of the deceased's estate, among the assets of which is a going business which must be operated by the bank as such trustee. There is also excluded an affiliate engaged solely in operating property acquired for bank purposes.

Section 327, which is new, exempts loans for industrial purposes made in cooperation with a Federal Reserve bank or the Reconstruction Finance Corporation from existing restrictions on real-estate loans by national banks, due to the protection received by the banks from either the Federal Reserve bank or the Reconstruction Finance Corporation, where such loans are jointly made. As to such loans there is no need for such restrictions as are desirable for a real-estate loan made by the bank in its sole capacity.

Furthermore, such existing restrictions have been found to seriously interfere with the scope and object of the Industrial Loan Act as they operate to prevent two or more banks cooperating with the Federal Reserve bank or the Reconstruction Finance Corporation in making a single industrial loan, prevents such loan where a substantial part of the security is real estate located outside of the restricted area in which national banks are limited in making real-estate loans, and for other reasons.

Section 329, which is also new, amends the Clayton Act to permit the Federal Reserve Board to supervise by regulation instead of by permit the matter of interlocking directorates.

Sections 329 and 330 bring the law governing consolidation of national banks into conformity with that governing consolidations of a State and national bank and offers additional protection to dissenting stockholders in the matter of obtaining the appraised value of their stock. Requirement is made that notice of dissent be given by such shareholders when the vote to consolidate is had.

Sections 331 and 332, which are also new, extend to the Federal Insurance Deposit Corporation the protection now given by law to other Federal institutions against the misleading use of their name and extends to all insured banks the present requirements of the law making robbery of members banks a Federal offense.

Now, in reference to the amendments we are suggesting to the committee, first, a new section to be numbered 333. It provides:

Section 5143 of the Revised Statutes, as amended, is hereby amended by striking out everything following the words "Comptroller of the Currency", where such words last appear in such section, and substituting the following: "And no share holder shall be entitled to any distribution of cash or other assets by reason of any reduction of the common capital of any association unless such distribution shall have been approved by the Comptroller of the Currency and by the affirmative vote of at least two-thirds of the shares of each class of stock outstanding, voting as classes."



We suggest a new section 334, to read:

Section 5139 of the Revised Statutes, as amended, is amended by providing at the end of the first paragraph the following new paragraph:

"Certificates hereafter issued representing shares of stock of the association shall state (1) the name and location of the association, (2) the name of the holder of record of the stock represented thereby, (3) the number and class of shares which the certificate represents, (4) and, if the association shall issue stock of more than one class, the respective rights, preferences, privileges, voting rights, powers, restrictions, limitations, and qualifications of each class of stock issued shall be stated in full or in summary upon the front or the back of the certificates, or shall be incorporated by a reference to the articles of association set forth on the front of the certificates. Every certificate shall be signed by the president and the cashier of the association, or by such other officers as the bylaws of the association shall provide, and shall be sealed with the seal of the association."

We suggest a new section 335, to read as follows:

The last sentence of section 301 of the emergency banking act of March 9, 1933, as amended, is amended to read as follows:

"No issue of preferred stock shall be valid until the par value of all stock so issued shall be paid in and notice thereof, duly acknowledged before a notary public by the president, vice-president, or cashier of said association, has been transmitted to the Comptroller of the Currency and his certificate obtained specifying the amount of such issue of preferred stock and his approval thereof and that the amount has been duly paid in as a part of the capital of said association; which certificate shall be deemed to be conclusive evidence that such preferred stock has been duly and validly issued."

The last amendment we suggest is a new section numbered 336, as follows:

The additional liability imposed by District of Columbia Code, Supplement I, title 5, section 300 A (b) upon the shareholders of savings banks, savings companies, and banking institutions and the additional liability imposed by District of Columbia Code, title 5, section 361, upon the shareholders of trust companies, shall cease to apply on July 1, 1937, with respect to such savings banks, savings companies, banking institutions, and trust companies, which shall be transacting business on that date. Each such savings bank, savings company, banking institution, and trust company, shall before the declaration of a dividend on its shares of common stock carry not less than one-tenth part of its net profits of the preceding half year to its surplus fund until same shall equal the amount of its common stock.

May I take up these four amendments and explain them?—and then I will be ready to answer any questions you may desire to ask.

The first amendment we are suggesting to the committee, gentlemen, is briefly this: Where we permit a reduction of common capital stock in a bank we want it clear that we have the right to require the bank to retain the assets. We tell a bank, for instance, that there are so many assets that are questionable or bad, and then we ask them to reduce their capital stock.

Then the question arises, are the stockholders entitled—and in some instances they claim they are—to assets eliminated because of the reduction of the stock?

We should have the privilege, beyond any doubt, of retaining those assets as a recovery value of the bank to the stockholders, and not distribute them to the shareholders, if that is the proper position to take.

On the other hand, that is not always the case, because you might find a bank overcapitalized for a particular community because the business has gone to an adjoining community. Then we reduce our common capital, say, to \$50,000, which is ample for the needs of the



community. They may have cash assets that correspond to the reduction, and we do not see any injustice in having them distributed to the stockholders. But we ask that we be given the right to approve the distribution after the required vote of two-thirds of the shares.

That is the first amendment.

The CHAIRMAN. Your power under that amendment would not be any greater than the power which the Comptroller now has, in the case of the original organization of a banking association.

Mr. O'CONNOR. Not at all; it would be exactly the same.

The CHAIRMAN. Except where you require a two-thirds vote to permit the distribution of stock in the case of a reduction of capital.

Should not that be a majority, instead of two-thirds? If a majority of the stockholders think they are justified in having a distribution of their assets, and the Comptroller approves it, would not that be a fair way to handle it?

Mr. O'CONNOR. I think the only reaction there, Mr. Chairman, is the fact that the shareholders are very anxious to get some assets that we think ought to remain in the bank.

The CHAIRMAN. That is true, but you would still have to approve it.

Mr. O'CONNOR. Frankly, I think a majority vote would be all right.

The CHAIRMAN. Either way would be all right?

Mr. O'CONNOR. Either way; it does not make any difference.

Mr. GOLDSBOROUGH. Under the present law, has the Comptroller's office, or any other branch of the Federal Government, the right, upon the reduction of the capital stock, to permit the disbursement of any amount of the assets to the bank stockholders?

Mr. O'CONNOR. Oh, yes; we can permit that under the present law.

The CHAIRMAN. I do not know whether you understood what Mr. Goldsborough had in mind. I think Mr. Goldsborough meant to inquire whether or not under the present law you are given authority to approve or disapprove.

Mr. GOLDSBOROUGH. Yes.

Mr. O'CONNOR. The answer is we can, but the point is that in connection with this section a serious question arises as to whether or not they are always entitled to it. That is what we want to get away from.

The CHAIRMAN. There might be cases where there would be no need for that.

Mr. O'CONNOR. Yes.

Mr. HANCOCK. The law requiring a two-thirds vote instead of a majority would make it easier on you at times.

Mr. O'CONNOR. Yes.

Mr. FORD. Could not a majority of the stock be held by three or four stockholders, and a bare minority by a great number, and thus due to the control of the situation by those few stockholders, possibly the great number, if they knew the circumstances, would not want it done.

I am inclined to think that two-thirds would be better myself.

Mr. GOLDSBOROUGH. That is my opinion. You want to afford protection to the minority.



Mr. WILLIAMS. It places the full power in the hands of the Comptroller?

Mr. O'CONNOR. To reduce the common capital, but it takes a two-thirds vote to distribute it. We have two problems, the reduction and the distribution.

Section 334, which I have read to you, gentlemen, is the form of certificate to be issued when a national bank issues stock.

Practically all States now have "blue-sky" laws, but there is always a question as to whether such laws apply to national bank stock.

If the Congress speaks on questions within its jurisdiction, in connection with national banks, that excludes the States from acting, and if you fix a form of certificate for the national banks, that settles the question.

I have read the provisions that I believe ought to be in the certificate of a national bank. Every purchaser of stock should know what other stock is outstanding, and what its liabilities are, and we have asked you to incorporate that so we can compel them to do that in connection with bank shares.

Section 335 is the one we are asking you to adopt in connection with preferred stock providing that no preferred stock shall be valid until there is a certificate issued by the Comptroller of the Currency, in connection with national banks.

You have provided that already with reference to the common capital of national banks. No stock is valid until the Comptroller issues his certificate that the stock has been regularly and properly issued, and then that stops anybody from going back of the certificate to find out whether all of the technical steps have been taken leading up to the issue of the common capital stock. When that certificate is issued that settles it. We feel that the same rule ought to apply to preferred stock.

The last amendment is in reference to double liability. As I have said, we have recommended in the bill, if you shall accept it, the elimination of double liability on stock after July 1, 1937. This last amendment is merely included to apply not only to national banks, but to State banks and trust companies and savings banks located in the District of Columbia, because they also come under the jurisdiction of the Comptroller's office, although they are State institutions.

Mr. HANCOCK. What is the significance in fixing the date as of July 1, 1937?

Mr. O'CONNOR. I think probably two considerations enter into that, Mr. Congressman.

First, there is a rather serious constitutional question as to whether we could eliminate as of today the double liability on stock that has been issued, because of the contractual relation existing between the depositors and the bank, and my opinion is we could not do that.

The second consideration is that the Government has got a great deal of money invested in these banks, and we are just getting these banks in very fine condition, and it enables us, in many instances, to work out a much better situation with the bank officials than if the double liability was off at this time.



When we go into a bank and insist that it has to be strengthened to protect the depositors, and that more capital has to come into the bank, and the Government is willing to assist in it, then if they decline to do it, and decline to strengthen their bank and to get it in better condition, and we close the bank, we can impose a double liability, and the officers knowing that, those owning the bank will go much further to save the bank and make it an active, going bank than if you did not have a double liability. Those are the two reasons, as I see it.

Mr. HANCOCK. How will conditions have changed by July 1, 1937?

Mr. O'CONNOR. That is an arbitrary date. But we feel the capital structures of the banks should be in good shape by that date.

We have just set a figure along there, or a date, and we feel that by 1937 the questions that I have now presented to you probably will be minimized or eliminated. That is the only reason.

Mr. HANCOCK. What has the additional liability been worth, since the bank holiday?

Mr. O'CONNOR. It is practically 50 percent.

Mr. BROWN of Michigan. By taking the time between now and July 1, 1937, you will also give ample opportunity for working out some plan of advising the depositors in the bank of the change in liability, because as you have indicated before, there is a semblance of contractual liability there, and it does seem to me some regulations will have to be worked out to give depositors an opportunity to withdraw their accounts, or something of that kind; that is, if they do not care to leave their accounts in the banks subject to the double liability. It seems to me that time is a very valuable element.

Mr. O'CONNOR. Another thing that I think is important is that there is a gradual tendency in the small communities throughout the country to strengthen their banking system by merging the two, State banks and national banks, and that also is quite an important element in connection with this date in 1937.

Mr. CROSS. Take the proposal you referred to a while ago, that they should build up reserves equal to the capital stock. Time would be an element there also.

Mr. O'CONNOR. Yes.

Mr. HANCOCK. That is one of the fine things your office has been able to do in respect to the banking structure, in cooperation with the R. F. C.; is it not?

Mr. O'CONNOR. Yes; it is one of the best things that has been done in the way of strengthening the whole banking structure of the United States.

Mr. WILLIAMS. I understood you to say that you hoped at that time to retire a substantial part of the preferred stock that the R. F. C. has taken from the banks in order to build them up since the bank holiday.

Who determines when that stock shall be retired?

Mr. O'CONNOR. The bank makes an application, if it is a national bank, and it cannot be retired without the approval of the Comptroller's office, and, I believe, the Federal Reserve Board. I believe we are asking to have that lodged entirely in the Comptroller's office.



In other words, an application comes in for the retirement of stock, and that has to be passed upon by the Federal Reserve Board, and it is our opinion that this is the way it works out.

A bank desires to retire stock, so it makes an application and sets forth all its facts justifying it, and submits that to the Comptroller's office. We send it back to the national bank examiner in that district, and he makes a thorough investigation of it, and what information is available he submits to the Comptroller's office, and the Comptroller's office has all of the reports of the bank, and also the one that the examiner has just submitted, and he makes his recommendation, and upon that we act.

I believe under the present law after that has been done we must submit that to the Federal Reserve Board, and the Federal Reserve Board have to go through the same performance and certify that back to us, and I think that is a needless step.

Is not that the procedure, Mr. Awalt?

Mr. AWALT. That is correct as to common capital, but in reference to the preferred it is not necessary to certify it to the Federal Reserve Board.

Mr. WILLIAMS. I know of some fine banks that are in the Federal Deposit Insurance Corporation, and under the State laws they are not permitted to issue preferred stock, but they issue capital notes instead. How is that to be retired?

Mr. O'CONNOR. That is entirely between the R. F. C. and the State bank, my office having no jurisdiction over a State bank.

Mr. WILLIAMS. I understand that, but what about the F. D. I. C.?

Mr. O'CONNOR. We have no power over in the Federal Deposit Insurance Corporation to enforce anything. So that whether that preferred stock or capital notes or debentures that State banks have are retired is entirely between the R. F. C. and the State banks.

Mr. WILLIAMS. Do you know what procedure is followed?

Mr. O'CONNOR. Yes, sir. The State bank applies to the R. F. C. for the payment of its debentures or notes, or the preferred stock, and the R. F. C. usually refers that offer to the Federal Deposit Insurance Corporation, and then we make an examination of it, and if the bank should not retire those notes or debentures or stock, we so advise the R. F. C., that in our opinion they should not be retired.

But they can ignore that; we have no authority to enforce it.

Mr. WILLIAMS. You have the same relation there that you do with reference to its issuance, practically, in the first place.

Mr. O'CONNOR. With reference to its issuance. Of course, but as to the Federal Deposit Insurance Corporation we have no authority.

Mr. WILLIAMS. But you do make an investigation and pass on the question as to whether or not they should come into the corporation.

Mr. O'CONNOR. Yes; that is true.

Mr. WILLIAMS. And you also make an investigation to see whether they ought to be retired, in order to keep them in the corporation, to determine whether or not it is advisable to retire the capital notes and still retain their soundness?

Mr. O'CONNOR. Yes.

Mr. WILLIAMS. You still make that investigation?



Mr. O'CONNOR. Yes.

Mr. WILLIAMS. You still really have the same relation that you did in the first place?

Mr. O'CONNOR. Yes; I would say that is correct, Congressman.

Mr. BROWN of Michigan. As to the provision for the examination of banks, in section 302 of the proposed law, I think it is, I favor that, I will say. I wonder upon what authority we have a right to prohibit people from engaging in the private banking business.

There has been some controversy between your office and the small private banks, particularly over the question of whom should pay the expense of the examination by the Comptroller's office.

Some of the smaller banks in my district have raised this question, and they think that Congress has no right to prevent them from engaging in the banking business. I would like to know what your view about that is.

Mr. O'CONNOR. Well, Mr. Congressman, you have opened up a very important and a very wide field by your question.

My own personal opinion as a lawyer is that we have no jurisdiction at all over a State institution, such as a private banking institution.

Mr. BROWN, of Michigan. Generally, I may say in Michigan—and I think it is quite common—private banks are not allowed to engage in the business, if they were not in business 2 or 3 years back, and the States are cooperating in an effort to stop that kind of banking business.

It just occurs to me that they are willing in my State now to submit to the examination, but they are not willing to pay for it. It seems to me, if we are endeavoring here to bring them under some reasonable regulation and force them to publish statements, it would be wiser to leave this addition you propose out and let the Federal Government bear the small expense that it would have to examine those banks.

Mr. O'CONNOR. I suggest this, Mr. Congressman, that in view of the policy of the office, which is that the Federal Government does not bear the expense of any examination, it would be unfair to have the Federal Government pay the expense of the examination of the private banks when the Federal Government does not bear the expense of the examination of any other bank.

Mr. BROWN of Michigan. If we do not I have the feeling they will tell us where to go.

The CHAIRMAN. There can be no fixed charge on the Government except by legislation authorizing an appropriation.

Mr. WILLIAMS. What do you mean by a private bank, Mr. Brown?

Mr. BROWN of Michigan. There are a lot of small banks in the smaller towns that simply consist of an individual who accepts deposits and makes loans, without a charter from the State. I know it has been felt by the Comptroller's office and by this committee that we ought to endeavor to at least regulate that business, and I think it should be regulated.

But I am fearful that the way we have it set up in this bill it will amount to nothing.

Mr. WILLIAMS. To what extent does that prevail throughout the country? I was under the impression that private banking, as de-



scribed and as carried on in that manner, had been generally outlawed.

Mr. O'CONNOR. I would say generally; yes. But there is a great deal of it yet being done in the country. Texas has some of it, your State has some of it. Some of them have been in existence for a great many years.

My attention is called to the fact that 10 or 15 States have this problem.

The CHAIRMAN. They are all small, are they not?

Mr. O'CONNOR. No; there are some that are quite large.

Mr. FORD. Under that head, a private bank makes money, that is, it creates money the same as a State or a Federal Reserve bank, does it not?

Mr. O'CONNOR. Yes.

Mr. FORD. Then why has not Congress got some authority over them?

Mr. BROWN of Michigan. They do not create currency.

Mr. FORD. They create check money.

Mr. O'CONNOR. Congress has no jurisdiction over a strictly State bank. That is the answer to it.

Mr. FORD. I know it, and it has been so recognized. But a State bank which creates money, whether it is check money or currency, is actually usurping that power granted in the Constitution to Congress to coin money and regulate the value thereof, and I believe if the matter were put to a constitutional test it would be found that they were making money and would have to stop.

Mr. GIFFORD. I want to inquire particularly as to the liberalization of the act relating to loans made to executive officers.

The CHAIRMAN. Before you get to that, let me ask one question.

What would you say about a private bank, if you were authorized by law to conduct an examination, the same as with any other bank, except in the publication of the facts, which would be all you could do?

Mr. O'CONNOR. Mr. Chairman, that is our difficulty, and that is an administrative difficulty.

I believe that ought to receive serious consideration by this committee, and frankly, I would like to get the reactions of the committee on that problem from another angle.

At the present time, all we do under the law is to examine these private banks, and then the report on the examination is filed away.

Mr. WILLIAMS. Just why do you make the examination? What is the purpose of it?

Mr. O'CONNOR. You required us to do it.

Mr. WILLIAMS. That is, the private banks?

Mr. O'CONNOR. You required us to do it.

The CHAIRMAN. Mr. Williams and I did not.

Mr. HANCOCK. Strictly speaking, could a private bank confine its operations to intrastate business alone, and if so, how?

Mr. O'CONNOR. I doubt if it could; it would be very difficult.

Mr. HANCOCK. If that is true, it seems to me you could seriously consider the question of the Federal Government being able to regulate it.

Mr. O'CONNOR. Then you also have the question of denying it the mails.



Mr. HANCOCK. I know this question has been seriously considered lately with respect to the jurisdiction of the National Recovery Administration, in connection with the operations of an intrastate establishment.

But it seems to me every bank is engaged in interstate commerce to a certain degree, especially when it comes to the clearance of checks. I may be entirely wrong about that, and I would like to have your opinion.

Mr. O'CONNOR. That is why I am emphasizing the importance of giving this very serious consideration, because you have touched on it.

Mr. HANCOCK. I notice that the Deputy Comptroller, Mr. Awalt, is shaking his head. We might call him in and hear what his opinion is. I think it is a very important question.

Mr. O'CONNOR. I think it is. As to the administrative feature of it, under the present law, I do not know how we can reach it.

We examine. They have the right to say, under the law, that they are being examined by a Federal agency, and we have no right to close them; we have no jurisdiction to liquidate them or tell them to put in more capital, or to eliminate assets. We just examine them, which might be construed as somewhat of an approval by the Federal Government, when we have no power to do anything else.

Mr. HANCOCK. Is it not a fact that the general counsel of the Federal Reserve Board has, within the past 2 or 3 years, filed an opinion to the effect that the Federal Government could force upon the country a unified system of banking?

Mr. O'CONNOR. The general counsel is here this morning and perhaps he can tell you about that when I get through.

Mr. BROWN of Michigan. Let us get straight on one thing. I think you have greater authority than merely to examine them. The statute says a bank shall publish its report. It seems to me that the publication is a very effective means of regulating a bank.

Mr. GIFFORD. I want to ask you one or two questions about the liberalization feature of the law in reference to loans made to executive officers of a bank.

As a Congressman, I represent 25 commercial banks in my district, and the men who run them are honest men, many of whom have been evidently penalized by this section, and I am glad to know that that penalty is being removed.

I want to ask you if you find some difficulty in making the actual determination as to who an executive officer might be.

Mr. O'CONNOR. Yes; we do.

Mr. GIFFORD. Is it not possible to define that word, so it will not be subjected to determination by the Federal Reserve Board?

Mr. O'CONNOR. We had in mind presenting an amendment in reference to that very problem, because I asked the Attorney General for a ruling on who was an executive officer, and the ruling was not clear, because he did not know himself.

Mr. GIFFORD. There has been a habit in recent years of adding to the number of directors of a bank; where they formerly had 5 they now, some of them, have 25 in many cases.

While you have liberalized the provision in reference to the amount of stock necessary to be held in order to be a director, some of those



men are unable to get any loans from the banks, and that in a country district where there are no other banking facilities. Do you not think it is still a little harsh to say that a director cannot use his own bank? Was that provision made on the assumption that all these men are dishonest until they are proven honest?

I would like to ask you this question. Take, for instance, a corporation, 99 percent of the shares of which are owned by a director in a bank. Could that corporation borrow from that bank?

I am asking you if a corporation, 99 percent of whose stock is owned by a man who is a director in a bank, could borrow from that bank.

Mr. O'CONNOR. Yes.

Mr. GIFFORD. Take the case of a relative of a director of the bank who wants to borrow temporarily from the bank. But the bank says, This is not a very good loan; if the director will sign the note, then it will be all right. The director could sign the note, and after it had once gotten by another bank it would be a proper banking transaction under the law, as I understand it. I do not say these things have happened or would happen, but I know honest men are troubled about them. If they go to another bank they have to report to their own bank if they have been to some other bank. Would it be better to wipe that out? You probably remember the agitation a while ago for a provision to require all honest men to be penalized because the bank found a few business men whom they wanted as directors.

Mr. O'CONNOR. I am rather of the opinion that, generally speaking, officers of a bank should not be permitted to borrow from their bank because of the position that they occupy, really as trustees of the funds they are handling, that they should not be permitted to have those funds loaned to themselves. I think that general principle is sound.

Mr. GIFFORD. In the banks in my district the directors are business men of the community.

Mr. O'CONNOR. The directors are not prohibited from borrowing. They can borrow; because, just as you say, and properly so, they are called in from different avenues of business, down the street, being in other businesses entirely. They just sit on the board of directors once a month at a meeting, and their relationship is not as close to the handling of those funds as that of the executive officers.

Mr. GIFFORD. The directors when they vote on the approval of the granting of the loan, are not the executive officers of the bank.

Mr. O'CONNOR. I do not believe they are; that is my private opinion.

Mr. HANCOCK. Ask him who is an executive officer.

Mr. GIFFORD. I asked him that. They cannot determine it. A poor clerk may be acting as an executive officer one day in the execution of a note when that officer is away.

Mr. HANCOCK. That ought to be clarified.

Mr. GIFFORD. It has been a nuisance, and you know that any banker does not dare to complain. A banker involved in such a transaction may worry himself to death before he would say anything about it these days.



Mr. O'CONNOR. That has not been my experience, and I have met a lot of them. I have encouraged them not only to take up those matters, but also questions as to the examinations, and if there is any objection, I want them to feel that I want to encourage them and feel that they can reach the head of the department any day or any hour they want to.

Mr. GIFFORD. I know; your attitude has been splendid. Since I questioned you before in reference to the examination, I took a report of yours to a friend of mine and I quoted it with reference to that matter and I asked him to read it and report again to me, and he said when the reports come back they read pretty cold.

They are not very reassuring. I tried to comfort him with what you told me. [Laughter.] He was a good banker, in a good bank, and he said that the way you write letters in your Department, it is pretty cold.

Mr. FORD. You would not want him to write poems, would you?

Mr. GIFFORD. But what I am getting at is this, that in our country banks particularly our people are honest, and I think that you ought to make this plainer and far more liberal than you have. The president of the bank may be the only man that is doing much business in that community, and he cannot borrow in his own bank.

The CHAIRMAN. And there have been times when these bank officials would sacrifice every penny that they and their families had in order not to let those banks fail.

Mr. GIFFORD. You are absolutely right.

Mr. CROSS. What has been the experience of your office with respect to those officers breaking banks by borrowing from them? To what degree has that gone on in the past?

Mr. O'CONNOR. I could not give you any offhand opinion.

Mr. CROSS. I do not mean for you to be exact, but has it been extensive or not?

Mr. O'CONNOR. I can put it quite definitely in this way, that at the time this law was passed, prohibiting borrowing by executive officers of a bank, the executive officers of the national banks had borrowed \$94,000,000 at that time directly, and about \$45,000,000 indirectly.

Now, then, you passed this law and the executive officers have been making quite a strenuous effort to reduce that indebtedness, and I feel in very good faith, because before I suggested to this committee and to Congress that they should extend the time when these loans could be paid for a further period of several years, I did it because I thought that the record showed that the executive officers had been making, in this rather depressed period, a very fine effort to reduce their indebtedness to the banks to carry out the law of Congress, and they have paid about \$35,000,000 of that in that period, and they have paid about 30 percent of the \$45,000,000 that they were indirectly obligated on.

I think, frankly, that that is a very good showing, considering the times, and we are recommending here that when the loans are to be renewed, even for this period, that the officer asking for the renewal shall present the facts to his board of directors, don't you see, and then if he has done that, he has made reductions, they feel that it is in the interests of the bank that they should



give him the additional period that we are asking in this law, which I think is reasonable.

Mr. GIFFORD. I hate always to have to agree, but it is good policy to cut the dog's tail off a little each day, and to make it easier for him to get used to it, and in order to relieve this situation, but you are going to cut him off eventually, and why can we not make a limitation of a small amount, so that in the small country banks, where there are no other facilities, it would not be so great a hardship? I know of one officer who said that he had to pay a loan to his own bank, and he went across the street and borrowed from the other bank; and now they have consolidated, and where is he? He is a perfectly fine character, and it is a good loan, and why force him into such foolish performances?

Mr. O'CONNOR. I think that you have made a very good point. I would be inclined personally to take this view of it, to limit an executive officer; and, secondly, provide that he would have to have the approval of the board of directors, for this reason, that he should not be in a position of having to go elsewhere, as you suggest.

Mr. GIFFORD. Certainly it should have the approval of the board of directors. I agree with that.

Mr. O'CONNOR. I think that those two things could receive the serious consideration of this committee.

Mr. GIFFORD. We should liberalize this this year. I can see the motive back of it, but why punish unnecessarily?

Mr. FORD. Supposing that an executive officer in a bank wants to make a loan, and he cannot get it from his own bank, and he goes to another bank. Does he have to report that loan to the board of directors?

Mr. CROSS. Oh, yes.

Mr. FORD. Would it not be sufficient if he reported it to the chairman of the board?

Mr. HANCOCK. The chairman of the board should not have information with respect to the borrowings of the other directors on that same board.

Mr. SPENCE. Did the opinion of the Attorney General define the duties that would constitute an executive officer?

Mr. O'CONNOR. No, sir.

Mr. SPENCE. What did the opinion say?

Mr. O'CONNOR. That he just did not know; and we did not know, so we asked him.

Mr. SPENCE. And you have not found anybody that knew?

Mr. O'CONNOR. We have not found anybody that knew.

Mr. GIFFORD. He acts as executive officer temporarily?

Mr. O'CONNOR. Yes.

Mr. GIFFORD. And you have to acknowledge that every act practically has to be a measure in itself.

Mr. O'CONNOR. That is the only way that you could judge as to whether or not his capacity was that of an executive officer, and as there is a criminal statute attached, it is a serious thing.

Mr. WILLIAMS. To what extent, in actual practice, are these loans made without the approval of the board? Is it pretty generally a practice that a loan of any size is made by any executive officer of a bank without the approval of the board?



Mr. O'CONNOR. I think that in the larger banks it is by a lending committee.

Mr. WILLIAMS. Ought it not to go finally to the board?

Mr. O'CONNOR. Oh, yes. I think that all good banks discuss with their boards their loans of any size.

Mr. WILLIAMS. After all, there is not much difference between that and a loan to a member of a board.

Mr. O'CONNOR. Not if they have all the knowledge.

Mr. WILLIAMS. I do not see much difference in making a loan to an executive officer of a bank, if it has to be approved by the board, and making a loan to one of the board themselves.

Mr. O'CONNOR. Well, I think that probably, Congressman, there is this distinction. I believe that the men who are running the bank always own practically most of the stock in the bank. They are the dominating officers in the bank, the officials of the bank. As the chairman has said, they have the greatest stake at interest in the bank, also. We must consider that.

But you cannot get away from the fact that they are more directly in charge of those funds, of the depositors' money, and of the loaning policy of the bank; and usually the directors accept their judgment because of their wider experience in banking, and so forth, and, frankly, I have always felt that that relationship of trust, of truster, and trustee, is such a close relationship that those officers should not be unlimited in borrowing from the bank.

Mr. WILLIAMS. Is not that board just as much a trustee as the executive—more so, for that matter, in the final disposition of funds?

Mr. O'CONNOR. In law, a director is also considered, in many respects, a trustee, when he accepts that position.

Mr. BROWN of Michigan. What is the reason for requiring an executive officer of a bank to notify his own bank that he has borrowed money elsewhere? I cannot see any logic back of that rule. I agree thoroughly with your view regarding the other policy; but if he is not indebted to his own bank and cannot become indebted to it, why should he be required to inform his board of directors that he is borrowing somewhere else?

I know that the Comptroller does require it, because that is set forth in every bank report, except as to the borrowings from State banks, but I cannot see the necessity for that particular provision of law.

Mr. O'CONNOR. I will not take issue with you on that.

Mr. BROWN of Michigan. Mr. Awalt?

Mr. AWALT. The following is the explanation, Congressman.

We have had any number of cases where officers have become very heavily involved by borrowing from other banks, and their own boards of directors, or their own chairman of the boards, did not know anything about that condition, and they would suddenly wake up to the fact that this man was heavily involved somewhere else; and there have been cases where he has let loans come into the bank from other places because he was borrowing there, and he will let the officers of another bank borrow in his bank; and the thought was that if he reported those loans to the board of directors of that bank, they would have knowledge all the time of what position he was in and what he was doing.



Mr. O'CONNOR. Mr. Chairman, may I take up some of the technical changes?

Mr. SISSON. Before we leave this question, I want to ask a question about this limitation upon the executive officers of the banks.

What I am thinking of, Mr. Comptroller, is that I have had some letters from three or four small banks, very small national banks, in instances where there is only one bank in a town, and a small town, and I assume that the amount of the loan would be rather small.

Could there not be some safeguard provided which would permit the making of a loan in such an instance, to carry out the purposes that we have in mind and you have in mind, requiring a few securities that would be satisfactory?

Mr. O'CONNOR. Yes; I do not see any objection. I think that that can be worked out, to be just a little more liberal, as the Congressman has said; to have just a little more liberal interpretation of that principle.

Mr. SISSON. You will remember, Mr. Chairman, that I spoke to you the other day about that. I do not know how many small banks have written to me about that and have even asked to appear before the committee.

I think that a limit could be made reasonably low and a reasonable requirement put in with regard to security that would satisfactorily meet that situation.

Mr. BROWN of Michigan. I am somewhat disturbed by what I hear back in Michigan, particularly in the metropolis, Detroit, about the matter of receiverships, and I would like to discuss that a little while with you.

Under the change which we propose in this law, the Federal Deposit Insurance Corporation will become the receiver of all closed national banks, by appointment from you.

Mr. O'CONNOR. Yes; that is the section that I objected to.

Mr. BROWN of Michigan. But, as the bill is now presented, it is there contained?

Mr. O'CONNOR. That is right.

Mr. BROWN of Michigan. Do you not think that it would be wise, whether we leave the power entirely with you, or whether we turn it over to the Federal Deposit Insurance Corporation, to provide some means of giving publicity to what is going on in the receiverships? I understand that at the present time it is impossible for a stockholder or a depositor to know what the expense of conducting a receivership under your department is.

Mr. O'CONNOR. Of course, that is not correct, because we post up in the bank every quarter a statement showing the expense of that trust, the amount collected, and the exact financial condition of it.

What we try to protect our people against is this, and we have done it fairly well, with the consent of Congress, that whenever a bank fails, there is unfortunately a number of people who get together and if they could get all of the information that they wanted out of that bank, they would go out and try to buy these claims at 10 cents on the dollar, or 15 cents, or 20 cents, and to get those certificates away from those depositors, and that is one way in which we are trying to protect these people.



Out of every dollar that the Comptroller's office has collected, we have returned 93 cents to the depositors, and we have retained 7 cents to pay attorneys' fees, receivers' salaries, overhead, light, rent, and every other item of expense, and there is not a record like that in any receivership in the United States. However, in the two Detroit banks, our record was much better. Our cost up to December 31, 1934, in the First National Bank, Detroit, Mich., is only 1.989 cents for each dollar collected and in the Guardian National Bank of Commerce, Detroit, Mich., only 1.97 cents for each dollar collected, or less than 2 cents for each dollar collected. This means there was available for depositors and creditors 98 cents plus out of every dollar collected.

Mr. BROWN of Michigan. That is undoubtedly true, and yet in a large bank, excessive attorneys' fees and excessive receivers' fees could be paid. You are not subject to the Federal courts in any way in fixing those fees.

Mr. O'CONNOR. No, sir.

Mr. BROWN of Michigan. Are you willing to tell this committee now what is being paid, as receivers' fees, to the receivers for the First National and Union Guardian Banks in Detroit?

Mr. O'CONNOR. Yes. Mr. V. C. Schram was appointed receiver of the Guardian National Bank of Commerce, Detroit, Mich., on May 11, 1933, at a salary of \$14,000 per year. The total assets at the date of suspension were \$141,000,000.

Mr. C. O. Thomas was appointed receiver of the First National Bank, Detroit, Mich., on May 11, 1933, at a salary of \$14,000 per year. The total assets of this bank were \$485,000,000. Subsequently, Mr. Thomas of his own volition to take a position with a going bank, and I requested Mr. Schram to become receiver of both banks at a total salary for said banks of \$16,000 per year. For the tremendous amount of assets involved and the many involved problems centered in these two banks, the compensation was and is small.

Mr. BROWN of Michigan. What is being paid to the attorney in the case of the First National and Guardian National?

Mr. O'CONNOR. That is fixed by myself under a contract. Every attorney who becomes an attorney for the Comptroller's office signs a contract. He cannot fix his own compensation. He cannot render a statement and stand in court upon it. He must submit that to my department, where his charges are gone over carefully by my staff, in connection with the work involved, and we allow what we believe is fair compensation, and if you will come to my office, because the other members of this committee are not interested, and I am not interested in any newspaper headlines, I will give you the amount.

Mr. BROWN of Michigan. Do you not think that the depositors and the stockholders in those banks are entitled to know what those fees are?

Mr. O'CONNOR. They get them in their quarterly reports; they get the expenses of their liquidation.

Mr. BROWN of Michigan. No one in Detroit knows what is being paid to the attorney in that case. As a matter of fact, the receivers for the Detroit Bankers Co. do not know.

Mr. O'CONNOR. I am happy to know that we have been able to keep our records in that condition.



Mr. BROWN of Michigan. I think that the stockholders who may be interested in the Guardian Bank, because the chances of their paying off are pretty good, and certainly the depositors in the First National, ought to know what the expense of this receivership is.

Mr. O'CONNOR. I just told you what I would do.

Mr. BROWN of Michigan. You say that you will tell it to me.

Mr. O'CONNOR. Yes, sir.

Mr. BROWN of Michigan. I do not want to know. I am neither a stockholder nor a depositor, and I have no personal interest in it at all, at least not directly, but I have been requested to raise the question of what is being paid at the present time to the attorneys who are there.

As you know, there is a great deal of criticism, whether justifiable or not, for bringing in an Ohio lawyer to take care of the interests of the banks in Detroit.

Mr. O'CONNOR. He just finished trying, in one month, 94 cases for my Department, and he won every single one of them.

Mr. BROWN of Michigan. I have no criticism of the conduct of his office, but I think that the interested parties are entitled to know what he is getting at the present time in the way of attorney's fees.

Mr. O'CONNOR. The failure of that bank occurred before March 4, 1933, as you know, but Mr. Awalt just tells me that there was not a firm available out there that was not connected in some way with that bank. Either they had to be sued, or they represented big stockholders or different interests.

Mr. BROWN of Michigan. I think a great deal of Mr. Awalt, as he knows.

Mr. O'CONNOR. He just passed that information on to me.

Mr. BROWN of Michigan. And I have highly praised him to the Michigan Bankers' Association. I will send him a copy of the speech. But I think that he is exaggerating a little when he says that there was no available firm of lawyers in Detroit that could have handled that case. I think that a Detroit lawyer could have been secured, at least a Michigan lawyer, who could have handled the situation.

But I do not want to be driven away from the main question. I want to know, as a Representative on this committee from the State of Michigan, what Mr. Marx has gotten.

Mr. O'CONNOR. I told you what I would do.

Mr. BROWN of Michigan. I want to know it in such a manner that it may be presented to the interested parties in the State of Michigan and in the city of Detroit, and I want it, Mr. O'CONNOR, for the protection of yourself, myself, and the present administration.

Mr. O'CONNOR. I will tell you. I will give it to you—

Mr. BROWN of Michigan. I can say to you that I was informed by a reliable business man in the city of Detroit no less than 2 weeks ago that Mr. Marx had presented, or would present, a bill for a quarter of a million dollars.

Now, I cannot believe that that can be so, and I would like to see it officially denied if it is not so, and if I can understand that this information that I received from you can be made known to the interested parties, that is all that I care about.



Mr. WOLCOTT. May I interrupt?

Mr. BROWN of Michigan. Let me get an answer to my question.

Mr. O'CONNOR. I will give you the information, Mr. Congressman, because as a Congressman I think that you are entitled to it, and you can then do whatever you think is in the interests of this Government.

I have had more trouble with your banks than with any other part of the United States. I have had more trouble with your people than with those in any other part of the United States, and after we paid the depositors in full, I got letters from those same depositors who got 100 cents on the dollar criticizing the administration, the receiver, and the plans that we had to put it into a holding company; and I wrote back and thanked them for their continued interest in an institution in which they did not have a dollar. [Laughter.]

Mr. BROWN of Michigan. Let me just add a word. I might say that I do not represent the city of Detroit. I am the only Michigan Representative of the majority party on this committee. I have continually upheld the administration of the Comptroller's office of the two big Detroit banks that have been closed, and I so stated to the Michigan Bankers' Association in a speech delivered before them last June in the presence of Judge Birdzell of the Federal Deposit Insurance Corporation, but I am not going to see my administration criticized in the manner that it has been back in Michigan in this matter, and that is why I asked the question.

Mr. O'CONNOR. I will give you that information, and it is up to you.

Mr. WOLCOTT. In that same connection, I addressed a letter to you yesterday, or the day before, asking for this same information. I do not want to make use of that information if you do not desire me to. I sent you this letter at the request of some people in my district who were interested in those banks.

Would it be perfectly agreeable to you, if I called on you with respect to this?

Mr. O'CONNOR. Yes; and I would particularly like to have you come over, so that we could go through the files and see what the situation is. One of the biggest jobs in the United States has been done in Detroit. We have saved several million dollars' worth of property.

Mr. BROWN of Michigan. I do not want to take up too much time, but one of my favorite subjects has been this subject of bank examinations, and I would like to discuss that with Mr. O'Connor when we have plenty of time, but I feel that we are needed on the floor.

The CHAIRMAN. I think that the situation is such that we should adjourn until 3 o'clock. Will you come back, then?

Mr. O'CONNOR. Yes.

(Thereupon, at 12:15 p. m., a recess was taken until 3 p. m.)

#### AFTER RECESS

Upon the expiration of the recess, the hearing was resumed.

The CHAIRMAN. All right, Mr. O'Connor; you may proceed.



## STATEMENT OF J. F. T. O'CONNOR—Resumed

Mr. O'CONNOR. Mr. Chairman, I want to call the committee's attention to quite a large number of very small inaccuracies, or whatever you want to call them, in title 3 of the proposed Banking Act of 1935 and other technical amendments. For instance, just to illustrate what I have here, in section 310 (c), on page 57, line 10, substitute the letter (b) for the letter (c) in the parentheses, and so on down through.

I would like to put that in the record.

The CHAIRMAN. Yes, sir; leave it here.

Really, that might be reserved for executive session, but it is all right put it in the record.

(The changes proposed are as follows:)

## TECHNICAL AMENDMENTS WHICH SHOULD BE MADE IN TITLE III OF PROPOSED BANKING ACT OF 1935 (H. R. 5357 AND S. 1715)

Section 301. On page 51, line 14, after the words "shall not include" insert the following: "(except for the purposes of section 23A of the Federal Reserve Act, as amended) any corporation all of the stock of which is owned by the United States of America or".

(NOTE.—The words "except for the purposes of section 23A of the Federal Reserve Act, as amended," are added in order that the restrictions of section 23A upon loans by member banks to affiliates and holding company affiliates will continue to be applicable to accidental holding company affiliates. The other words added by the amendment are for the purpose of confirming the present interpretation of the law to the effect that the Reconstruction Finance Corporation and other corporations whose stock is owned by the United States are not included within the term "holding company affiliate.")

Sections 310 (a) and (b). Strike out all of subsections (a) and (b) of section 310 (p. 56, line 20 through p. 57, line 9) and insert in lieu thereof the following:

SEC. 310 (a). The first paragraph of section 5144 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 61), is amended to read as follows:

"In all elections of directors, each shareholder shall have the right to vote the number of shares owned by him for as many persons as there are directors to be elected, or to cumulate such shares and give one candidate as many votes as the number of directors multiplied by the number of his shares shall equal, or to distribute them on the same principle among as many candidates as he shall think fit; and in deciding all other questions at meetings of shareholders, each shareholder shall be entitled to 1 vote on each share of stock held by him; except that (1) this shall not be construed as limiting the voting rights of holders of preferred stock under the terms and provisions of articles of association, or amendments thereto, adopted pursuant to the provisions of section 302 (a) of the Emergency Banking Act of March 9, 1933, as amended, (2) in the election of directors, shares of its own stock held by a national bank as sole trustee, whether registered in its own name as such trustee or in the name of its nominee, shall not be voted by the registered owner unless under the terms of the trust the manner in which such shares shall be voted may be determined by a donor or beneficiary of the trust and unless such donor or beneficiary actually directs how such shares shall be voted, (3) shares of its own stock held by a national bank and one or more persons as trustees may be voted by such other person or persons, as trustees, in the same manner as if he or they were the sole trustee, and (4) shares controlled by any holding company affiliate of a national bank shall not be voted unless such holding company affiliate shall have first obtained a voting permit as hereinafter provided, which permit is in force at the time such shares are voted, but such holding company affiliate may, without obtaining such permit, vote in favor of placing the association in voluntary liquidation or taking any other action pertaining to the voluntary liquidation of such association. Shareholders



may vote by proxies duly authorized in writing; but no officer, clerk, teller, or bookkeeper of such bank shall act as proxy; and no shareholder whose liability is past due and unpaid shall be allowed to vote. Whenever shares of stock cannot be voted by reason of being held by the bank as sole trustee, such shares shall be excluded in determining whether matters voted upon by the shareholders were adopted by the requisite percentage of shares."

(NOTE.—Sections 310 (a) and (b) of the bill amend the first paragraph of section 5144 of the Revised Statutes. In order to add three additional amendments thereto, the paragraph has been rewritten as set forth above. The first of the new amendments is contained in the clause no. (1) in the rewritten section. This amendment is for the purpose of preserving the right which the Reconstruction Finance Corporation and other holders of preferred stock now have in certain cases to cast more than 1 vote on each share of preferred stock in the event of default. The new amendment contained in the clause no. (2) enables a national bank to vote shares of its own stock held by it as sole trustee in cases where the bank does not in fact control the manner in which the stock is voted. The third of the new amendments adds to the provision in clause no. (4) the following words at the end of such clause: "or taking any other action pertaining to the voluntary liquidation of such association." This amendment extends the authorization of a holding company affiliate to vote, without obtaining a voting permit, to place a national bank in voluntary liquidation so as to include the authority to vote in favor of taking any other action pertaining to such liquidation.)

Section 310 (c): On page 57, line 10, substitute the letter b for the letter c in the parentheses.

(NOTE.—Since section 310 (b) has been combined with section 310 (a), section 310 (c) now becomes section 310 (b).)

Section 317. On page 61, line 20, strike out the words "to read as follows" and substitute the words "by striking out the semicolon and everything preceding it and substituting the following."

On page 62, line 5, change the period to a semicolon.

(NOTE.—In drafting the proposed amendment to section 5243, the part following the semicolon, which provides for a penalty for violating this section, was inadvertently omitted; and the purpose of the above amendments is to preserve the penalty provision as it now exists in the law.)

Section 318: On page 62, line 7, substitute the word "three" for the word "two".

On page 62, after line 25, insert the following new paragraph:

"Section 6 of the Federal Reserve Act, as amended, is amended by striking out the last paragraph thereof."

(NOTE.—These amendments repeal the provisions of sections 5 and 6 of the Federal Reserve Act which require the board of directors of a Federal Reserve bank to execute a certificate to the Comptroller of the Currency showing an increase or decrease in the capital stock of the Federal Reserve bank. Inasmuch as every adjustment in Federal Reserve bank stock is approved by the Federal Reserve Board before the stock is issued or cancelled, the filing of such certificates with the Comptroller of the Currency is a useless formality involving duplication of work.)

Section 321: On page 64, line 1, strike out "and/or" and substitute therefor the word "or".

(NOTE.—This is merely for the purpose of improving the language of the section by eliminating the "and/or".)

Section 323 (a): On page 64, line 22, change the period to a colon and insert before the quotation marks the following: "Provided, however, That, within the meaning of the provisions of this section regarding the reserves required of member banks, the term 'time deposits' shall include 'savings deposits'".

(NOTE.—The provisions regarding reserves only require reserves against "demand deposits" and "time deposits", in view of the fact that the present statutory definition of time deposits includes savings accounts. The provisions regarding interest, however, make a distinction between time deposits and savings deposits in that they forbid the payment of any time deposit before maturity and forbid the waiver of any requirement of notice before payment of any savings deposit except as to all savings deposits having the same requirement. This amendment is for the purpose of making it clear that reserves are required against savings deposits as well as other time deposits.)

Section 323 (b): On page 65, line 3, strike out everything after the parenthesis to the end of line 5 and substitute therefor the following: "and cash items



in process of collection payable immediately upon presentation in the United States, within the meaning of these terms as defined by the Federal Reserve Board."

(NOTE.—This would bring the language of the section into conformity with the language recommended by the Federal Reserve System's committee on reserves and would leave with the Federal Reserve Board the right to determine within limitations what items may be deducted from gross demand deposits for the purpose of determining the amount of net demand deposits on which reserves are required.)

Section 323 (d): On page 67, line 10, strike out the words "section 7 of"; in line 11, strike out the words "section 8 of"; in line 12, strike out the words "section 8 of".

(NOTE.—This is merely to eliminate any doubt as to the correctness of the statutory references.)

Section 325 (a): On page 68, line 11, insert a comma after the words "assistant examiner".

(NOTE.—This is to make clear that the restrictive clause, "who examines or has authority to examine such bank", applies to the words, "bank examiner", as well as to the words "assistant examiner".)

Section 325 (b): On page 69, line 3, insert before the word "section" the word "such".

On page 69, line 9, strike out everything in line 9 and substitute therefor the following: "as to a national bank, the Federal Reserve Board as to a State member bank, or the Federal Deposit Insurance Corporation as to any other insured bank,".

(NOTE.—The first amendment is for the purpose of making clear that the section 22 referred to is section 22 of the Federal Reserve Act. The purpose of the second amendment is to make it clear that the consent of the appropriate supervisory authority is to be obtained with respect to the disclosure of information relating to national banks, State member banks, and other insured banks, and to eliminate doubt as to whose consent is necessary in a particular case.)

Section 326: On page 72, line 8, after the word "Government" strike out the comma and insert the following words: "or obligations fully guaranteed by the United States Government as to principal and interest,".

On page 72, line 25, strike out the period and the quotation marks and insert the following: "or to loans secured by, extensions of credit against, or purchases under repurchase agreement of, obligations of the United States Government or obligations fully guaranteed by the United States Government as to principal and interest."

(NOTE.—The first of the above amendments extends the exemption of affiliates engaged solely in holding certain obligations to include affiliates engaged solely in holding obligations guaranteed by the United States Government. The second amendment exempts from the limitations of the first paragraph of section 23A loans secured by, extensions of credit against, and purchases under repurchase agreement of United States Government obligations and obligations guaranteed by the United States Government and extends the exemption now contained in the second paragraph of section 23A to obligations guaranteed by the United States.)

Section 327: On page 73, line 4, substitute the word "established" for the word "establish".

(NOTE.—This merely corrects a typographical error.)

Mr. O'CONNOR. There are one or two of these technical changes that I want to call the attention of the committee to, for, really, they are more than technical. For instance, where we are giving the Reconstruction Finance Corporation the right to accumulate their funds, and so forth, which they should have where the Government has an interest in these banks, I wish to call attention especially to that, and then if you will be good enough to let whoever is drafting the bill finally get in touch with Mr. Awalt, we will be glad to assist you, if that meets with the approval of the committee.

Now, Mr. Chairman, the committee had considerable interest this morning in this question of loans to officers, and I think it might



be worth while to give you what we have taken out of the Congressional Record of the House of a year ago.

For the purpose of indicating the intent of Congress with respect to this general question, quotations follow from the debates involving this particular section of the Banking Act of 1933.

In the House, when this section was under consideration, Mr. Bailey offered the following amendment:

After the word "officer" insert the words "or director" and add the same language at each point in section (g) after the word "officer" each time such word is used.

Mr. Bailey stated:

Mr. Chairman, this apparently is but a simple amendment but in fact it will have considerable to do with the final result of the operation of this bill. \* \* \* One of the greatest troubles, one of the worst banking practices, has been loans made to people connected with banks. For that reason, I believe this Congress should add in this law a prohibition against borrowing by a director from a bank in which he is a director. \* \* \* This amendment simply changes the wording of this section so as to include the directors of banks with executive officers.

The amendment was put to a vote and was rejected.

In the Senate, the following took place:

Mr. GLASS. Mr. President, may I inquire of the Senator from Oklahoma, for whose judgment I have the utmost respect, if the prohibition would apply to the directors of a bank or to the executive officers of a bank.

Mr. GORE. It was not my intention, when I conferred with the Comptroller, that it should apply to directors. I do not think that it does. I think it would apply to officers only.

Mr. GLASS. I think the Senator will concede that if it would apply to the directors of a bank, it would be very difficult to get any directors.

Mr. GORE. I think that is true and yet I think we ought to amend the existing law. \* \* \* There ought to be a limit to the total borrowings which could be made by the directors of a bank. But that is not involved in this amendment, I would say.

Mr. GLASS. Usually the directors of a bank are among its largest depositors. If they were prohibited from patronizing the bank of which they were directors, it would be an extremely difficult thing to get any directors for the bank. \* \* \* I would suggest that the Senator, if the language does not already imply what I mean, ought to use the term "executive" officers of the bank so that it may be understood that it does not apply to directors, because if it should there would be no directors.

Mr. GORE. I accept that suggestion from the Senator from Virginia.

Mr. GLASS. I would unhesitatingly say that the president of the bank, whether a salaried officer or not, would come within the definition of an "executive officer." The chairman of the board would be an executive officer and the cashier would be an executive officer. I do not think that a director is an executive officer, and I am perfectly certain that if it is intended to comprehend directors, we will not have any directors.

Mr. COUZENS. May I ask the Senator whether or not he would construe as executive officers the members of the executive committee who are only directors and yet pass upon loans?

Mr. GLASS. No. It is their business to pass upon loans and not to borrow. I would not regard them as executive officers. They simply pass upon loans. I think the executive officers of a bank are the salaried or nonsalaried officers, such as the president, cashier, and chairman of the board who is usually a higher-priced executive than the president himself. But what I desire to do is to exclude the directors of the bank from this requirement because as the Senator knows—he is a business man and knows better than I—usually the directors of a bank are among its largest depositors.

I thought that the committee might be interested in getting this reaction from both the House and the Senate, because it was raised by several Members here this morning.



Then, one of the members of the committee this morning also asked about the opinion of the Attorney General, and that is in three paragraphs, and I would like very much to give you that. [Reading:]

Upon the question who are executive officers, your Solicitor quotes from *Arkansas Amusement Corporation v. Kempner* (33 S. W. (2d) 42), to the effect that "an executive officer or employee is one who assumes command or control and directs the course of the business, or some part thereof, and who outlines the duties and directs the work of subordinate employees", as usually provided for in the articles of association, the bylaws or a resolution of the directors. The Supreme Court of Oklahoma, determining that "the cashier of a national bank clearly is an executive officer", derived assistance from statutory provisions concerning his duties (*First National Bank v. Mee*, 126 Okla. 265, 269).

I approve these general conclusions, but they permit no categorical answer to the question which you have submitted. "It is not the designation under which one is known but the nature of his duties which characterizes him as an 'executive officer'" (*Small v. Gibbs Press*, 225 N. Y. S. 141, 142).

It is the duty of the banks and of all officers who by any possibility might be affected to keep within the statute and to weigh carefully all the facts and circumstances (peculiarly within their possession) before acting. If cases arise in which it appears that the statute may have been violated, I shall be glad to consider the advisability of prosecutions; and I shall, of course, be glad to advise you in connection with any such cases wherein you may have some duty to perform. In either event, however, it would be necessary that I be fully informed as to the facts.

That bears out my statement this morning, that we did not know what an executive officer was.

That is all that I have to offer, unless there is something else.

The CHAIRMAN. Mr. Brown, you had some further questions.

Mr. BROWN of Michigan. I asked questions of the representatives of the Federal Deposit Insurance Corporation and of the Governor of the Federal Reserve Board on this matter, which to me is of considerable importance, the duplication of organizations that we have and propose in this bill for the examination of banks.

I want to say now that I think that the examining division of the Comptroller's office has been most efficient and has done an excellent work, particularly during this period of bank difficulties. I feel that the criticism made of my views on this thing is to a certain extent justified, and that there is not a great deal of duplication of effort.

In section II of the bill we have the first and possibly the second instance of where we provide for two Government examinations. Calling your attention, Mr. O'Connor, to that, the section provides in substance that the Federal Deposit Insurance Corporation may examine any national bank upon the written consent of the Comptroller.

Now, my purpose in bringing up this subject is to see if we cannot avoid duplication of organizations in the matter of the examination of banks. Going back a little into the history of the legislation, when the Federal Reserve System was set up, undoubtedly the idea of those who wrote the law was to provide for examination of Federal Reserve banks by the Comptroller's office, and the law still so provides, but by subsequent enactment, and, I think, Mr. Wyatt, that was about 1921?

Mr. WYATT. June 21, 1917.



Mr. BROWN of Michigan. In 1917 the provisions of section 481 of the United States Code, insofar as they apply to the examination of Federal Reserve member banks, were eliminated, and I understand now that your office does not designate any examiners out of your staff for the purpose of examining member banks of the Federal Reserve System which are not national banks. Is that a fact?

Mr. O'CONNOR. Yes. There is one examination a year, as I understand it, made by the Federal Reserve Board of their member banks, because there are also the State examinations of those institutions.

Mr. BROWN of Michigan. I think that in section 330 of the United States Code, the idea was that it was hoped that the State examinations would be sufficient to satisfy the Federal Reserve Board, but, as a matter of fact, we have a considerable force of examiners now under the Federal Reserve banks' jurisdiction, of the individual banks, I take it, rather than the Federal Reserve Board.

Now we are proposing to set up an examining division in the office of the Federal Deposit Insurance Corporation. Therefore, if we include the Reconstruction Finance Corporation, which likewise had a corps of examiners, and I think have some yet, we have four Government agencies at the present time examining banks, and if we eliminate the Reconstruction Finance Corporation, we have three, assuming that H. R. 5357 goes into effect as written.

Now, I recognize that it is going to be difficult to settle this problem before we settle the problem of the right of nonmember banks to the benefits of the insurance provisions of the law. I realize that that is a big problem that perhaps ought to be settled first, but I made this statement, having in mind the hope that the Treasury Department, the Federal Reserve Board, and the Federal Deposit Insurance Corporation can present some plan to this committee by which this duplication of organization can be eliminated.

It seems to me that a national bank ought not to have two governmental masters, that the regulations ought to come from one general head, one banking department.

I also recognize, Mr. O'Connor, that this is a statement, rather than a question, but I do want to ask you if you do not think that more efficient examination of our banks could be had if we consolidated the examining departments that we now have into one organization?

Mr. O'CONNOR. Mr. Congressman, you have made a very clear distinction that is not usually made by people who talk about the duplication of examinations by Federal agencies, of which there is no such thing, and you have made a very careful discrimination between those, and you are correct in that statement where you referred to different agencies making examinations rather than duplications of examinations.

There is no such thing in the Federal Government as the duplication of a single examination. In the first place, there is no examiner that enters a national bank except an examiner who is duly authorized to enter that bank on authority of the Comptroller of the Currency, with one exception. If the bank invites the Reconstruction Finance Corporation to become, so to speak, a partner in that bank, as it does when it makes an investment in the preferred stock of the bank, then the bank and the Reconstruction Finance Corporation, like any two contracting parties, sit down and make



any agreement or arrangement that they want to make. I have nothing to do with it at that stage of the proceeding. The Reconstruction Finance Corporation can say, "We insist on having the examiner go in here once a year." That is all right if the bank agrees to it; I will not complain. The bank can invite in, as some of the larger do, certified public accountants and auditors, and they have the right to do that. I am merely making the point that at no time does anyone enter a national bank except the duly authorized representative of the Comptroller's office.

The national banking act provides that I must examine national banks at least twice a year, and oftener if found necessary. The law also provides that the Federal Reserve Board may examine banks in special instances, and, as I understand it, they examine their member banks once a year, and the State examiners examine them once or twice, or whatever the State law provides.

Now, that brings us to the third examination, and that is by the Federal Deposit Insurance Corporation. There is a question as to just how far that examination should go, and what the regulations should be with respect to it.

We must never forget that that is an insurance corporation, and we have insurance corporations in this country which are underwriting bonds against embezzlement, theft, robbery in State and national banks in this country, carrying a liability of many hundreds of millions of dollars, and when they pay a loss, as they had to do in about every month in the days past, there is no subrogation, there is no right. That is a complete, straight loss. Those insurance companies underwrite those losses, and have no recourse, so to speak, against the assets of the bank at all. They just write a check for \$50,000, or \$100,000, or whatever the amount may be, and they have no right of examination, or no right to go into any of these banks.

I am just pointing that out—

Mr. BROWN of Michigan. You are not speaking of the Federal Deposit Insurance Corporation?

Mr. O'CONNOR. No; private companies that are insuring against embezzlement, robbery, and all of those things, that carry that without examination at all, and that have no subrogation rights.

Now, it is for the committee to determine just how far they want the Federal Deposit Insurance Corporation to go, or what attitude they should take toward these State banks, which are not chartered by the Federal Government, and with the States jealous of their supervision over them, and where their examinations are in good shape, properly so, and some of the States are very proud of their examining system.

I just want to point out, in passing, that the Federal Deposit Insurance Corporation has 16 percent of the total deposits outside of the Federal Reserve System. In other words, 84 percent of the deposits are in the Federal Reserve System. As to 16 percent of those outside of the System, your examinations would apply so far as the Federal Deposit Insurance Corporation is concerned.

Now, in the national banking system, as you know, we have about 5,467 national banks, about 3,000 less than we had at the peak, and the State member banks of the Federal Reserve System, as I remember, number about 976.



So we have three things in mind in discussing your problem, Mr. Congressman; that is, first, that the Comptroller's office is responsible for the examination of 5,467 national banks. You have given limited examination to the Federal Reserve Board over 976 banks, and the Federal Deposit Insurance Corporation has 16 percent of the total deposits, so that there is no duplication of examination, but there are, as you well pointed out, these agencies examining these particular banks; but that is a matter for this committee.

Mr. BROWN of Michigan. Well, of course, under section 11—

Mr. O'CONNOR. I wanted to discuss that, Mr. Congressman. You called attention to that, and here is the reason for it, and I think it is very important.

The Federal Deposit Insurance Corporation, if you pass the bill as it has been suggested to you, will give us the right to buy the assets of a bank before we have to close it. If it is a bank getting into bad shape, it is worth more as a going institution if we can go into that town and buy it or merge it, and the Federal Deposit Insurance Corporation in those instances may say, "We would like, if we should disagree with your examination, the right to go in there and make an examination in event we are going to buy the assets", and we say that we have no objection, that we will give them the written permission to go in there, and that is the only reason that that was put in the bill, Mr. Congressman. We could not write it in, but I am glad to clear that up.

Mr. BROWN of Michigan. That is the only reason for it?

Mr. O'CONNOR. That is the sole reason for it.

Mr. BROWN of Michigan. Well, do you think, Mr. Comptroller, that it would be advisable for the Government to give consideration to the question of turning over the matter of the examination of banks to one governmental agency?

Mr. O'CONNOR. I know, Mr. Congressman, that you will appreciate my embarrassment in answering that question. It is just not quite fair to me to answer it, because each of us would probably say, "Why yes; we will do it", so that I would rather leave it to the committee. Whatever you fellows do, we will do at our end of it.

Mr. BROWN of Michigan. I may say that while I think it is a big subject, and that we ought to do something about it, as I said before I do not think that we can really go into that until we have settled this other question.

Mr. O'CONNOR. That is right.

Mr. BROWN of Michigan. Of the nonmember State banks, and their relationship to the Federal Deposit Insurance Corporation. Just one other subject—

Mr. HANCOCK. May I ask one question here?

You say that under the law as it is now written, the office of the Comptroller is required to make two examinations a year?

Mr. O'CONNOR. That is right.

Mr. HANCOCK. Then you later said that under the law, the Federal Reserve Board may require an examination. Do they have to make an examination of member banks?

Mr. O'CONNOR. No.

Mr. BROWN of Michigan. That is not what he said. He said that in certain instances, if necessary, further examinations are made.



That is, of course, when banks are possibly in a shaky condition, something of that kind.

Is that the idea?

Mr. O'CONNOR. Yes, sir; as to national banks.

Mr. BROWN of Michigan. The Federal Reserve Board accepts your examination of national banks, and they examine State member banks of the Federal Reserve System?

Mr. O'CONNOR. That is right.

Mr. HANCOCK. Do they have to examine them?

Mr. O'CONNOR. No. In other words, they can take the State examination if they want to.

Mr. HANCOCK. What has been their policy?

Mr. O'CONNOR. I think that they have examined them pretty well around the country.

Mr. HANCOCK. At least once a year?

Mr. O'CONNOR. I think so.

Mr. Wyatt clears that up further, and I think it is very important; he says that their policy is to work with the State examiners of each State, and to send their men in with them when they find it necessary to make an examination.

Mr. BROWN of Michigan. Section 481 of the United States Code, which relates to the examination of member banks which are not national banks by the Federal Reserve bank, through examiners appointed by the Comptroller, is practically a dead letter now, is it not?

Mr. O'CONNOR. I do not appoint their examiners.

Mr. BROWN of Michigan. But under section 481 you can?

Mr. O'CONNOR. No. I can only appoint national bank examiners.

Mr. BROWN of Michigan. Now, the final subject that I have is the question of small branch banks. I am speaking for the smaller communities. A great many of them have been deprived of banking facilities by reason of the closing of something around one-half of the banks, and I have the feeling that to reorganize banks in towns of from 800 to 2,000 in population is not for the best interests of the business public.

In several States, and the State that I have in mind principally is the State of Wisconsin, provision has been made by State law for the establishment of what they call "receiving and paying stations", where a banking business consisting solely of the receiving of deposits and the paying out of the deposits is carried on in offices located in those small communities, controlled by banks in larger nearby towns. I think that the Wisconsin statute confines the establishment of such offices to the county in which the parent bank is located, and I think one State law provides a radius of 30 miles from the home office.

Most of those communities had banking service before the collapse, and it seems to me that we ought to liberalize the law to permit the establishment of stations of that character, with also the authority to receive applications for loans in such banks, both for the purpose of convenience to the public in those communities, and to prevent the establishment of a larger number of banks with very small capital.

The collapse that we had largely originated in smaller places, and if we could prevent the establishment of banks in those smaller places by giving such service, it seems to me that it would be a wise thing.



To show you how chary the legislature seemed to be, in the State of Wisconsin, they limited the effect of that law to a period of about 2 years from the time when it was enacted. It expires on July 1, 1935.

My attention has been called to a statute somewhat similar in the State of New Jersey.

I happen to live in a section of Michigan largely given over to the resort business, the island of Mackinac. It had a State bank. It was inadequately capitalized, and it fell down. That community has for 9 months of the year, a population of 450 people. For 3 months of the year, in the summertime, it has from 10,000 to 20,000 people. It ought to have banking facilities during that period of time, but you cannot set up a bank there that could make any money, but a branch bank of a national or State bank could be established there for that period, a branch office, and business could be conducted that would be reasonably satisfactory for the needs of the people.

I discussed it with the chairman of the committee, and I have discussed it with Mr. Goldsborough and some of the other members of the committee, and I would just like to have the reaction of your Department to such a set-up.

MR. GOLDSBOROUGH. You did not mean to indicate that I approved such a set-up?

MR. BROWN of Michigan. No; I did not say so. I said that I discussed it with you.

MR. DIRKSEN. Do you have in mind a currency exchange, rather than a bank?

MR. BROWN of Michigan. A receiving and paying station.

MR. DIRKSEN. There is nothing to prevent anybody from setting up a place to change money, and to do anything except to accept deposits.

MR. BROWN of Michigan. Yes; there is.

MR. DIRKSEN. I mean so far as the ordinary medium of exchange in a community is concerned. I have been through some of those resort areas in your State, and this is purely a private notion on my part, but it seems to me that most any one of those chain stores in a little town can fit itself up with a little booth, with some wire netting, and make exchanges there, for you do not need any banking facilities in the ordinary accepted sense of a commercial bank.

MR. BROWN of Michigan. You would have to provide a place for a considerable amount of currency, which is somewhat dangerous, and the insurance companies will not accept a risk of that sort, and the Comptroller's office has, in the past, held that where such a business has a connection with another banking institution, it is engaging in branch banking.

Of course, I am very desirous of confining this to small communities, as I am not in favor of the spread of extensive branch banking.

MR. DIRKSEN. May I observe, for the purpose of the record, in connection with your remark a moment ago, that so many of the failures took place in banks with small capitalization, that when the Bank of the United States failed, the losses probably exceeded those of every small bank that failed in the entire State of Illinois, outside of Cook County.



Numbers do not mean anything. You have to think of it in terms of the amount of losses.

Mr. HANCOCK. I hope that the Comptroller's answer to my good friend's question will not be construed as meaning that he thought that the small banks broke the large ones.

Mr. GOLDSBOROUGH. In the State of Maryland, only 2 country banks failed in 40 years up until the time of the failure of the Baltimore Trust Co., and the Union Trust Co. They were 2 banks which very largely held the reserves of the country banks, and, when those banks failed, the fact that the country banks had deposits in those banks made the country banks fail.

Mr. BROWN of Michigan. I am one of those who believes that the people of the country and the city, so far as honesty and integrity are concerned, are about equal, but I think that towns of from 800 to 1,000 in population are perhaps a little too small, unless the country is very well settled, to maintain a bank. Of course, if they can get adequate capitalization, it is all right, but in a sparsely settled country like northern Michigan it is quite essential that those smaller communities should have some banking service.

Mr. DIRKSEN. May I interpose at that point and say that 41 percent of all of the banks of the United States today are in towns of less than 1,000, and in your great rural States, such as Iowa, for example, 56 percent of all the banks are in towns of less than 1,000.

Mr. BROWN of Michigan. Of course, Iowa is a very well-settled State, but I am speaking of very large sections of the country, with an average county population of somewhere around 12,000 or 15,000 people, and having 2 or 3 towns of 800 to 1,200 population, with a county seat of 3,000 or 4,000 population, and I think that a county-seat bank in a county of that kind should be permitted to establish the receiving stations that I have mentioned.

That is the situation that I seek to improve.

Mr. HANCOCK. I want state at that point, if I may, that, of course, our whole system is so closely interrelated that what happens to one bank has its repercussions with other banks, but down my way, in North Carolina, and particularly in my own community, the serious losses which resulted to the depositors in the banks in the community were due largely to a policy on the part of several big banks in the northern cities which were correspondents of the small banks, which at that time seemed to have had the approval of the Comptroller's office, whereby examiners out of that office, from the information that has come to me, encouraged these small banks to build up secondary reserves by purchasing substandard bonds.

I think that ought to go into the record.

The CHAIRMAN. That went on all over the country.

Mr. HANCOCK. I know that in my own little bank in Oxford, N. C., upon the recommendation of an examiner, though he was not entirely to blame for it, for the officers had to assume their part of the responsibility, the bank purchased around half a million dollars of substandard bonds through the National City Co. of New York City.

Mr. FORD. What year?

Mr. HANCOCK. 1928 and 1929, and 65 percent of those investments turned out to be rotten.

The CHAIRMAN. Let me add right there that while that was going on, the officials of these big banks, and I can call their names, but I will not, for some of them are quite familiar—



Mr. GOLDSBOROUGH (interrupting). Almost household words.

The CHAIRMAN (continuing). Some of them are familiar court-house words now, and while that was going on, the officials of those banks were before our committee telling us that the trouble with the country was that we did not have any bankers, that the country bankers did not have intelligence enough to run a bank.

Of course, everybody knew that that was not so. New York replenishes its banking brains every year from the same towns and communities of the United States, and has done it from time immemorial.

Mr. FORD. May I make an observation?

The CHAIRMAN. Yes, sir.

Mr. FORD. Right along that line, is it not true that these country banks that bought these "submarginal" bonds, if you want to call them that, did so under this kind of pressure, that they had been let in by the bigger banks on juicy investments that they were able to hand out to their depositors in the past, and if they were to get their quota as it came along; and they were given a quota, and lots of them made a good profit, but if they were to continue to do that, they had to buy these bonds, and they were just as culpable in the matter as the big banks.

Mr. HANCOCK. I want to make a statement in the record to the effect that I do not believe that all of the large banks or institutions were culpable of practices of that kind.

Mr. GOLDSBOROUGH. The National City Bank in New York has the one that spread the misery in Maryland.

Mr. HANCOCK. The thing that we resented down there was the fact that some of these examiners went so far as to tell the officers of the bank that they could not keep good real-estate paper, because it is not liquid, but that they should take these funds and build up these secondary reserves and purchase these substandard bonds, and I think that the record will show that 85 percent of the real-estate paper in the bank at that time turned out to be good, but 65 percent of these bonds turned out to be bad.

Mr. GOLDSBOROUGH. We all want to emphasize the fact that Mr. O'Connor was not Comptroller at that time.

Mr. HANCOCK. We want to make that clear, and I do not mean by my remarks to reflect upon any one public official. I am criticizing the policy that obtained at that time.

The CHAIRMAN. I do not want to say any mean things about anybody. All that I am trying to say is that they all made mistakes, and no one class had all of the wisdom and foresight.

Mr. HANCOCK. I think that it would be well to insert right here that one of the biggest officials connected with the Government at the present time, and a man who knows as much about banking as any other man, has recently said that these large bankers could very well afford to sit at the feet of the country bankers, like St. Paul did before the Messiah.

Mr. DIRKSEN. I assume that in their official capacity, the bank examiners are absolutely beyond all legal responsibility insofar as their supposedly official acts are concerned?

May I just illustrate that by citing the case of an examiner who examined two national banks in the same town, and then insisted that there be a joining of the two banks. The one was admittedly bad. The other doubtless would have weathered the storm.



I thought at the time that it was rather an arbitrary attitude on the part of the examiner to insist that the two banks be brought together, but apparently the boards of directors of both banks were persuaded to that course of action, and the sum and substance of the whole action when it was wound up resulted in the closing of the so-called "joint bank", or, rather, the residuary bank resulting from the joining of those two banks.

It was quite a long time after that that I went to the Federal Reserve, and to the examiner in charge, at Chicago, and we had any number of conferences, and, as I remember, the examiner who made this recommendation was there at the time. He was reproached by the president of the bank that did not weather the storm, but said nothing about it and admitted no liability or responsibility for the action.

I believe that if a thorough examination had been made, doubtless the responsibility could be laid upon the shoulders of the examiner, but I assume, however, that even if that could be done, or even if the liability and responsibility were admitted, despite that no legal action would lie for restitution either against him or against the United States in a suit in the Court of Claims, he being the duly authorized agent of the Government.

Is not that true?

Mr. O'CONNOR. You have to look at that from both sides. We can give you a good many illustrations in this country where our examiners have gone in and saved whole communities and whole cities from terrific financial crises by working together with the banks, but, as I understand it, men in public service are never to be rewarded, but always criticized.

So, when the examiner has by his action saved a great many communities, nothing is said, even though the contempt of silence rests upon him, but if he makes an error, even though at that time everybody thought that it was the right thing to do, and the bank officials do not have to do it unless they decide that it is the right thing to do—I say, if in 4 or 5 years that course of action is determined to have been in error, then you will look for some civil liability against him—is that the question?

Mr. DIRKSEN. Meaning that it is rather to be charged up as an error in judgment.

Mr. O'CONNOR. You can blame that not only on the examiner, but on all of the men who participated, because they did not have to do it. God knows that we are all human, but unless you can show incompetency, or dishonesty, or a personal interest on the part of the man doing it, for those are the things that I am most interested in finding out about these men who participate in these transactions, and if they are capable and honest, and if the examiner has done a fine job in many sections, I do not know that there is anything for me to do. It may be that in one case the officials and he agree that a course of action is all right, and 2 or 3 years later competition comes in and ruins one of the biggest banks in that city, which is something that nobody could foresee. Then, of course, the bank has to blame somebody, and they say that the examiner told them to do it.

Mr. BROWN of Michigan. I do not think that an examiner is authorized to recommend the purchase of any given bond.



Mr. O'CONNOR. Never; and if you will give me the name of any that has, he will not be an examiner any more.

Mr. BROWN of Michigan. I would like to go back to my question, which seems to have aroused considerable controversy here, and a little display of heat.

The Wisconsin law provides substantially as follows: That, first, said receiving stations shall be established only in towns of 800 population or less, and they may not be established in any community which has an existing bank. The permit to establish that station is for 3 years only, and if any institution is organized for the purpose of taking care of the banking facilities of that community, the permit shall be immediately revoked.

Furthermore, it is provided that no such central bank should be permitted to maintain more than three such stations, nor shall they be maintained beyond the limits of the county, nor more than 35 miles from the central or main office. Their business is confined to the receiving and paying out of deposits, to the issuing of drafts and traveling checks, and to the cashing of checks and drafts.

Now, having in mind those limitations, do you think that it would be advisable to authorize the operation of such business offices for the reason, first, that it would tend to discourage the reopening of a multitude of small banks in small communities, and, second, that it will give a banking service in reasonably strong institutions to small communities?

Mr. O'CONNOR. Well, Mr. Chairman, I have not given that the consideration that it merits, but I think, as I rather closely followed your question, and also some of the argument, that, broadly speaking, there is something that we have to watch with great care in this country. We have got to encourage community life in the small centers of this Nation, and to do what we can to discourage the complete absorption by the large centers of a great percentage of our population, and my general thought is that anything that tends to encourage centralization of population, and wealth, and industry, is to be discouraged, and I think that we ought to always watch very carefully to do what we can toward saving these little communities and little towns, where I believe that the greatest happiness has come to families and to American life.

Now, back of your question, therefore, is this problem, which is one for serious consideration. If you establish a paying and receiving station you have discouraged, of course, in that community, even when the time comes for the establishment of an independent unit, a bank of its own, and I think that that has to be watched.

Relative to your other point, may I just make this suggestion, because it comes in with, and is applicable to, title I of the bill, that we ought to discourage, both on the part of the States and on the part of the Federal Government, the chartering of banks opposite every gasoline station in this country. Let us build and consolidate the banking structure, whether it be State or whether it be national, and if you give us the power that we are asking for in title I, we are going to have the right to determine the economic necessity as well as those other questions with reference to



the necessity of a bank and with reference to the prevention of the destruction of other banks, for a State bank should no more be created to destroy another State bank than a national bank should be created to destroy another national bank.

We are trying to look at the problem from both angles in our office, and I would like to give you one illustration, although I would rather not name the State.

An application was made for permission to locate a branch in a certain town. Following our usual procedure, our examiners went to this town to make a complete check-up of the business, of the postal receipts, of the population, industry, of the surrounding communities that would be served, and of the banking facilities in the community.

We found that there was a State bank there owned by the people of that community, and that it had some \$300,000 in deposits, and it was about 6 months old, and I declined to license a branch of the national bank in that town in competition with that little State bank that I thought was serving the community.

However, I am sorry to tell you that after I did that, these people also had a State bank, and they went to the State Department and they got a branch of the State bank and put it in competition with this other State bank in that little town. So I think that we have to work together.

I want to call your attention to this fact, that last year there were only 20 new national banks chartered in the United States. That had no reference to where we merged a bank, or where a new bank was set up under the assets of an old bank, but there were only 20 new national banks in all of the United States chartered last year.

Mr. BROWN of Michigan. I think that I agree with your philosophy regarding the encouragement of small-town life. I think that there is a need for the kind of legislation that I have proposed here. There are a great many communities having a population from 800 to 1,000, and that, in my judgment, is about the right limitation as to size, where there is not sufficient capital for the establishment of a bank, and yet they ought to have some banking facilities, and I think that the only reason that we have not had them is because of the fear of a great many Congressmen that we would be encouraging the branch-banking business. But it does seem to me that we would be supplying a necessary need, and at the same time be doing what I know your Department thinks should be done, that is, the establishment of banks in communities that are too small to support them with sufficient and adequate capital.

As I said, it seems to me that there is need for that kind of legislation, with proper limitations, and I have read a good many of them to you, particularly having in mind that there would be no discouragement to the establishment of a bank if the community is big enough to need one.

Mr. FORD. Is there not another factor in there, Mr. Brown? We will take a community such as you describe. There are a great many objections that we hear to branch banking, but what is the objection, in a case of that kind, to a strong bank, with a number of branches, that is willing to put a branch in there and to possibly go along at cost for 2 or 3 years, on the assumption that the banking facilities being afforded to that community will develop the com-



munity and will bring it up to a point where it will be profitable to have a bank there.

Mr. O'CONNOR. Mr. Ford, you, of course, have stated the general principle underlying the licensing of a branch wherever we are permitted to do it, and those are the questions that are investigated and determined before we license the bank.

Mr. FORD. Surely, but it seems to me that if a bank with branches goes into a community and finds that there is not enough business there to warrant a bank, but if that institution is willing to go in there and probably for 3 or 4 years not make their expenses, or just barely make them, and by so doing they will attract enough business there ultimately to make a branch bank profitable, where a small bank could not afford it or the community could not afford to organize a bank, but the branch bank can give all of the facilities that a banking institution could afford such a town, they ought to be permitted to do it.

Mr. DIRKSEN. You advocate branch banking, I take it?

Mr. FORD. I do, yes. I think that it is a good thing.

Mr. DIRKSEN. I might just as well state my objection right now as well as any other time. I am absolutely and unequivocally averse to vesting the control of these little communities in some group or agency that may be 300, 400, or 500 miles away.

Mr. FORD. I do not think that I would let it go that far.

The CHAIRMAN. Who is going to say how far it should go?

Mr. DIRKSEN. That is right.

The CHAIRMAN. Branch banking is either a good thing or a bad thing. If it is a good thing, we ought to say so, and enact it into law, and let the Federal Reserve System adopt the best plan for the banking business. If it is vicious, and wrong, and monopolistic, un-American, and destructive of community life and financial independence, we ought to repudiate it, and never allow it to be extended in the United States.

We ought to take one position or the other. Of course I have a very definite view about it myself.

Mr. BROWN of Michigan. Of course, we have a good deal of branch banking now, Mr. Chairman.

The CHAIRMAN. I know we have, and we are going to have more. This is just a repetition of the discussion that we had a long time ago. Of course, we start with a county, and then as soon as the necessity arises, we extend it beyond the county line, and after a while the bridle is off. We have adopted the policy of letting the States decide whether branch banking is or is not a good thing for this country, because we have said that we will permit the establishment of branches by national banks in any State where the legislature of that State decides that branch banking is a good thing.

Of course, while I am not one of them, there are a great many people who take the position that there is not very much intelligence in the State legislatures with reference to banking or anything else, but we are on record as committing this country to whatever policy may be determined upon by the legislature of each particular State so far as branch banking is concerned.

I may be not without shame entirely for having taken that attitude, but it never represented a view of mine, or any desire of mine.



Mr. GOLDSBOROUGH. I want to say that I fought the thing, as far as I could, but I did succeed in keeping Maryland out of the picture, and that is as far as I could get.

Mr. CROSS. As far as I see, the branch bank in a little while would be such that every State could dictate to its legislature, through them, and it would spread all over the country, and everybody could dictate to Congress.

Mr. HANCOCK. If it were confined to county lines, there would be no serious objection to it, would there, Mr. Chairman?

The CHAIRMAN. There is no way in the world to confine it. That is the history of it. If it is a good thing it ought not to be confined.

Mr. GOLDSBOROUGH. I remember the time when there was only one bank in my county, and you had to take off your shoes and carry in in a petition to get a loan, not a promissory note but a petition.

Mr. FORD. You have to do that now.

Mr. GOLDSBOROUGH. Since we have seven banks there now we have a very much better situation, more democracy in our banking, and in our community life.

Mr. FORD. You paid a big price for it.

Mr. GOLDSBOROUGH. You cannot pay too much of a price for it.

Mr. FORD. Yes, you can.

Mr. BROWN of Michigan. Let me say, I have been in opposition to general branch banking, and I so voted heretofore, but I do not like an attitude which blindly shuts out consideration of a meritorious proposition. It will, I think, prevent the establishment of a number of under-capitalized State banks. The proposition puts proper limitations around the establishment of these so-called "receiving stations." It would be a good thing, and I am going to do my utmost to bring it about.

The CHAIRMAN. All right, gentlemen.

Mr. O'CONNOR. Mr. Chairman, could I ask that Mr. Wyatt, who represents the Federal Reserve, be added to the technical staff on the committee?

The CHAIRMAN. Yes, sir.

Mr. O'CONNOR. May I, with your permission, submit to you the corrections which I have suggested, so that it will aid the committee in your work?

The CHAIRMAN. Very well, we will be glad to have them.

Mr. O'CONNOR. The other day, when I was testifying on title I, I would like to mark in green, on the two main matters which I suggested, so that the committee would not confuse my opinion with the consensus of the committee who passed on it. I would like to have the privilege of calling your attention to that by marking it in color in title 1.

Mr. FORD. Mr. Chairman.

The CHAIRMAN. Yes, Mr. Ford.

Mr. FORD. Mr. Controller, two or three times the statement has been made that examiners borrowed money from banks that they were examining. Is there any case of that on record?

Mr. AWALT. It is a criminal offense.

Mr. FORD. Do you know any such cases?

Mr. O'CONNOR. I have heard that, Mr. Congressman, any my attention has not been called to a single instance where it has been done,



because it is a criminal offense, and if I find it out, two things will happen, which I do not need to state. If anybody has got any information, I would like to have it.

Mr. FORD. I wanted to get that in the record.

Mr. O'CONNOR. I would like awfully well to have them, because two things will happen to the examiner.

Mr. DIRKSEN. Mr. O'Connor, do you not think any bank examiner who would do that, when it is so easy to do the same thing in a round-about way should be treated in that manner?

Mr. O'CONNOR. I believe any man who evades the law indirectly is just as guilty as anyone who evades it directly.

Mr. HANCOCK. Mr. Chairman, I would like to ask the Controller a question. I was sick and absent, therefore, 2 or 3 days when title I was under discussion. I had it in mind at the time to ask Judge Burke his opinion. Under the present law the Controller of the Currency, as I understand it, cannot, during his term of office, have any financial connection with any institution. Is that correct?

Mr. O'CONNOR. I cannot own any stock in any bank.

Mr. HANCOCK. You are also limited by law from resuming financial connections, are you not?

Mr. O'CONNOR. Yes, sir; for 2 years—not mine, because I have not got any.

Mr. HANCOCK. A controller.

Mr. O'CONNOR. A controller; yes, sir.

Mr. HANCOCK. Are there such provisions in the law now with respect to directors and the Federal Deposit Insurance Corporation?

Mr. O'CONNOR. No, Mr. Congressman; there are not.

Mr. HANCOCK. In other words, a director of the Federal Deposit Insurance Corporation might be actively connected with banking institutions, which his staff had some supervision over?

Mr. O'CONNOR. Oh, yes.

Mr. HANCOCK. What is your opinion with respect to whether such a provision as that should also apply to the directors of the Federal Deposit Insurance Corporation?

Mr. O'CONNOR. Fundamentally, no man can serve two masters. You cannot serve both the Government and a private interest that you represent, in my estimation. I think it is a very good provision.

Mr. HANCOCK. Was that matter considered by the committee that framed this legislation?

Mr. O'CONNOR. No, sir. That is a very good rule, and I think so because it relieves a Controller of any temptation in making relationships during his office that he might expect in a year or 6 months or so, right after he left to go with some institution. I do not see any reason for challenging that set-up.

I think it would be unfair to apply that rule to the present two directors of the Federal Deposit Insurance Corporation.

Mr. HANCOCK. I was just fixing to ask you if that would not be the fair way to approach it, exempting them, but make it apply to all those affiliated with the Corporation hereafter?

Mr. O'CONNOR. It has never occurred to me and the matter has never been suggested until this moment, and I have never discussed it with anybody, and I am giving it to you as I think about it—but I think it would be unfair to apply it to the two members now in the Federal Deposit Insurance Corporation, because one of them,



the Republican member, has been anxious to resign, and has banking interests, and we knew it, and everybody was advised of it. He did a fine job, and I am sure nothing he did was colored by his interests. It is not often you can get men of that kind. I want to say that for him.

Mr. HANCOCK. I am addressing myself to the principle.

Mr. O'CONNOR. That is what I am coming to. When these men were appointed by the President and confirmed by the Senate and accepted office, they did so under the law in operation at that time. I think it is an excellent suggestion and should apply, that is, in the matter of future appointments, divorcement entirely from any personal matter which they are called upon officially to determine for the Government.

Mr. HANCOCK. In fairness to them.

Mr. O'CONNOR. In fairness to the people of the country, the public, because the public official that they want should have just one interest and that is the interest of the people, and no personal interest, and whenever you mix the two, you are apt to get in trouble.

Mr. HANCOCK. That is all.

Mr. WILLIAMS. Did I understand you to say, Mr. Controller, that you are opposed to that provision of this bill which places the receivership in the hands of the Corporation?

Mr. O'CONNOR. Yes, sir.

Mr. WILLIAMS. The bill, as written, provides for a complete liquidation of the banks under the Corporation, does it not?

Mr. O'CONNOR. Yes, sir.

Mr. WILLIAMS. There would be no necessity of maintaining two sets or two organizations for that purpose, would there?

Mr. O'CONNOR. That is not correct. That is my objection.

Mr. WILLIAMS. If this law was passed, would there be any necessity for having two sets of liquidations?

Mr. O'CONNOR. I just want one.

Mr. WILLIAMS. Will this create two? That is what I am trying to get at.

Mr. O'CONNOR. Yes.

Mr. WILLIAMS. In what way?

Mr. O'CONNOR. Your law says that I shall appoint the Federal Deposit Insurance Corporation, this receiver.

Mr. WILLIAMS. Yes, sir.

Mr. O'CONNOR. Last year only one national bank failed in this country, in 1934; therefore, under the law, you have got to set up an entirely new insolvent division over in the Federal Deposit Insurance Corporation to take care of that one bank, exactly what I have got now, in 1,500 receiverships over in the Comptroller's office.

Secondly: The Federal Deposit Insurance Corporation insures only 42 percent of the deposits in national banks. The Comptroller is responsible for the other 58 percent.

Mr. WILLIAMS. Let us see right there. Do you mean that the Corporation would liquidate so far only as the insured assets are concerned, and then turn those remaining assets over to somebody else to finish the liquidation?

Mr. O'CONNOR. I do not want them in the picture at all.



Mr. WILLIAMS. Would that be the effect if this law were passed?

Mr. O'CONNOR. No.

Mr. WILLIAMS. In other words, there would be a complete and final liquidation?

Mr. O'CONNOR. By two organizations.

Mr. WILLIAMS. It would not affect future liquidations, would it?

Mr. O'CONNOR. Yes.

Mr. WILLIAMS. Does not the Comptroller pass out of the picture if this law is passed so far as the liquidation is concerned?

Mr. O'CONNOR. Pardon me, I will make it clear, Mr. Williams, if I can, again.

The law provides that the Comptroller shall appoint as a receiver the Federal Deposit Insurance Corporation.

Mr. WILLIAMS. I understand that. They take charge of it.

Mr. O'CONNOR. They take charge of it, and liquidate it, but I am responsible under the law, and must approve claims, compromises, and so forth, and all of this must come to my insolvent division, because ultimately they have got to pass on these things for me, and make all the reports. I appoint them receiver instead of an individual receiver, and they set up an insolvent division, and I have an insolvent division.

Mr. WILLIAMS. Why cannot they liquidate in full?

Mr. O'CONNOR. They can, if you want to set up two. They can.

Mr. WILLIAMS. I do not see any necessity for two under this law.

The CHAIRMAN. Of course, this was the reason which brought about this situation: It was for the purpose of continuing the banking service in the community and absorbing the shock of a failure to authorize the Federal Deposit Insurance Corporation, when the bank failed, to go in and continue to operate the bank for a period of 2 years, giving an opportunity during that time to the people in the community to set up a bank, if they saw fit, and, if not, at the end of 2 years liquidation would be complete. That was the way the legislation came about originally.

Mr. O'CONNOR. And, also, Mr. Chairman, was it not this: That in the original bill, because it temporarily was put on afterward, the original bill would have taken practically 100 percent of the insurance?

The CHAIRMAN. Yes; that is true, too. Under the plan contemplated, we had a plan or system in which deposits would all be insured up to \$25,000, and 75 percent of the deposits between \$25,000 and \$50,000, and 50 percent above \$50,000, which would, of course, insure a much larger amount of deposits than was provided for under the temporary plan, and which will be provided for under this legislation, if it is adopted, to supplant the permanent plan to which I referred.

Mr. O'CONNOR. Yes, sir.

The CHAIRMAN. That is quite true. Undoubtedly it may be said that we are drifting into a certain duplication of work and lost motion in the administration of the banks that are closed under this plan.

Mr. O'CONNOR. As I look at it, gentlemen, where they have insured, as I say, 42 percent of the deposits, and the Comptroller



is still liable for the balance of it, say, taking that little national bank which failed last year, a receiver is appointed, and what does the Federal Deposit Insurance Corporation do? They may just pay the deposits up to \$5,000, take an assignment of those claims, and pass them the same as one individual would do for any insolvent division, and as fast as they cleaned up in the usual way, with a fine record back 70 years—not mine, but all Comptrollers—they would go ahead and have one simple process. That is the only thing I am asking for.

The CHAIRMAN. Any further questions, gentlemen? If not, you may conclude, Mr. O'Connor, if you have anything further to say.

Mr. O'CONNOR. No, sir.

The CHAIRMAN. We want to thank you very much for your assistance and your very able statement.

Mr. O'CONNOR. I want to thank the committee for their courtesy.

(Whereupon, the committee adjourned until tomorrow, Wednesday, Mar. 27, 1935, at 10:30 a. m.)

STATEMENT OF DR. WALTER E. FRASER, PROFESSOR OF ECONOMICS, NEW YORK UNIVERSITY, NEW YORK

Dr. Walter E. Fraser is Professor of Economics at New York University, and his subject includes money and banking. I have been a professor since 1922 in various parts of the country. First I was at the Pacific College of New York, then at the University of Vermont at Middlebury, and then at Hamilton College, New Concord, New York, then at Dartmouth, Columbia University, and New York University.







## BANKING ACT OF 1935

WEDNESDAY, MARCH 27, 1935

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C.*

The committee met at 10:30 a. m., Hon. Henry B. Steagall (chairman) presiding.

The CHAIRMAN. We have with us this morning Prof. Walter E. Spahr, of New York University.

I assume, you desire to address yourself to title II of the bill, and that you desire to make a general statement. So you may proceed without interruption, and after you finish your general statement members of the committee will desire to discuss the proposal with you.

Will you state to the reporter your connection, and your experience?

### STATEMENT OF DR. WALTER E. SPAHR, PROFESSOR OF ECONOMICS, NEW YORK UNIVERSITY, NEW YORK

Dr. SPAHR. My name is Walter E. Spahr; I am professor of economics at New York University, and my subject includes money and banking.

Do you desire to have my previous connections?

The CHAIRMAN. Yes.

Dr. SPAHR. I have been a professor since 1913 in various institutions in this country. First I was at the Pacific College, at Newberg, Oreg; then at the University of Wisconsin, at Madison, Wis.; then at Muskingum College, New Concord, Ohio; then at Dartmouth, Columbia, Princeton, and New York University.

My field of specialization is money and banking, Mr. Chairman.

I desire to make some comments on title II of the banking bill of 1935.

There are no circumstances calling for legislation dealing with the fundamentals of the Federal Reserve System at this time. Legislation of this type should not be undertaken until after a commission of competent experts has made a thorough study of the money and banking problems of this country, and, on the basis of adequate evidence and after careful deliberations, has drafted a plan which



offers real promise of providing this country with appropriate and workable money and banking systems. Both systems have suffered sad mutilation in recent years, and what is needed now is careful and deliberate overhauling and reconstruction, rather than further mutilation and distortion such as will result if title II of this bill is passed under the administrative whip and in the atmosphere of tense emotionalism now prevailing with respect to our money and banking problems.

It is very important that there be no legislation at this time beyond that necessary to correct technical difficulties, or to remove crude inconsistencies, in existing laws. And even this type of legislation should be undertaken only upon the recommendation of the Federal Reserve Board and in strict accord with specific proposals drafted by the Board.

The Senate and House Committees on Banking and Currency, I think, could perform no better service at this time, with respect to the proposed legislation, as embodied in this bill—S. 1715, and H. R. 5357—than to refuse to vote it out of committee and to substitute in its stead a bill of technical corrections embodying the recommendations of the Federal Reserve Board on specific difficulties.

At the same time a joint resolution should be prepared providing for the creation of a national commission on money and banking to gather evidence on our money and banking problems, and to draft bills to provide this country with the proper type of money and banking systems. This commission, I believe, should be composed of leading money and banking authorities of this country. Its membership might well be composed of, first, those members of the Senate and House Committees on Banking and Currency who have devoted years to the study of problems of money and banking; second, the most outstanding and experienced professors of money and banking in our leading universities, men whose reputation, intellectual integrity, and capacity are beyond question; third, outstanding bankers who are men of experience, maturity, and social vision; and, fourth, other students of money and banking, drawn from other fields of activity, if they are recognized as thorough students of money and banking problems.

The delay in legislation which would result from the adoption of such a program is eminently desirable. Money and banking mechanisms are probably the most delicate and, at the same time, most vital of all instrumentalities in our economic system; and it is for this reason that hasty and ill-conceived legislation in such a field is very unwise and is to be deplored. In its stead there should be substituted legislation growing out of careful deliberation by our most competent experts.

Title II of the banking bill of 1935 is particularly dangerous, when viewed in its entirety, because it is a manifestation of the unsound philosophy held by some officials in this administration regarding the causal relationships existing between the supply of currency, on the one hand, and prices, recovery, and prosperity on the other. Involved in this false philosophy are also misconceptions as to, first, the proper functions of central banking systems, especially with



respect to the appropriate relation between a nation's central banking system and governmental financing; second, the appropriate functions and powers of the central banks with respect to the control of the money and credit supply; and, above all, third, the appropriate relationship between the Government, acting in its supervisory capacity, and a properly constituted central banking system.

These false notions and misconceptions show themselves clearly in those sections of title II which will enable the party in power—I mean any party in power, of course—to control completely the personnel of the Federal Reserve Board. They are revealed in those sections which will enable this politically controlled board to attempt to put into effect the theories of money and credit control held by many of those in power. They are seen in those sections of the bill which will enable the Government to force the central and commercial banking structure to aid the Government in carrying out the fiscal policies regardless of their wisdom, to give Government credit an artificially high rating, and to use the banking system and people's savings without their approval and regardless of the effect upon commerce, agriculture, and industry.

In short, nearly all the fundamental conceptions regarding the appropriate functions, the methods of operation of a well-conceived central banking system, and the proper relation of the Government to such a banking system, are false, are contrary to the most outstanding lessons learned from central-banking experiences, are dangerous, and are almost certain to lead to great trouble in the future.

The following analysis of the various sections of title II of the banking bill of 1935 support the accuracy of the preceding general observations.

Section 201 (a) provides the means by which the board of directors of each Federal Reserve bank will be brought under the control of the Federal Reserve Board, which, in turn, will be politically controlled. This means of control is found in the fact that the governor and vice governor of each Federal Reserve bank can be appointed only with the approval of the Federal Reserve Board.

The governor and vice governor can come from any district. In this manner the Federal Reserve Board can inflict any outsider on a Federal Reserve bank as governor or vice governor.

Since the governor and vice governor are approved by the Federal Reserve Board, and since 2 other class C directors, other than the governor, are representatives of the Federal Reserve Board, the Government can have 4 representatives as against the present 3, since the vice governor need not be appointed a class C director. Why the office of deputy chairman is not combined with that of the vice governor is not clear unless the purpose be to enlarge the number of Government representatives on the board of directors of each Federal Reserve bank.

It is to be noticed also that "all other officers and employees of the bank shall be directly responsible" to the governor of the board of directors. This gives him the powers of a czar; and through him the politically controlled Federal Reserve Board can reach directly and arbitrarily down to every employee in every Federal Reserve bank.



This means, of course, that the political authorities can reach any employee they please. In this manner every employee of every Federal Reserve bank will lose his independence and become, like the Federal Reserve Board, an unwilling vassal of the political party in power. Classes A and B directors will carry no weight under such a system, since the governor of each Federal Reserve bank is given this authority and is a Government agent.

Today the elected governors of the Federal Reserve banks are chairmen of the executive committees and, in this manner, they have increased their powers as against the Chairman-Federal Reserve agent. This bill makes a Government agent chairman of the executive committee, and thus the Government worms its way into the direct operation of each Federal Reserve bank.

The slightest reflection upon such a proposed arrangement should convince one that all activities of each Federal Reserve bank can be brought under the absolute control and domination of the political party in power. These governors and vice governors may be as arbitrary as they please, so long as they satisfy the politically controlled Federal Reserve Board. In this manner the political party in power can lay its rough hands on the Federal Reserve banks, which the Government does not own, but which are owned by the member banks that, in turn, are owned largely by private individuals.

Such an arrangement provides conclusive evidence of the intent of the present party in power to extend its political tentacles over the banking system. In this case, it is attempting to lay hold of one of the most delicate and most vital agencies of our economic system, an agency that must be free from such domination if our economic system and our people in it are to maintain any appreciable amount of their traditional freedom.

When a nation's banking system passes into control of the political party in power, the freedom of a people can speedily disappear. And certainly there is no reason to expect that better banking can or will result from any such proposal as this one in section 201 (e) of this bill.

It is to be observed that one of the class C directors shall be appointed deputy chairman of the board of directors, and that the vice governor may be appointed a class C director. It is because of this word "may" that the Federal Reserve Board may have four representatives on the board of directors of each Federal Reserve bank.

The duties now performed by the Federal Reserve agent "shall be performed by such person as the Federal Reserve Board shall designate." This provides the Reserve Board with another representative at each Federal Reserve bank. In this manner it can have five agents there at the Federal Reserve bank.

The last paragraph of section 201 (a), on page 40, lines 17 to 22, permitting the present incumbents of the boards of directors to serve out their terms would seem to require a modification of the parts of the bill which provide that this section shall be effective 90 days after enactment.

Section 202 is one of those coaxing, half-hearted measures by which attempts are made to persuade nonmember banks to become



members of the Federal Reserve System. Our statute books are cluttered up with these conciliatory provisions in law. That particular provision merely lowers still further the capital requirements of banks which may enter the System. At present the capital requirements are too low. And, if it is believed that nonmember banks should be members of the System, then the Federal Reserve Act should be amended so as to provide that all banks should, after a certain date, be members of the System. If the capital requirements of some of the banks are too small, such banks should be made branches of larger member banks. But all legislation of this type probably should be left until a competent money and banking commission makes its report.

Section 203 provides the means by which the Federal Reserve Board is to be made into a politically controlled and dominated agent of the President. Lines 1 to 3, page 42, of section 203 (1), are probably the worst, if not the most subtle, in the bill. They provide that the President "shall choose persons well qualified by education or experience or both to participate in the formulation of national economic and monetary policies." It will be noticed that these members of the Board are to be qualified to participate in the formulation of national economic policies as well as monetary policies. Does this mean that they are to participate in the formulation of national economic policies? If this sentence means what it appears to mean, then this Board will become a part of the planning bureaucracy of the Government, and the Federal Reserve System can become, and can be made to become, the financial agent of the Government in carrying out its planning policies. It can be made an engine of oppression, rather than a neutral agent to finance commerce, agriculture, and industry.

This section of the bill is either subtle or stupid. In any case, it is dangerous. It reveals how far removed its drafters are, in their notions of how to constitute a central bank board, from those who would profit from experience.

Section 203 (2) provides a means by which Mr. Hamlin may retire at once and Messrs. Miller and James in 1936, thus removing from the board in a very short time, even if more arbitrary methods are not used, its three most experienced members. If this provision is to be enacted into law, it would seem that it should be so amended that all ex-members of the board would become ex-officio members of some advisory body, such as the Federal Advisory Council, in order that the benefits of the knowledge and experience of such men are not lost to the younger members of the board. Such an arrangement could be an effective factor in developing fine traditions in central banking.

Lines 17 to 25, on page 42, are awkward and confusing. Lines 17 to 22 say literally that "each member of the board so retired from active service who shall have served for at least 5 years shall receive, during the remainder of his life, retirement pay in an amount equal to the annual salary paid" now. Thus he would receive a total pension of \$12,000 for the rest of his life, if you take those words literally. How much will he be paid the first year of retirement? Or is he to be paid \$12,000 in a lump sum? This sentence probably



was intended to give the retired members, who have reached 70 years of age and who have served 5 or more years, an annual pension based upon the years served, the yearly amount to be determined by the number of years served multiplied by \$1,000, but the bill certainly does not make this point clear.

According to the first proviso, a person who has served, say, 8 years, will receive \$8,000 per year, and if he lives 3 years thereafter he will receive \$24,000 in a pension, whereas lines 17 to 22 preceding the proviso would give him only \$12,000, regardless of how long he lived.

This proviso also omits the 5-year minimum, and, in line 25, the word "served" apparently should be inserted after the third word "year." The entire section is badly muddled, and it should be rewritten and made to say what the authors intended that it should say.

Nor is the second proviso, on page 43, clear or sufficiently specific in its meaning. Furthermore, it is to be noted that, according to section 203 (3), every governor appointed and removed will come in for this pension if he is 65 years of age, since he shall be deemed to have served the full term for which he was appointed, even though he may have served only 1 month or even 1 day. What a great opportunity this provides a President to place his friends on a fine pension for life. In 30 days he could give 30 of his friends who had reached 65 years of age a \$12,000 pension for life. In 4 years he could develop a large pension list, all to be paid by the Federal Reserve banks. The vice governor apparently can have his term of service terminated by the President without the benefit of it being deemed that he served his full term. It would appear that no member of the board could afford to accept the office of vice governor.

This section 203 (3) reveals clearly the method by which a President can change the board's personnel within the space of a week to suit his particular wishes. It would be difficult to conceive of a more dangerous provision written into any central banking law. It reveals beyond the shadow of a doubt the purpose of the authors of this measure. They propose to convert the Federal Reserve System into a political instrumentality of the party in power. This section of the bill reflects clearly the authors' motives and concepts regarding central banking. It shows that they stand ready to destroy our Federal Reserve System which we have tried to evolve into a useful system over a period of 20 years.

If every other section of the bill and of the Federal Reserve Act, as amended by the bill, were perfect, the system still could be destroyed and the bill still would be dangerous. Considering the dangers in sections 201 and 203 of this bill, the possibilities of dangers in the other sections of title II are accentuated. For this reason there are many today who oppose other sections of title II principally because they would be administered by a politically controlled Federal Reserve Board.

The answer to this proposed amendment to the Federal Reserve Act is that it must not be permitted to pass. The lessons of central banking teach that the farther the central banking administrative



authorities are removed from political domination the better for the country concerned. The independence of the Federal Reserve Board should be strengthened, and not weakened, and our Federal Reserve System will not be what it should be until this is accomplished.

There are various ways in which this can be done. Indeed, there are so many devices available that it would be absurd for any one to insist that he can suggest the best one. My contention is that our lessons have taught us that our Federal Reserve Board has not been sufficiently independent of the Government and that the method of nomination and final selection should be so changed as to remove the board as far from political control as is the United States Supreme Court.

Of course, every central banking system must come under the control of the Government in some degree; but this control should be exercised through the passage of the proper organic act providing for the proper type of banking system and administrative boards, after which the Government should leave the system to operate, free from partisan politics, within the limits of the organic act. As the Board is reconstituted and strengthened after a careful study of the problem by our best experts, I should like to see the Secretary of the Treasury removed from the Board, though I think he should be a nonvoting auditor or participant in the Board's discussions; and I should like to see the office and functions of the Comptroller of the Currency absorbed by the Board.

Everything that any central banking system can be expected to accomplish can be written into the organic Banking Act, and thereafter the administration of the system should be left to independent, nonpolitical administrative bodies.

Section 204 appears to be free from criticism.

Section 205, creating a new type of Federal open-market committee, might have many virtues if the Federal Reserve Board were a properly constituted independent board. But considering how the Board is to politically controlled, this section of the bill merely provides additional means by which the Government can extend its powers over the activities of the Federal Reserve banks.

Government financing, in the final analysis, should be looked upon as an intrusion into, and a disturbing factor in, the fields of private finance. And if a well-ordered central banking system performs its functions properly, there will be many times in which it must and should go into the open money markets to combat the effects of Government financing.

It is not the function of a central banking system to give Government credit a higher rating than it would otherwise have in the open money markets to which non-Government borrowers and lenders must go. It is the function of all commercial banks to give borrowers the exact rating to which they are entitled, and it is the function of these banks and the central banking authorities to give Government borrowers exactly the same type of credit rating. To assume that Government credit should be given an artificially high value by a central banking system is to assume that it is the function of a central banking system to inflate the currency.



This section 205 recognizes no such principle of central banking and opens the way by which the banking system can be made to absorb Government securities on terms satisfactory to the Government and is, for this reason, unsound in principle. The section provides the means by which the Government can compel open-market operations to suit its particular notions and purposes regardless of the needs of commerce, agriculture, and industry, and regardless of any principles of sound central banking.

All five members of the Federal Open-Market Committee are to be Government agents. The fact that two of the members are to be selected from the governors of the Reserve banks by the governors does not change this fact, since all these governors will be Government agents.

This Committee is also given the power to make recommendations to the Federal Reserve Board from time to time regarding the discount rates of the Federal Reserve banks. It may be presumed that giving this Committee this power has no particular significance unless it be assumed that the Reserve Board exercises the power of prescribing discount rates for the Reserve banks. It would seem preferable that the present method of having rates initiated by the respective Reserve banks, subject to the approval of the Board, is preferable. But if the Reserve Board were properly constituted and independent of political influences, I should advocate that the Board be given the power not only to review discount rates but to institute the rates when a Federal Reserve bank is clearly running counter to sound national banking policies.

Section 206, which opens the way for discounting any commercial, agricultural, or industrial paper and for advances secured by any sound assets of such member bank, seems to be tacked on to the preceding parts of section 13 of the Federal Reserve Act without any regard to how it affects the preceding paragraphs of that section. It would appear that most of the preceding paragraphs are nullified. Just what the law is would be difficult to determine. It reveals a hasty and careless type of bill drafting.

It is doubtful whether, under the best type of central banking system, such a provision can be defended. It would seem that, under such a system, this wide-open provision should be reserved for emergencies.

Under a politically dominated system of central banking, as provided by this bill, section 206 provides the means by which the Reserve Board can admit to the portfolios of the Federal Reserve banks any kind of paper, regardless of its illiquidity, and fix the maturity of the paper at any distant date it chooses to adopt.

Since it is not the function of a central banking system to accept illiquid paper, the proper restrictions against such acceptance should be set up. Wise exceptions to meet emergencies can be provided, and the proper penalties and handicaps attached, so that emergency transactions will not become the normal ones. This section, as it stands, is unsound and unwise.

Section 207 provides the means by which the Federal Reserve banks can be compelled to absorb Government securities regardless of maturities. In this manner the Reserve banks can become gorged



with Government securities with long maturities and consequently can become very illiquid. Under a properly organized Federal Reserve Board, and with other appropriate administrative machinery, such a provision might be safe enough, but under the system provided in this bill, this section adds another dangerous provision to the Federal Reserve Act.

Section 208 (1) provides the means by which Federal Reserve notes are to be issued against the general assets of the Reserve banks in addition to requiring the 40-percent reserve of gold certificates. If these assets were liquid, this provision would not be objectionable, but since the way it is opened by this bill for admitting all kinds of illiquid paper to the portfolios of the Reserve banks, this section provides the way for converting illiquid assets into legal tender paper money. This, of course, means inflation and is unsound in principle.

Then the question may be raised as to why the Federal Reserve notes are made legal tender for all purposes? When a money is legal tender for all purposes it can be used to pay all debts, public and private. This means, literally, that these notes could be used for lawful reserves and could be used to redeem any other currency. It is intended that these notes shall be "lawful money" for reserve purposes, thus converting a liability into an asset? This, of course, is not a rational procedure, and yet this is what lines 22 and 23, page 46, really provides.

In contradiction to this, lines 24 and 25 exclude these notes from the lawful money for reserve purposes in the Federal Reserve banks. This means that the Federal Reserve notes are not permitted to fulfill their functions as full legal tender money. The two provisions are in direct conflict and should make clear the fact that it is irrational to attempt to make Federal Reserve notes full legal tender.

This section provides, in lines 8 to 10, page 47, that the Treasurer of the United States shall cancel and retire unfit Federal Reserve notes coming from a source other than a Federal Reserve bank, but it does not specify or provide any fund for such retirement. The last sentence of this section lines 10 to 12, page 48, provides that notes unfit for circulation shall be returned by the Reserve banks to the Comptroller of the Currency for cancelation and destruction. Just why both the Comptroller of the Currency and the Treasurer of the United States should be involved in canceling unfit notes is not clear.

This bill abolishes the 5-percent redemption fund with the Treasurer of the United States. It also permits one Reserve bank to pay out the reserve notes of other Reserve banks without any penalties, and in this manner one of the factors forcing a retirement of these notes is removed. There appears to be no good reason for repealing either of these prevailing requirements. The omission of the latter requirement merely serves as another means of inviting a looser type of banking. The omission of the redemption fund may be due to careless bill drafting.

Section 208 (2) reveals careless bill drafting in the fact that care was not taken to strike out all words which should be deleted. For



example, in the second line following the last deletion the words "or subtreasuries" appear again and are permitted to stand by this repealing section.

Section 209, which permits the Federal Reserve Board to change the Reserve requirements of the Reserve banks as they see fit, is a dangerous weapon to put into the hands of a politically dominated board. The preceding sections of title II of this bill, combined with this section, make it possible for the Board to pack Government securities and other illiquid paper into the portfolios of the Federal Reserve banks until the surplus reserves are exhausted, and then the reserve requirements of member banks can be reduced, thus permitting the Board and banks to proceed with their inflation without let or hindrance. The provision that the reserve requirements of these banks may be changed "in order to prevent injurious credit expansion or contraction" is merely the statement of a pious hope. It would mean nothing in the hands of a politically controlled Reserve Board.

Section 210, stipulating conditions under which member banks may lend on real estate, flies in the face of all practical experience with such loans by commercial banks. Provisions for such loans should be restricted, not enlarged. To raise the percentage of the value of the property for lending purposes from 50 to 60 percent is unwise, as is the 75-percent provision for loans amortized within 20 years. To raise the limits of such investments from 50 to 60 percent of time and savings deposits and from 25 to 100 percent of the bank's capital and surplus is a brazen denial of the value of our past experience with such loans.

In lines 13 to 18, page 50, in which the real-estate loans are insured by the provisions of title II of the National Housing Act, all restrictions appear to be removed. The answer to this is that in sound commercial banking the question of the proper type of loans is not one of insurance and ultimate liquidation but one of maturity and immediate liquidity.

Thus, we see in title II of this bill a multitude of illustrations of the dangerous banking philosophy held by the advocates and authors of this bill. It must not be passed. It is extremely dangerous. The conceptions underlying it run counter to the best opinion on central banking. If I may say it in that connection, I would like to remind the committee that 66 of the leading monetary economists of this country, men with established reputations on that particular thing, came out in support of this contention I have just made. I should be glad to submit a list of those people to the committee.

The bill is another, and probably the most brazen, daring, and dangerous attempt of politically minded planners to increase their destructive and devastating hold on business enterprise in this country. There are no sound defenses that can be afforded for the bill. If its advocates insist that they have the welfare of this Nation at heart, let them prove it by submitting the bill to a national commission of experts for analysis.

The authors of this bill would not risk such an analysis. What they want is not better central banking but more political banking



by political planners. They want to build a bigger and better political machine. Professions to the contrary are annihilated by the sections of this bill which provide the means desired by the political planners, and which are in harmony with the immature and muddled notions regarding principles of money and banking expressed from time to time by the chief backers of the type of proposals incorporated in this bill.

No person well trained in the principles of money and banking could examine the theories set forth by the present Acting Governor of the Federal Reserve Board in his testimony before the Senate Committee on Finance in its investigation of economic problems in February 1933 without perceiving the dangers in this bill and the dangers in having our Federal Reserve System, as amended by this bill, administered by an official holding such views.

In that testimony is revealed a confusion of understanding as to the causal relationship between the currency supply and a sound business recovery; in that testimony the currency is held responsible for conditions which can only be traced properly to the maladjustments created by the World War. There is advocacy of the issue of fiat money, of currency manipulation to raise the price level artificially, and it is even proposed that money be given away. There is revealed an appalling lack of understanding of the nature and consequences of inflation; more inflation is recommended to correct the difficulties caused by inflation. Economic planning is an obsession, and it is proposed to use the Federal Reserve System to make such planning effective.

These disconcerting facts are pointed out, and I say it with all deference, because this bill apparently has been drafted for the purpose of providing the means by which these unsound and dangerous theories of money and of banking and of currency control can be thrust upon the people of this Nation.

If this bill becomes law I believe only the most providential good luck will prevent this country from suffering severely as a consequence.

I firmly believe the best interests of the people of this Nation are served by registering as vigorously as one can his protests and objections to this bill. It was born in secrecy. No known or trusted experts attended its birth. Its parentage is hidden largely in obscurity and anonymity, although the Acting Governor of the Reserve Board, in his Columbus, Ohio, address of February 12, 1935, speaks of what "we propose" in referring to the changes provided by the bill. It reveals traits found in political and economic concepts alien to the best principles of central banking and the best traditions of the people of this Nation. It is an un-American, unsound creation that must never be permitted to find its way into our statute books.

The CHAIRMAN. Professor Spahr, are you satisfied with the existing economic status in the United States?

Dr. SPAHR. Not at all.

The CHAIRMAN. What would you do about it?

Dr. SPAHR. I would give business a chance to recover.

The CHAIRMAN. What do you mean is you would do nothing?

Dr. SPAHR. That is not what I mean at all.



The CHAIRMAN. If I understand you, if things were left alone, that would be the case.

Dr. SPAHR. I said I would give business a chance to recover, and would make every effort to cooperate with business, and would endeavor to remove all difficulties in the way of recovery. I would give them every encouragement to believe that we are going to give them a sound currency at the earliest possible date, and not obstruct recovery.

The CHAIRMAN. Do you think that that assurance would cure the situation?

Dr. SPAHR. I would not say it would cure it, but it would be an encouraging factor.

The CHAIRMAN. Doctor Spahr, I think most of us in this country are interested in a cure, and not an encouragement or promotion of helpful tendencies. Some of us would like to find a cure, if we could. Have you anything to suggest as a cure?

Dr. SPAHR. Yes; I think so.

The CHAIRMAN. Besides giving business a chance, something that would cure the situation?

Dr. SPAHR. I think, so far as money and banking are concerned, that the cures that can be exercised are the cures to use when business is expanding; but when you come down into a depression, there is very little the Government can do except to cooperate and encourage business to come back. Very little can be done through money and banking. They are merely the machinery to provide an easy means of exchange for business, and the sooner it is done the better it works.

The CHAIRMAN. What I am directing your attention to is this: You are an expert in this field of study, and we are practical laymen, representing the public, and in an official capacity are looking for practical results. We want to find some way out, if you can tell us how to find it.

Maybe you are right, if you say that is what should be done, that we should do nothing; that may be true.

I am only undertaking to get your view.

If you say we should do nothing, I am glad to have your opinion about it. But if there is anything we could do I would like to have you point that out.

Dr. SPAHR. I would not say we should do nothing. I say if we would do all we could to help business it would encourage business men tremendously. I want to emphasize this point, that there seems to be some confusion in the banking bill regarding the relationship between currency supply and recovery.

The CHAIRMAN. You have pointed that out in your preliminary statement.

Dr. SPAHR. Not as well as I would like to, because it would answer your question.

The CHAIRMAN. If it is an answer to my question, you may proceed.

Dr. SPAHR. There are two types of rising prices. There may be a sound rising in prices that accompanies a sound recovery, and that is what people want. Then there may be a rise in prices due to inflation. That is an artificial forcing up of prices. If you have a sound rise in prices, the initial emphasis for that comes from the business men, it comes from the producers who have been able to



reduce their inventory cost to a sufficient point to enable them to resume operations at a profit. Any Government program that enables the producers to put themselves in that position would generate recovery.

I say there are two types of rising prices. The causal factors in each case are different. The reactions of the country to these two types of rising prices are different, and the economic consequences are different. A sound rise in prices which accompanies a sound recovery is generated by business men; it can not be generated in any other way.

An unsound rise in prices is generated by currency inflation, and the reactions of the country are different. The reaction of people to a rise in prices generated by currency inflation is one of fear, and the effect of depreciating the currency is in harmony with that response.

The reaction to a sound rise in prices is one of confidence. There is increased production and increased purchasing power.

The CHAIRMAN. How would you bring about this sound method of improvement?

Dr. SPAHR. I would do everything I could to restore our credit to the sound basis it had before 1933. That would be one of the first things I would do.

Then I would remove every obstacle from the paths of business men, such as the National Recovery Administration and any other restrictive provision. I would do as much as possible to protect the public, such as was done through the Securities Act. I would do everything possible to make it easy for business men to start again.

The CHAIRMAN. But you have never yet told us a single thing we should do affirmatively. You are now telling us some things that should be undone.

Dr. SPAHR. I think they would be affirmative acts.

The CHAIRMAN. Insofar as they repeal this particular legislation and terminate the endeavors to which you have referred.

Let me ask you this question. What had we done toward inflation, or toward establishing an unsound currency, prior to these inflationary developments from which you are suffering?

Dr. SPAHR. We had inflation without doing anything to provide for it. We had a system that permitted it, because the Federal Reserve Board and the bankers were all permitting it. It was the general psychology in this country which encouraged it through installment buying.

The CHAIRMAN. I am asking you what there was in our banking or money system prior to these developments that was unsound, or that looked toward inflation. You say these evils result from inflation. Had we had inflation before this trouble came?

Dr. SPAHR. I would say the system, as constructed, permitted inflation prior to 1929, you say, as I understand it, that that is your date.

The CHAIRMAN. Your contention would be that we can never cure the situation, or safeguard ourselves against a repetition so long as there is a possibility of inflation, or the power to inflate the currency in the United States. If that is so, then would you say our situation is forever hopeless?



Dr. SPAHR. I think you will always have inflation. That depends on how you define deflation. I would define inflation as being the result from an expansion of purchasing power being in the country, not backed by sufficient resources or commodities to liquidate it.

The CHAIRMAN. What would you have done to make the development of such a situation impossible in the future?

Dr. SPAHR. You will never make it impossible; you can not do it, so long as any individual can make a loan to another one.

The CHAIRMAN. Your contention is that these things are going to happen.

Dr. SPAHR. No. You made a very extreme statement. You said "cure." I say you cannot cure it.

The CHAIRMAN. Assuming that providence will lift us out of it; what can we do to prevent a repetition?

Dr. SPAHR. I would just build a strong, sound money system and banking system in this country.

The CHAIRMAN. Will you tell us how to do it? That is what we want to know. Tell us what sort of a system you would have.

Dr. SPAHR. I would have an intelligent, strongly administered central banking system; I mean a Federal Reserve Board; an intelligence, strong Federal Reserve Board operating under an act that it simplified, and drafted in accordance with the best principles of central banking, as we know them today.

Then I would encourage recovery, remove all the obstacles in the country that are holding business men back, and then let recovery start, before you start to put on your controls.

The CHAIRMAN. We were taught for a long time that the gold standard would protect us and give us a sound money system in this country, and we attempted to establish it and maintain it for that purpose. We did maintain it, and while maintaining it, everything collapsed.

Dr. SPAHR. But the gold standard was not to blame for what happened.

The CHAIRMAN. I am not talking about who is to blame. I am talking about preventives. The gold standard did not prevent it.

Dr. SPAHR. No.

The CHAIRMAN. So that will not save us.

Dr. SPAHR. No; you are quite right about that.

A gold standard means that your currency is brought back to something that is universally acceptable, and creates confidence and facilitates exchange. Business thrives with a sound, and not an unsound currency.

Of course, the gold standard cannot cause prosperity to return, but it is a facilitating factor.

The CHAIRMAN. If we ever get out of this situation, we would like to prevent its recurrence, and the gold standard cannot be relied upon, because we tried it and it failed.

Dr. SPAHR. It will not cause it, but it will facilitate it.

The CHAIRMAN. We had the Federal Reserve System in operation, which you might say was universally approved by bankers and experts, and which we thought was the last word in banking, and which we thought would answer. But that did not save us.

Dr. SPAHR. No. I do not think anything could have saved us in this country, no matter what you had.



The CHAIRMAN. As I understand you, you are arguing right now that we should leave things as they are.

Dr. SPAHR. No.

The CHAIRMAN. Then what would you have us do about it?

Dr. SPAHR. I have said that we should have a strong, sound money and banking system, because that will facilitate recovery.

Mr. CROSS. Tell us what that is, in specific terms.

Mr. HANCOCK. Doctor, Spahr, are you not in effect advising us to go back to the Hoover financial policies?

Dr. SPAHR. Not at all.

The CHAIRMAN. You mean really to stay on the Hoover policy. We have not been off of the Hoover policy so far as the banking system is concerned.

This administration inherited a banking system which had been universally approved by bankers and everybody else in the United States, and which everybody told us was all right. That is so, is it not?

Dr. SPAHR. I think I can answer your question.

The CHAIRMAN. Is not that true?

Dr. SPAHR. No; I do not think so.

The CHAIRMAN. I thought it was.

We all remember quite well when we were passing the Federal Reserve Act that Congress was deluged with the same arguments, the same contentions and the same views as to that proposal that you are offering us now with respect to the actions proposed in this legislation.

Dr. SPAHR. No.

The CHAIRMAN. But later I had always understood that the passage of the Federal Reserve Act and its operation had met with general approval.

Dr. SPAHR. May I answer you in this way: You can take any type of banking system that there was in existence in the world; they all went down in the crash. Regardless of the form of government, or of the type of banking system, they all went down.

That ought to prove something. It proves that the banking systems were carried down in a great catastrophe which resulted from the conditions which resulted from the war. To blame the gold standard for what happened then is irrational.

The CHAIRMAN. I am not saying the gold standard was responsible for it. What I am attempting to say is that the gold standard did not prevent it.

Dr. SPAHR. Certainly not; everybody ought to know that. You cannot get any monetary system of that sort that can prevent it.

The CHAIRMAN. That comes back to what you said.

Dr. SPAHR. You can do some very unwise things.

The CHAIRMAN. Nobody will dispute that.

Dr. SPAHR. A lot of it was caused by the fact that we had already suffered from the preceding inflation. A sound medium of exchange is just a facility in doing business. It will not cure anything or prevent anything.

The CHAIRMAN. Every man attempts to tag that description, tie that on to his particular plan; whatever he favors as a currency system, he calls "sound."



We had a man before this committee the other morning whose views are as far from yours as the East is from the West, and he insisted his plan was "sound."

Dr. SPAHR. I think this committee thinks perhaps that I am a Republican; but I am not advocating a return to the Hoover policy.

The CHAIRMAN. If you will find us a remedy, God bless your soul, we are for you, and you may advocate anything or anybody you may wish politically, if you will tell us how to remedy this situation that distresses us.

Dr. SPAHR. I was going to answer some questions that were asked. I am interested only in presenting the economics of this proposition, and I think your practical experience will tell you whether what I say is true or false. I am glad to be put on the carpet.

Mr. GOLDSBOROUGH. Nobody is putting you on the carpet.

The CHAIRMAN. Insofar as the party you voted for is concerned, that does not make any difference; we do not know how to remedy the situation. The fact that you voted with us, if you did, in 1932, does not in any way assure us that you know just what we ought to do.

Dr. SPAHR. I think all of us know from experience, sometimes, what is the best thing to do. I feel that the best thing you can do in the way of a stimulant is to remove the barriers to recovery, because I will say that we have learned from experience that the best thing is to let nature take its course.

We have a tremendously complex economic system that is made up of individuals, each pursuing the object of his own interests, to get, all of them and individually, all they can, trying to make a living. That is the object, to get an income, and you must bear in mind that the impetus that generates recovery comes from the operations of people working and trying to make a living.

They will not do those things if there is any doubt about the currency, and if there are any undue obstructions placed in their path, and the thing to do is to make it as easy for them as possible to make it possible for them to reduce their cost inventories and market their goods.

The CHAIRMAN. How would you do that?

Dr. SPAHR. I would say that the National Recovery Administration has deterred us. That ought to have been removed. That is an obstruction which adds to the difficulties.

The CHAIRMAN. Would you say, when a man has pneumonia, and the doctor comes in and gives him 10 drops of medicine or gives him 20 or 25 drops when he should have given him 10, that that is the cause of the pneumonia?

Dr. SPAHR. No; I would not say that.

The CHAIRMAN. You are just pointing out the trouble, but you are not telling us what we can do.

Dr. SPAHR. I am telling you that the principal thing is simply to remove every obstruction you can take away, to aid business recovery.

Mr. REILLY. Name some of the obstructions.

Dr. SPAHR. The National Recovery Administration is an obstruction.

Mr. REILLY. What are the barriers that you think ought to be removed?



Dr. SPAHR. Anything we have that increases the cost that the business man has to pay.

Mr. REILLY. Do you want us to go back to where we were when we adopted the National Recovery Administration?

Dr. SPAHR. So far as business men are concerned, yes, I do.

Mr. REILLY. Do you expect us to entertain the desire that we will go back there and stay there, and accept that situation?

Dr. SPAHR. Yes, I think it would be a very good thing. But you will not cure that situation because that did not cause the depression.

Mr. SISSON. Is there anything that has been done since the 4th of March 1933, of which you approve?

Dr. SPAHR. Yes; I approve a good many things.

Mr. SISSON. You do not approve of the Securities Act, do you?

Dr. SPAHR. Yes, sir; I do, although I think it is too stringent.

Mr. FORD. Do you think that the Reconstruction Finance Corporation was a constructive measure, and that it has done any good?

Dr. SPAHR. Yes; I think so.

The CHAIRMAN. Let me ask you about the Reconstruction Finance Corporation. I had a little bit to do with that, under a former administration, with which I cooperated, and I accept my share of the responsibility for what was done.

Do you think that the principle of the Reconstruction Finance Corporation legislation was sound?

Dr. SPAHR. Yes; I do, in general.

The CHAIRMAN. Do you believe that the Government should open the Treasury doors and supply funds for private business and private institutions, when they find themselves in need of it?

Dr. SPAHR. That is a pretty broad statement. I could not go that far. I would put it this way, that when you get into a panic, people become panic-stricken. They toss properties overboard in an irrational manner, much more so during a period of depression than during boom times. Therefore I think that the Government can do a tremendous amount of good by stepping in and holding up properties until they get their bearings.

The CHAIRMAN. There is no doubt in the world that many of us could become great financial leaders for a while, if you would give us access to the Treasury of the United States.

Dr. SPAHR. But I understand—

The CHAIRMAN (continuing). But I am going to state for this record now that I think a resort to the Treasury of the United States for the support of private business does not represent leadership. It represents a breaking down of leadership.

Dr. SPAHR. I understood that nearly all of the funds loaned are being paid back.

The CHAIRMAN. That is not the question.

Dr. SPAHR. That is why I made my statement.

The CHAIRMAN. That involves a question only of who is a good judge of securities.

Dr. SPAHR. I implied that.

The CHAIRMAN. But the business leaders of this country upon whom we had to rely, to some extent at least, for guidance and counsel stood by and watched the developments that brought us to the brink of ruin, and then, after the greater part of the country had



already been destroyed, those remaining had power enough and influence enough, and were smart enough to come to Washington and persuade us to open the doors of the Treasury of the United States to save them and enable them to carry on.

You say that is right, as I understand you.

Dr. SPAHR. I think so, but I am using your own words. If they made loans that could be repaid, I cannot see why it is not sound.

Mr. GOLDSBOROUGH. The loans will be repaid only by boosting the market, and the little fellow who failed before that time had no such help.

Dr. SPAHR. That is true.

Mr. GOLDSBOROUGH. But the railroads, the insurance companies, and the banks will gain by it.

Dr. SPAHR. I would say that it proves its soundness if all borrowers repaid.

Mr. GOLDSBOROUGH. In the judgment of many people, the country would be better off if the railroads had been running under receiverships years ago.

The CHAIRMAN. Your idea is that instead of attempting to legislate now, we should defer it, or make further studies?

Dr. SPAHR. Yes, as to title II.

The CHAIRMAN. And gather further experience?

Dr. SPAHR. Yes, sir.

The CHAIRMAN. I want to ask you this question: Suppose that we had adopted this philosophy on the 5th of March 1933?

Dr. SPAHR. Conditions are different. It would not have done in 1933.

The CHAIRMAN. That was one time when it was necessary for Congress to meet and act?

Dr. SPAHR. Certainly.

The CHAIRMAN. When business recognized that necessity?

Dr. SPAHR. Yes, sir.

Mr. REILLY. Since this panic began, is it not a fact that there have been two schools of thought in this country as to how the country was to get help? One was to do nothing, just to sit still and let the laws of economics run their course, as in former panics; and the other was that it was an extraordinary industrial and financial break-down, and unless the Government affirmatively did something to help the industrial world to get back on its feet again, we were in for a terrific economic and financial crash?

Dr. SPAHR. Those were two of the schools of thought, but there is also another one.

Mr. REILLY. Which one do you believe in?

Dr. SPAHR. I do not believe in either one of those.

Mr. REILLY. What is your school of thought?

Dr. SPAHR. I say that the Government can do certain things, and certain overt acts should be undertaken by the Government. It does not mean to go back to the Hoover Administration, or to do nothing; it does not mean that at all. I have supported the Reconstruction Finance Corporation, and I would support the Securities Act, with slight modifications, and I think that the National Industrial Recovery Act has some good features in it, but the restrictive measures on business, I think, should have been scrutinized carefully and minimized and removed, if possible.



The emergency measures on money are very sound and necessary, and a whole series of things that should have been done were done, which I approve heartily, but I do not know of an economist of reputation that would fall in the first class that you mention, to do nothing and go back. That is a common thing said by those who wish to inflate the currency to those who oppose it; they say, "You wish to go back and do nothing." They think that that is an effective and squelching answer, but the real answer is that we do not wish to go back, but we wish to remind you that the best way to come out is to have a sound currency, in which the people have confidence.

Mr. FORD. What is a sound currency?

Dr. SPAHR. One in which people have confidence.

Mr. FORD. That answer does not explain it. Tell us what it means.

Dr. SPAHR. It means a currency that is convertible into something that has universal acceptability. To me that means the gold standard.

The CHAIRMAN. I believe you say that you approve the legislation on the subject of banking and currency in the nature of emergency acts passed during the early stages of the present administration?

Dr. SPAHR. Yes.

The CHAIRMAN. That is what I understood you to say you mean.

Dr. SPAHR. Yes.

The CHAIRMAN. That you approve of that legislation.

Dr. SPAHR. It depends on the specific acts, of course.

The CHAIRMAN. In other words, take the Banking Act, by which we authorized advances to be made by the Federal Government upon "sound securities." Do you approve that?

Dr. SPAHR. Yes, as an emergency measure.

The CHAIRMAN. We authorized the Government to issue Federal Reserve bank notes against the assets of banks.

Dr. SPAHR. I approve that as an emergency measure.

The CHAIRMAN. We even extended that to State banks finally. Do you endorse all of that?

Dr. SPAHR. I think so, as an emergency measure.

The CHAIRMAN. Is not that substantially what we are trying to do in this bill?

Dr. SPAHR. No, you are not.

The CHAIRMAN. Would it not have been better, if there is any virtue in that legislation, if we had had it on the statute books, without waiting until every bank in the United States had closed its doors and the whole economic structure had collapsed? Would it not have been better if we had anticipated that trouble?

Dr. SPAHR. Yes.

The CHAIRMAN. That is what we are trying to do in this bill.

Dr. SPAHR. No; you are doing more than that.

The CHAIRMAN. We may be doing more than that, but we are trying to do that.

Dr. SPAHR. I said in my statement that some of those provisions to serve as emergency measures are safe enough if the banking system were a nonpolitical system.



The CHAIRMAN. I read that in your statement, and I recognize the basis for the ideal that you have in mind with respect to free and independent control of our banking and currency system, but how will we get under the Constitution of the United States? How will you get away from the right of the people of this country to change administration every 4 years by electing new officials and new Representatives in Congress to run the Government?

Dr. SPAHR. You can set up any type of board you please.

The CHAIRMAN. Yes; you can set it up and then tear it down when the next administration comes in, but there is not any way, as I understand the situation under our Constitution, by which we may set up any board for a life tenure or in perpetuity and turn the country over to them.

Dr. SPAHR. Canada has done it; why can't we do it? They leave their system alone.

The CHAIRMAN. We have a different system from Canada.

Mr. CROSS. And the Constitution here says that Congress shall regulate the value of money, and every Congress can come in here and change the previous idea.

Mr. SISSON. We cannot take away from the President the power to remove the members of the Federal Reserve Board.

Dr. SPAHR. You do not have to give it to him, either.

Mr. HOLLISTER. He has not got that today.

The CHAIRMAN. You would not contend that we cannot pass a law to abolish the Federal Reserve Board?

Dr. SPAHR. You can do anything you want to.

The CHAIRMAN. So that there is no way on earth, under our Constitution, by which we can set up a perpetual control free from the wishes of the people of the United States and their will as expressed in Congress.

Dr. SPAHR. It can be done as far as human beings can do it, if you will try to do it.

The CHAIRMAN. We can make a pass at it and say that we have done it.

Dr. SPAHR. You can develop traditions of sound central, independent banking, and frown upon all of these attempts by the political party in power to keep tinkering with the most delicate mechanism that we have. Unless we start to try to make it go, it never will be done.

Mr. GOLDSBOROUGH. Do you know that this so-called "sound system of central banking" that you are talking about is the creation of private bankers, who created that system for their own private purposes? That is certainly common knowledge. It began with the goldsmiths, in London, in 1794, and comes down through the Rothschilds and the great banking houses in this country.

Dr. SPAHR. I would say that the Bank of England has demonstrated, as a private institution, the finest traditions and the finest banking of any financial institution or system in the world.

Mr. GOLDSBOROUGH. It may be the finest system in the world, although in my opinion it is not as fine as the French system, but any system that we know anything about is not the creation of society, but the creation of a class.

Dr. SPAHR. But they are all regulated by the government.



Mr. GOLDSBOROUGH. Oh, no; the Government in England has been in control of the banking system. The Government of Great Britain is almost completely under the control of the Bank of England.

Dr. SPAHR. What about the Banking Act of 1844? Was not that drafted by the British Government to regulate the bank?

Mr. GOLDSBOROUGH. It may have been drafted for that purpose just as we draft laws for certain purposes in this country, but just as this country is measurably and very substantially under the control of the bankers, the Government of England is more under the control of bankers.

Now, there is no use talking about an ideal banking system being created by those whose interest it is not to have an ideal banking system, because an ideal banking system is one created and run in the interest of the whole public.

Another thing I think you failed to distinguish is the function of banking from the function of creating the people's money. Under the Constitution of the United States, Congress is given the authority to issue money and fix its value.

Nobody else is given that power under the Constitution. Under our system, up to the present minute, that authority to issue money and to regulate its value has been delegated to a private institution, the banking institution of this country, and they have been almost the sole managers of that up to this time.

Now, it can be said that this control has been partially taken away by the control that the Government has over the rediscount banks, the Federal Reserve System, but when you take into consideration the fact that the member banks can expand the money they have in their reserve on an average of ten times without violating the law, you will see that, as a matter of fact, the member banks create money just as the Federal Reserve banks do.

So I say that it is not, in my judgment, sound to base your conception of a central banking system on banking systems which are the creation of private interests, not the creation of society.

Dr. SPAHR. Did not the Government create the Federal Reserve System.

Mr. GOLDSBOROUGH. The laws of the United States created the Federal Reserve System.

Dr. SPAHR. Surely.

Mr. GOLDSBOROUGH. But the Federal Reserve System, up until the present minute, is controlled by the member banks, that is, the Federal Reserve banks are, because the majority of the members of the boards of directors of the Federal Reserve banks are elected by bankers, and every Federal Reserve bank in the United States up until the present moment has been dominated and controlled by the great banks of New York.

Dr. SPAHR. And the Board is impotent, powerless?

Mr. GOLDSBOROUGH. It has been impotent, or acquiescent. Maybe the future will be brighter.

This bill, with the amendments suggested by the acting Governor of the Federal Reserve Board, is an attempt to take that control of the Federal Reserve System away from the banking system of the country and to place it under the control of society. It does not



do it perfectly; it is not what I want, but it seems to me to be a distinct advance.

Dr. SPAHR. May I answer that?

Mr. GOLDSBOROUGH. The amendments suggested to this act by the Governor of the Federal Reserve Board contain a provision which makes the Board, which controls open-market operations, the changing of the discount rates, and the raising and lowering of reserves, consist of all of the members of the Federal Reserve Board.

Now, of course, that suggestion is not in the bill, but it is suggested by him and it comes just as much from the administration as the bill itself.

Another suggestion which the Powers makes it that when the Governor of the Federal Reserve Board is removed, he shall not cease to be a member of the Federal Reserve Board. That is taking away from the President the power to change the Federal Reserve Board.

Dr. SPAHR. I think that is wise.

Mr. CROSS. I would like to ask him a few questions.

Mr. HOLLISTER. Did he want to answer Mr. Goldsborough's question?

Mr. GOLDSBOROUGH. What I asked him is how he built up his concept of what a central bank should be on the past experience of the countries whose central banks have been built up by the bankers themselves.

Dr. SPAHR. I say that the lessons of central banks are unquestionably these, that the farther removed the central bank is from government domination, provided that it is operating within a sound organic act, the better it is for the country concerned.

Mr. GOLDSBOROUGH. Give us an example of what you are talking about.

Dr. SPAHR. England, France, Germany before the collapse, and Sweden which has a Government-owned bank, have a system that keeps the bank independent of Government meddling. They have even protected that, which is a Government-owned institution, and—

Mr. GOLDSBOROUGH. Do you mean to say—

Mr. HOLLISTER. Let him finish.

Dr. SPAHR. The lessons of central banking are unquestionably that wherever a government has reached in to control the central banking system, you control your whole economic system. You can bleed your system white—that is, a dictator can.

Mr. GOLDSBOROUGH. Just give us an instance of inflation—that is always the resort of all those who believe in things as they are—in any country in the world through all history that has had a stable government at the time of inflation.

Dr. SPAHR. My definition of inflation, Mr. Goldsborough, was one that I choose to stick to, and therefore I say that you have inflation all the time to some degree.

Mr. GOLDSBOROUGH. Do you mean to say that we have had inflation between 1929 and the present time in this country?

Dr. SPAHR. Yes, sir; I do. Did you notice how I defined it?

Mr. GOLDSBOROUGH. With bankruptcies going on over the country?

Dr. SPAHR. Yes, sir.



Mr. GOLDSBOROUGH. With the debtors unable to pay their debts, and the producers unable to produce enough to pay their taxes, you say there is inflation in this country now?

Dr. SPAHR. Surely. Did you notice my definition?

Mr. GOLDSBOROUGH. Well, you can state your definition, sir.

Dr. SPAHR. I say that inflation prevails or results from the extension of purchasing power, either in the form of money or credit, which is not backed by sufficient reserves or commodities to liquidate it.

Mr. GOLDSBOROUGH. I want to know if you can give us an instance of that ever occurring in any government that was stable.

Dr. SPAHR. It is always occurring in any country, stable or unstable.

Mr. GOLDSBOROUGH. The instances that we have been given here in this committee, if I can give them briefly, are the instances of Germany after the war, the instance the French assignats issued some time during 1796 and for several years thereafter, and the Continental money. What other instances have you? Those were all instances where the government was unstable, and nobody knew what was going to happen.

Dr. SPAHR. We had more inflation from 1923 to 1929—

Mr. GOLDSBOROUGH. In this country?

Dr. SPAHR. Surely; that is what caused the collapse.

Mr. GOLDSBOROUGH. Do you mean to say that the supply of money during that period was increasing more rapidly than our productive capacity?

Dr. SPAHR. Than the productive capacity justified.

Mr. GOLDSBOROUGH. Was the difficulty in our productive capacity, or in our ability to distribute what we could product?

Dr. SPAHR. Both.

Mr. GOLDSBOROUGH. Do you mean to tell me that there has ever been a time in the history of this country when we had produced more than we could consume, provided that our people had the buying power?

Dr. SPAHR. I think that your statement is quite accurate.

Mr. GOLDSBOROUGH. What do you say?

Dr. SPAHR. I would say no to your question. I agree with your point of view there.

Mr. Goldsborough, I think that I can simplify answering you, so that you will not have to ask me so many questions, which are all pointed in one direction.

My definition of inflation means that anybody that goes to a bank, for example, and borrows can have his purchasing power inflated. If I think that I am going to engage in a profitable transaction, I will go to the banker and I will say, "I would like to borrow \$1,000 from the bank." If he thinks that it is a good idea, he lets me have that, and I engage in the transaction and find that I made a mistake, and only use \$500. So I go to the bank and say, "I cannot pay you", and the bank thereupon takes a loss of \$500. So in that case my purchasing power was inflated by \$500; that \$500 was the measure of inflation which took place.

We do not talk about inflation in this country unless the great mass of people get into that position—and some individuals are



there all the time—when they have overborrowed and cannot liquidate. That is when we talk about inflation.

From 1924 and 1925 to 1929, a tremendous amount of installment buying was taking place. People were getting a purchasing power completely beyond what they could repay—and the stock market crash was the final culmination of that—and then the liquidation set in, and they began to pay for that inflation.

That is what I say to you, that there is always inflation, and we were nearly misled from 1923 to 1929 by relatively stable price levels.

Mr. GOLDSBOROUGH. I agree that we can never have any prosperity where all of our money is based on debt, as it is in our present system, and which seems to be the one that you desire to perpetuate for all time.

Dr. SPAHR. I never said that, and I never implied that. There is a virtue in defining deflation accurately.

Mr. GOLDSBOROUGH. I know perfectly well that installment buying was one of the things that created this difficulty, and I know that you cannot get away from installment buying. You cannot get buying power in the hands of your people as a mass where your money is created exclusively by the creation of a debt. It just cannot be done, because you cannot distribute buying power as fast as the debt accumulates, and you are bound to have one of these crashes right after the other.

Dr. SPAHR. There is one point that I would like to answer there, and that is your assumption that you can put buying power in the hands of the people without putting it in the hands of the producer first. Consumer purchasing power comes from production, and therefore your initial start is productive activity. You can not start anywhere else.

Mr. GOLDSBOROUGH. That does not necessarily follow.

Dr. SPAHR. It does follow.

Mr. GOLDSBOROUGH. It does not, for this reason, that we have to recognize in this country that we have an extremely mechanized system. We have an electrified system which has taken away the ability of the ordinary laborer to get work. We must recognize in this country that we are the heirs of all the ages and that all of our people are entitled to some of the results of modern invention. Unless we do recognize that concept, we will have to go into a revolution sooner or later.

Dr. SPAHR. Mr. Goldsborough and Mr. Chairman, is it objectionable if I should ask a question?

Mr. GOLDSBOROUGH. No.

Dr. SPAHR. I made the statement that there is no place where you can get consumer purchasing power except from production. You said that that is not true. Can you tell me where consumers can get it, except from production?

Mr. GOLDSBOROUGH. Of course, your question is that it has to be produced before they can get it?

Dr. SPAHR. That was my statement.

Mr. GOLDSBOROUGH. I did not understand you to mean exactly that, because everybody knows that you cannot eat bread until it is baked and properly prepared, but the point that I am making is this, that we under our present system can produce more than



our consumers can consume, given the buying power which they can get under a system where our money is entirely created upon debt. That is what I am talking about, that you cannot get buying power into the hands of your people under a system where your production can only be created through debt.

Dr. SPAHR. Using deposit currency or evidences of debt as a medium of exchange, it is merely the most economical means of exchange that people have devised, and if your statement is true, you would have to say that book credit is unsound. If a woman goes into a grocery store and receives book credit for something that she has taken in there to exchange for groceries that she will take later, that is unsound, if your statement is true.

Mr. GOLDSBOROUGH. Maybe I can make you understand what I have in mind by this statement: Suppose that the people became properous, and were able to pay their debts; what would we do for money in this country?

Dr. SPAHR. Whatever is sound, and generally acceptable.

Mr. GOLDSBOROUGH. Great God, man! Under our present system, we would not have any money left, because all of our money is based on debts, and when those debts were paid, there would be nothing left.

Dr. SPAHR. You are mistaken, and let me show you why.

One day in 1919, in New York, the clearinghouse cleared over a billion and a half of deposit currency and did not use a penny. Now, all of those business transactions were liquidated because they had a clearing mechanism for clearing deposit currency which is the slickest, finest currency ever devised by human beings for the purpose of liquidating debts.

Now, if your contention is true, then that credit extension is unsound, and the question is merely one of whether it is sound or not.

Mr. GOLDSBOROUGH. Oh, no; all of the banks in the United States have capital, surpluses, and undivided profits of something less than seven billion dollars.

Dr. SPAHR. Yes.

Mr. GOLDSBOROUGH. If all of the banks' debts were paid that would be all of the money that there would be in circulation, would it not?

Dr. SPAHR. But the banks' debts will not be paid. That is a foolish assumption.

Mr. GOLDSBOROUGH. But that is not the question. The point is this, that in this country we can have no permanent prosperity, for this reason, that prosperity is indicated by the ability of a man, or corporation, or what not to pay his debts.

Mr. SPAHR. Surely.

Mr. GOLDSBOROUGH. And my contention is that under a system where your money is created by debt, as soon as you begin to pay your debts, you cause another deflation, because you destroy the money in the country.

Answer that, if you can.

Dr. SPAHR. I can.

Ninety percent of our exchange is normally done by deposit currency, which you say is debt. That means that we are exchanging 90 percent of our commodities, but if you stopped that sort of thing and reduced your medium of exchange down to just currency, how many transactions could be carried on?



Mr. GOLDSBOROUGH. That is exactly my opinion, that we have to do our business with borrowed money. But there is another way to do it.

Dr. SPAHR. On credit, surely.

Mr. GOLDSBOROUGH. You do not think it would be wise for Congress to exercise its prerogative of issuing money and regulating its value by putting money in circulation, whatever necessary, say, \$250 per capita or whatnot, and prevent the banks from lending money they don't have?

Dr. SPAHR. I certainly do not think it would be wise.

Mr. GOLDSBOROUGH. And you also think that for Congress to exercise its prerogative and issue money, and regulate its value, to pay its debts would be forgery?

Dr. SPAHR. Yes, sir; I do.

Mr. GOLDSBOROUGH. Although the Constitution of the United States gives Congress the power to issue money and to regulate its value, you say that if it did that to pay off the Government debt, it would be forgery?

Dr. SPAHR. Yes; I do; and I take it you saw my article?

Mr. GOLDSBOROUGH. I saw an article that you put in the Christian Science Monitor, and it was scattered around in other newspapers controlled by the same influences. I also understood from my secretary that you had sent me an open letter. An open letter I never read, because I know it is propaganda, and I did not see it until this morning.

Now, I believe you are a member of the Economists' National Committee on Monetary Policy, and that Dr. H. Parker Wills is also a member of that organization?

Dr. SPAHR. Correct.

Mr. GOLDSBOROUGH. I have his book here, *The Banking Situation*, a very recent book that you may be familiar with, published in 1934, in which he says, at pages 43 and 44:

There is probably no country in the world in which there is a greater approach to the real existence of a so-called "money trust" than in the United States, nor is there any country in which there is less assurance of nonpartisanship and fairness in the extension of credit in banks to individuals or corporations.

Do you agree with that statement?

Dr. SPAHR. I do not know the basis of facts. I would say offhand, no. I do not know what facts he based that on.

Mr. GOLDSBOROUGH. He, further, says this—and I thought that you and Dr. Wills slept in the same bed as far as economics were concerned.

Mr. REILLY. They are twin beds, probably. [Laughter.]

Mr. GOLDSBOROUGH. Maybe you know more about twin beds than I do. I do not know.

Mr. REILLY. The same room, but twin beds.

Mr. GOLDSBOROUGH. Another statement made by Dr. Wills in this new book, *The Banking Situation*, which sheds a great deal of light, is:

For many years it was the practice of the banking community to secure a pigeonholing or ignoring of new legislation by the familiar methods of legislative obstruction and control.



What do you think of that?

Dr. SPAHR. That is substantially accurate.

Mr. GOLDSBOROUGH. Do you think that the control of the money ought to be left where it now is, in the hands of the bankers?

Dr. SPAHR. No; I do not like that statement.

Mr. GOLDSBOROUGH. Do you not think that it is in the hands of the bankers now?

Dr. SPAHR. To some extent, yes; to a large extent.

Mr. GOLDSBOROUGH. What would you like to do with the money? Who is going to control it if the bankers do not? You do not want society to control it.

Dr. SPAHR. A metallic currency has to be controlled by the Government, through the Treasury. The gold and silver certificates would also have to be controlled through the Treasury directly. The bank notes ought to be controlled through the central banking mechanism.

Mr. GOLDSBOROUGH. Ought not the central banking mechanism to be a governmental agency?

Dr. SPAHR. No.

Mr. GOLDSBOROUGH. A banking agency?

Dr. SPAHR. No.

Mr. GOLDSBOROUGH. Then what?

Dr. SPAHR. An independent body or board operating in the interests of commerce, agriculture, and industry, regardless of individual interests, putting the Government exactly on the same basis.

Mr. GOLDSBOROUGH. You think you want to sovietize your definition and say commerce, agriculture, and industry, or do you think that you want to say it should be in the interests of society?

Dr. SPAHR. It should be in the interests of society, but put the Government on exactly the same basis and treat it just the same, because it is a borrower, too. It is not entitled to any more favorable consideration than any other borrower in the market.

Mr. GOLDSBOROUGH. Are you familiar with the bill which was introduced in the last session, on which a subcommittee of this committee had hearings for about 7 weeks, called the monetary authority bill?

Dr. SPAHR. I have seen it.

Mr. GOLDSBOROUGH. What do you think of that sort of legislation?

Dr. SPAHR. Well, I think the fundamental philosophy underlying the thing is wrong.

Mr. GOLDSBOROUGH. I just thought you said that it was right, that there ought to be an independent organization.

Dr. SPAHR. I am not an authority on the details of that bill, but, as I recall it, it provides the machinery by which this Federal monetary authority can force the price level up by inflation to any desired price level that they think they would like to have, as, for example, in 1926. They are going to control the currency and adjust it to what this particular Federal monetary authority considers is a desirable price level, largely with the idea, as they say, to take the burdens off of the debtors of the country.

The fundamental philosophy underlying that is false.

Mr. GOLDSBOROUGH. It is false, then, to put the different classes of society on a fair basis? In other words, it is false to put the debtor



on such a basis of relation to his creditor that he can pay his debt and the creditor can receive the debt. We think that it is just as much in the interests of the creditor for the debtor to be placed in position of paying, as it is in the interests of the debtor himself.

Dr. SPAHR. So do I, but what you will do is to injure the very people you think you are going to help.

The CHAIRMAN. It is 20 minutes past 12. I suggest that we come back at 3 o'clock.

That will be all right with you, Professor?

Dr. SPAHR. Yes, sir.

The CHAIRMAN. We will meet at 3 o'clock.

(Thereupon, at 12:20 p. m., a recess was taken until 3 p. m.)

#### AFTERNOON SESSION

(The recess having expired, the committee reconvened at 3:15 p. m., Hon. T. Alan Goldsborough, presiding.)

Mr. GOLDSBOROUGH. The committee will come to order.

#### STATEMENT OF DR. WALTER E. SPAHR, PROFESSOR OF ECONOMICS, NEW YORK UNIVERSITY—Resumed

Mr. GOLDSBOROUGH. Dr. Spahr, there are just one or two questions that I wanted to ask, and then I will not take any more of your time.

You spoke this morning of the remarkable facility with which the banks manage the checking system and the clearing-house system, and I rather gathered that you thought that system was an incident of the creation of money by debt, and that if we created money by any other process except through debt we would lose the benefit of that system. Is that your thought?

Dr. SPAHR. We probably would to some extent.

Mr. GOLDSBOROUGH. Why?

Dr. SPAHR. Because that is a clearing system for deposit currency and not for bank notes.

Mr. GOLDSBOROUGH. I know you do not mean to say that if we had, for instance, 100- or 50-percent deposit reserve that we could not employ a checking system, do you?

Dr. SPAHR. But it is probably an extremely wasteful system in the sense that you are going to have a 100-percent reserve against your deposits when you consider that deposit currency throughout a year is terrific, in billions.

Mr. GOLDSBOROUGH. I understand, but if the Government or someone else were to pay to the banks the probable charge for clearing checks and doing what they do now, they could carry on with equal facility as they can now, could they not?

Dr. SPAHR. But the fundamental conception, Mr. Goldsborough, there, I think, is wrong in this sense, that the function of reserves is to clear in the last analysis, and the better your clearing system functions the better your medium of exchange functions. Now, to set up a 100-percent reserve is simply to deny the functions of your reserves. Reserves are clearing. Now, what banks do is to substitute their credit, which is generally acceptable, for the



borrower's credit, which is not, and then the law requires the bank to keep a reserve in lawful money against those deposits to clear.

Mr. GOLDSBOROUGH. What is the difference, insofar as clearing checks is concerned, whether the reserve is 10 or 5 or 50 or 100 percent?

Dr. SPAHR. Because what people wish is an exchange that will take care of the transactions easily. They do not want money. They want deposit currency. Ninety percent of our business is done that way.

Mr. GOLDSBOROUGH. Do you mean to say that you cannot make transfers by check, that you must use money? Do you mean to say that you cannot transfer money by check if you have 100-percent reserve?

Dr. SPAHR. What is the point on the 100-percent reserve? Of course, you can do it by check, but you have 100 percent reserve there of idle money. That is a wasteful system. That is my point.

Mr. GOLDSBOROUGH. That is a wasteful system?

Dr. SPAHR. Yes.

Mr. GOLDSBOROUGH. In your judgment?

Dr. SPAHR. Yes, in my judgment.

Mr. GOLDSBOROUGH. Yes, but I am asking you whether or not this bank-clearing process, which is a process of banking mechanics, and which is good, could not be carried on just as well under some other reserve than under our present reserve of 13, 10, and 7 percent?

Dr. SPAHR. Oh, I think so.

Mr. GOLDSBOROUGH. Yes. Now, I notice here in your set-up of your organization that Professor Kemmerer is one of your leading members. Is that correct?

Dr. SPAHR. He is the chairman of the committee.

Mr. GOLDSBOROUGH. Chairman of the committee? What is the name of it?

Dr. SPAHR. Economists' National Committee on Monetary Policy.

Mr. GOLDSBOROUGH. In December 1927 Professor Kemmerer said:

The world sooner or later must either learn how to stabilize the gold standard or devise some other monetary standard to take its place. There is probably no defect in this economic organization today more serious than the fact that we use as our unit of value not a thing with a fixed value, but a fixed weight of gold with a widely varying value. In a little less than a half a century here in the United States we have seen our yardstick of value, namely, the value of a gold dollar, exhibit the following gyrations: From 1879 to 1896 it rose 27 percent; from 1896 to 1920 it fell 70 percent; from 1920 to September 1927 it rose 56 percent. If figuratively speaking we say that the yardstick value was 36 inches long in 1879, when the United States returned to the gold standard, then it was 46 inches long in 1896, 13½ inches long in 1920, and is 21 inches long today.

Now, are you informed as to whether or not Professor Kemmerer is still of the same opinion as he was in 1927?

Dr. SPAHR. I would not be competent to speak for him.

Mr. GOLDSBOROUGH. You do not know about that?

Dr. SPAHR. No.

Mr. GOLDSBOROUGH. That is all, Mr. Chairman.

The CHAIRMAN. All right. Mr. Cross?

Mr. CROSS. Doctor, you referred this morning to "sound money" several times. Do you mean by "sound" a sound dollar, an honest dollar?



Dr. SPAHR. Yes, an honest dollar.

Mr. CROSS. Do you figure that a dollar that will buy one particle of all the things that are necessary to feed and clothe and supply the comforts of the people today, that next year will double its purchasing power, where it will buy twice, and two particles of all those commodities, sound?

Dr. SPAHR. Mr. Cross, let me answer that this way: The value of money is a ratio between goods and services sold.

Mr. CROSS. Now, please answer that question; you know what I mean without going off into a collateral discussion.

Dr. SPAHR. I will try to answer more briefly. You seem to lay the responsibility on money, whereas it is the ratio of goods.

Mr. CROSS. No, I am not laying it on anything except the purchasing power of goods.

Dr. SPAHR. All right, I will try to answer another way. The purchasing power of money should not be stable unless our economic system is in a state of equilibrium between production and consumption.

Mr. CROSS. Then I will put the question to you like this. Certainly money is affected by supply and demand, is it not?

Dr. SPAHR. That is correct.

Mr. CROSS. Gold is just a commodity, is it not?

Dr. SPAHR. That is right.

Mr. CROSS. During the World War when 42 countries quit using gold as money and we continued to use it as money, it flooded here, did it not?

Dr. SPAHR. That is right.

Mr. CROSS. Until prices of everything shot up, because gold was plentiful and the supply was plentiful, and its purchasing power went down. Of course, we say prices go up. That simply means the purchasing power of the money goes down. That is true, is it not?

Dr. SPAHR. But that was due to credit and not to the gold.

Mr. CROSS. Why do you say "credit", when those 42 countries fought the war, and when they struggled to get gold, to get back to using gold for money, that the demand became great for gold, and of course, up shot its purchasing power, which is still a commodity, is it not? It is a commodity plus the statutory fiat money. It could pay the debts, both public and private, but still it is a commodity plus that artificial statement in the statute?

Dr. SPAHR. True enough, but I would not ignore the credit which was responsible for 90 percent of it.

Mr. CROSS. I know we had the credit, but nevertheless it had a tremendous effect upon the question of credit, because credit, of course, began to shrink whenever gold became dear, and people got frightened, and it had an effect, and they had over here hundreds of millions every week, the big birds who knew what was happening, and everybody commenced getting frightened, the banks began to burst. Naturally, it resulted from a throwing out of the gold, and they commenced shipping it off.

Dr. SPAHR. What year are you talking about now?

Mr. CROSS. Well, along in 1930 or '32, and up to 1933; and the President stopped it, and we passed an act stopping gold from going out of the Treasury.



Dr. SPAHR. But we did not have a collapse in 1929 because of any scarcity in gold.

Mr. CROSS. No; not at that particular time, but they were trying to get back. They were trying to get back on the gold standard in other countries, those 42 countries, and none of them had tried to go back, and they were struggling to get it. Do you not remember that?

Dr. SPAHR. We still had a surplus of gold in 1929.

Mr. CROSS. How is that?

Dr. SPAHR. We still had a huge surplus of gold in the United States in 1929.

Mr. CROSS. We did, I know; but the other countries were trying to get it, and we got it over here, because it flooded over here when they quit using it.

Dr. SPAHR. We had no restrictions on the out-movement of gold in 1929.

Mr. CROSS. I know we did not. I know we did not. It commenced to leave.

Dr. SPAHR. So gold could not have been responsible for the collapse in 1929 in this country.

Mr. CROSS. We have got no measure for values. When you get to length you have got a measure; and, by the way, it took the world hundreds of years to get that measure. If you remember, people used to take three grains of barleycorn and used that for a long time, just as they used to take when measuring other things, for instance, weights. We had to use grains of wheat, and yet the world thought that that was all right for a long time until finally they got down to something, of course, exact and practical.

Now, we have got no measure of value, have we? You have got a measure of the foot for length, you have got the pound to get weight; you have got the cubic foot to get volume; but you have no measure of value. In other words, we take a weight to get the measure of value, do we not? We take so many grains of a metal to measure value with?

Dr. SPAHR. I understand your point thoroughly, Mr. Cross. I would like to answer it this way, if I may: I think it covers the question. I understand what the fluctuation of the price-level means. It means fluctuation in the value and purchasing power of the currency, but there is no defense we can set up economically, of having a stable price level unless our economic system is in a state of economic equilibrium.

Mr. CROSS. I did not ask you all that. I asked you whether we had any measure of value.

Dr. SPAHR. Yes; but it fluctuates.

Mr. CROSS. No; our monetary unit.

Dr. SPAHR. It fluctuates.

Mr. CROSS. Certainly it does.

Dr. SPAHR. Yes.

Mr. CROSS. Well, when it fluctuates that is a dishonest monetary unit, is it not?

Dr. SPAHR. But is the fluctuation due to the dollar or to the goods?

Mr. CROSS. It does not make any difference what it is due to. I am trying to get an answer to a simple question. When it fluctuates it is dishonest, is it not?



Dr. SPAHR. Maybe the goods are dishonest.  
Mr. CROSS. No; wheat makes flour, the wool makes clothes, and so on.

Dr. SPAHR. But value is a ratio.  
Mr. CROSS. Just answer my question. If you borrow \$1,000 from A today, and when A goes to pay you back you he has got to pay you back twice the true value of the things that sustain your life and give you the comforts and the necessities of life, he is paying you back in real values twice what he got from you, is he not?

Dr. SPAHR. I understand that.  
Mr. CROSS. Now, if \$1 of wheat will do me for a lifetime that is all I need, is it not?

Dr. SPAHR. That is right.  
Mr. CROSS. So when that dollar changes in its purchasing power all these things that supply me with the comforts and necessities of life, the fellow from whom I borrowed it, or the fellow to whom I loaned it is being "stung" because he has got to give me more in true values, has he not?

Dr. SPAHR. That is right.  
Mr. CROSS. That is not an honest dollar, is it?

Dr. SPAHR. It may be.  
Mr. CROSS. Well, I am talking experience. It is not, however, now, in our practical experience, is it?

Dr. SPAHR. It may be.  
Mr. CROSS. Well, it has not been, has it?

Dr. SPAHR. You are not accepting the notion of a radio. For example, Mr. Cross, some businesses disappear entirely. As they go down, the purchasing power declines and declines and declines. They pass out. Now, they may say that the dollar is not honest because their purchasing power is steadily declining. For example, when the carriage business had to compete with the auto, the carriage manufacturer could howl all he pleased about his declining purchasing power, it did not do him a bit of good; and the dollar was not to blame.

Mr. CROSS. But there was a thing passing out, as an economic change, going out of existence.

Dr. SPAHR. Yes.  
Mr. CROSS. But you say now your position is that this weight of gold is the best thing we can get yet, this one commodity to measure all commodities, and as I have illustrated heretofore you put one commodity over there, and we will call it the gold dollar, in one bucket, and over here you put all property, lands, houses, and commodities of every description, and you lay this chain there, we will say, to pass around the pulley.

Now, this one commodity over here affects and reflects in price all the commodities?

Dr. SPAHR. True.

Mr. CROSS. So when it goes up by reason of scarcity, or the demand becomes great, which means it goes up in purchasing power, down goes the other bucket, representing prices; and of course when the demand for the gold supply becomes great it cheapens, and up goes the price of everything. Of course, along with that, now, you have got your credit proposition.



Dr. SPAHR. Yes.

Mr. CROSS. Your check dollars, and that is one of the most dangerous of inflations and deflations.

Dr. SPAHR. Right.

Mr. CROSS. The testimony here has been that you can control your credit inflation by the levers of rediscount, raising and lowering the Federal Reserve and open-market transactions, but we have gone on, and the testimony here of Governor Strong and Governor Harrison and Dr. Fisher and all those fellows who testified before this committee heretofore, has all been that we can control inflation but we are helpless when it comes to deflation.

Now, the proposition is to get a dollar, a monetary unit, whatever you call your monetary unit, so that it will have the purchasing power on a stable level, and when taken in harmony with a great number of commodities—of course, we use 784 down here, but you could use 50. Do you not think, by taking the wholesale price-level of a number of essential commodities, and keeping your dollar stable on that level, that it would be more honest than the dollar we have got today?

Dr. SPAHR. Would you like to stabilize the price of it now at this level?

Mr. CROSS. No; but you could take any standard you wanted to. I do not care whether you take '21 to '29, or '26, here, but that is a question of taking that as a standard; but do you not think you could take a standard where it would be higher than those, or lower, and keep them on that line?

Dr. SPAHR. My answer it we should do everything we can to stabilize the value of money when the price-level is in a state of economic equilibrium. We should not try to stabilize the price level now.

Mr. CROSS. But do you think that can be done?

Dr. SPAHR. It never has been done. I think we ought to try however to do the best we can. We ought to set up every mechanism we can devise to do it, when we reach a state of economic equilibrium.

Mr. CROSS. The testimony of Dr. Sprague and a number of others here was that they came to the conclusion that they could; at least, it ought to be tried, they thought it ought to be done; that heretofore they had no gold with which to go ahead. They, today, are just like a ship without a rudder, and do you not think it can be done?

Dr. SPAHR. I do not know. I think we ought to try, but notice my qualification: We ought not to try until we reach a state of economic equilibrium, and that will mean that we are going to have, as business rises, a rise in prices. I want to see it. I think most people want to see it. We ought to have it. It is the thing that will accompany prosperity. Then, when we get up to a certain level where we can see that our production and consumption and the various factors of distribution are coming into harmony, then we ought to begin to use everything that we can devise; and most of that will be on credit, because credit does about 90 percent of the business.

Mr. CROSS. Of course, we understand that.

Dr. SPAHR. And then see how well we can do it. Now, nobody can say that we can do it. The best thing we can do is try.



Mr. CROSS. Do you not think you could do it by raising and lowering reserves, rediscounts, and open-market transactions?

Dr. SPAHR. I think if you would lower reserves you would precipitate a collapse.

Mr. CROSS. You could raise them, you mean?

Dr. SPAHR. I meant to say raise. If you raised your reserve you would probably precipitate a pretty severe collapse. I think that is a dangerous weapon.

Mr. CROSS. When inflation is going on as it did here in 1929, do you not think it was a good idea to raise reserves?

Dr. SPAHR. I do not know.

Mr. CROSS. Well, you just do not know?

Dr. SPAHR. I think raising the rediscount rates—

Mr. CROSS. Now, you spoke this morning along this line. Are you familiar with what England is doing now?

Dr. SPAHR. In a general way.

Mr. CROSS. Do you know what she is doing with her so-called "Serengaria?"

Dr. SPAHR. In a general way, I think.

Mr. CROSS. Is she not getting on a managed-currency proposition with very little gold? Do you know how much she has got in her reserves now?

Dr. SPAHR. No. I would have to look it up.

Mr. CROSS. A billion and a half. France has got five and a half billion. We have got a billion, four hundred and ninety million.

Dr. SPAHR. From what has happened to her foreign-exchange rates, now, I would not think her management was successful.

Mr. CROSS. Do you not think she is doing exactly what she is doing, to get the advantage of the export trade?

Dr. SPAHR. I do not have any idea.

Mr. CROSS. I think every state and country will say she is.

Dr. SPAHR. I have not paid attention to that.

Mr. CROSS. Japan has got such a tremendous hold on it, and she is trying to touch Japan and push her off the board, and we are sitting here—do you think we should have devalued the dollar when we did?

Dr. SPAHR. No.

Mr. CROSS. Do you think France was wrong when they devalued the franc 80 percent?

Dr. SPAHR. No.

Mr. CROSS. You think she was wrong or right?

Dr. SPAHR. Right.

Mr. CROSS. Right? Why were we wrong, then, in devaluing the dollar?

Dr. SPAHR. Because France devalued at inflation, merely to stabilize. We devalued not to stabilize, but to get more currency.

Mr. CROSS. Oh, is that what happened to France?

Dr. SPAHR. Yes.

Mr. CROSS. She did that to stabilize?

Dr. SPAHR. Yes.

Mr. CROSS. And we did it just to get more currency?

Dr. SPAHR. That is right.

Mr. CROSS. And what do you think about Italy and Belgium? Belgium cut her belgas.



Dr. SPAHR. To stabilize them.

Mr. CROSS. And now she is cutting them again, or fixing to?

Dr. SPAHR. She has not done it.

Mr. CROSS. I know; but the ministry has just changed.

Dr. SPAHR. All of those devaluations in Europe were to stabilize after inflation.

Mr. CROSS. Inflation? Why, they are deflated over there, as we are.

Dr. SPAHR. Not when they were devaluing.

Mr. CROSS. When France devalued she was in a tremendous condition of inflation; so were Belgium and Italy.

Dr. SPAHR. I remember Italy was.

Mr. CROSS. Well, Belgium is in distress, too, now?

Dr. SPAHR. That is since. She has gone through a depression since that time.

Mr. CROSS. We are in a depression here; should we not devalue?

Dr. SPAHR. Because we devalued to force the price up. They devalued to stabilize.

Mr. CROSS. Do you think it was to force the price level up, when she cut her franc into five?

Dr. SPAHR. No.

Mr. CROSS. If you owed me 1,000 francs over there, and they devalued the franc about 80 percent, and cut 1 franc into 5, you would pay me your franc by giving me 5 francs to pay off that debt, the same as 1 originally?

Dr. SPAHR. I would like to put on record here that France's price level was stable for 18 months before she devalued.

Mr. GOLDSBOROUGH. What she did was this, and this will go on the record. Her internal debt was swamping her, and she devalued for the purpose of cutting her internal debt down 80 percent. That is what she did.

Dr. SPAHR. That was merely a recognition of what had already happened.

Mr. GOLDSBOROUGH. Of course, she disregarded her debt. She repudiated her debt, that is all.

Dr. SPAHR. It was merely a recognition of what was happening.

Mr. GOLDSBOROUGH. Now, here we are in this country. I read a table into the record the other day, in which the country is shown to be loaded with debt. Debt cannot be paid unless there is a change in the price level. It just simply cannot be done. We have got to do one of two things. We have either got to raise our price level to a point where the position of the debtor and the producer will be on a plane with that of the creditor; we have got to do that, in order to pay our debts, or else we have got to complete deflation and have further bankruptcy in the country. Now, there are only two roads to take.

Dr. SPAHR. Both those statements are wrong.

Mr. GOLDSBOROUGH. I assumed that you would say so, but at the same time I still think they are both right.

Dr. SPAHR. I can demonstrate the accuracy of that.

Mr. HOLLISTER. He can explain.

Mr. GOLDSBOROUGH. Of course, he can.

Dr. SPAHR. If you raise a price level by inflation you impoverish the mass of your people. Now, if you are assuming your debtors are



the mass of the people, you are going to make them poorer. As currency is inflated prices rise, people find it more difficult to live, and you can wipe your mass out.

Mr. GOLDSBOROUGH. You are talking about retail prices?

Dr. SPAHR. I am talking about the prices that people have to pay for goods.

Mr. GOLDSBOROUGH. No, no. When you begin to inflate, the first thing you do is raise the price of your basic commodities, and when you raise the price of the basic commodities, then you furnish buying power to those that produce the basic commodities; and when you do that you allow your factories to start and give labor to the people that buy the food and shelter, the clothing that they need. That is the process. The process of inflation does not raise the price level of the retail prices first. It first raises the prices of basic commodities; and then the rise in prices of retail commodities is a very slow process, which comes after the buying power of the public has largely been reestablished. That is what happens.

Mr. HOLLISTER. Mr. Chairman, might I ask one thing, and that is that the witness be given an opportunity to talk? The witness starts to answer and somebody interrupts him.

Mr. GOLDSBOROUGH. I do not think so.

Mr. HOLLISTER. I think he ought to be allowed to make his answers.

Mr. GOLDSBOROUGH. I did not interrupt him.

Mr. HOLLISTER. I think you did.

Mr. GOLDSBOROUGH. No.

Mr. HOLLISTER. He was in the middle of a sentence.

Dr. SPAHR. The fact is that inflation in those European countries practically ruined the masses of the people, which shows that their buying power did not keep up. Now, debts are paid out of income and not paid out of prices, and unless the rise of prices is sound and is the result of being pulled up by increased purchasing power of the people that are doing the buying, they cannot pay their debts more easily; therefore, we are back to the question we were on this morning. The point is, to have a sound rise in prices, not a price level that is forced up by inflating the currency.

Mr. HANCOCK. Mr. Cross, may I ask one simple little question right here?

Doctor, if you can buy a bushel of wheat for a dollar today, and next year you are able to buy 2 bushels of wheat for a dollar, what has happened? Has the wheat gone down or has the dollar gone up?

Dr. SPAHR. We have only this way to answer that question: If the index number of the price level is steady, we say the value of the dollar has been changed and something has happened to the wheat production, because the wheat output is simply one commodity as against the dollar.

Mr. HANCOCK. Does the natural law of supply and demand play any major part in that change?

Dr. SPAHR. It certainly does.

Mr. GOLDSBOROUGH. He says when a dollar is stable.

Dr. SPAHR. Your wheat output may have doubled.

Mr. HANCOCK. I am seeking information in good faith.



Dr. SPAHR. The wheat output may have doubled. Now, we are talking about the value of money changing. We are talking about an average of all prices that compose the index number, and your wheat supply may have increased or decreased, but whether your value of money shifted or not, you have to look at your index number, and that is something else.

Mr. HANCOCK. That is all.

Mr. CROSS. If you take, say, even 50 basic commodities, and if the dollar next year will buy twice as much of those 50 basic commodities as it did this year, then which one has shifted?

Dr. SPAHR. It is a ratio again, Mr. Cross.

Mr. CROSS. I know it is ratio, but which one has shifted?

Dr. SPAHR. You cannot say.

Mr. CROSS. Now, you take 50 commodities. Here is a short crop, because of rains, in production, and here on the other side, the other part of the country raising something else, is a big crop, and so among themselves they are working up and down, going this way and that way, when you take the whole 50; but when you take the average for the whole 50, and the dollar will buy twice as much the next year as it does this year, which has shifted?

Dr. SPAHR. It is commonly said the value of money has shifted, but the facts may be otherwise. That is, you may find out the supply of currency has not changed.

Mr. CROSS. We are not talking about the volume of currency. I am talking about the purchasing power of the monetary unit.

Dr. SPAHR. But that is always a ratio.

Mr. CROSS. Yes; I know it is a ratio, but which has shifted, now, supposing that for \$1 I can now buy enough to take care of me all my life, but next year it will not be enough?

Dr. SPAHR. When you see a see-saw, as you are looking at it one end goes up and the other goes down, and you say, which is see-sawing? That is your question.

Mr. CROSS. What I am trying to get is this: Here is one commodity, the gold commodity; so many grains of it this year will buy enough food to take care of me today, and next year it will buy enough to take care of me all my life. Now, which one has shifted?

Dr. SPAHR. I say it is like the see-saw. I cannot say. I cannot answer your question, in one respect. When we started liquidation in 1929 and came on down into this depression it was the liquidation of goods that was responsible for the contraction of the currency. The currency had nothing to do with it. We had surplus reserves in 1929. We had surplus gold in 1929, and the business liquidation was a thing that caused the contraction of deposits and the slowing up of velocity, and the contraction simply went along with the liquidation. Now, which is responsible?

Mr. CROSS. We have got enough gold reserves now, more than 2 billions of reserves. We could expand on check money to the extent of \$25,000,000,000.

Dr. SPAHR. But I was answering your question. Which is responsible?

Mr. CROSS. But you cannot possibly get that expansion until the people will borrow, and people are not going to borrow unless they can borrow money to run their factory, to make shirts and hats, and sell them at a profit.



Dr. SPAHR. That is right.

Mr. CROSS. Therefore, they will not borrow.

Mr. SPAHR. That is right.

Mr. CROSS. Therefore, your reserves are doing you no good; therefore you are drowning, where you are now. Now, if you have got some way to tell us to do something and get us out of that condition, that is what we want to know. Just to come in and tell us that we are helpless, we have got to drown, is no consolation to us.

Dr. SPAHR. I have not said that, and I have not implied that.

Now, you have made a point that I would like to make clear. We have had currency. Currency has nothing to do with it now.

Mr. CROSS. When you say "currency", just what do you mean?

Dr. SPAHR. I mean money and deposit currency.

Mr. CROSS. Do you mean check money?

Dr. SPAHR. I mean all that currency and deposit money.

Mr. CROSS. Well, we have followed up on the check money now.

Dr. SPAHR. By "currency" I mean metallic money, paper money, and deposit currency—it is all currency. Now, the thing to do is to get business men to start, and then they will start borrowing better grade deposits, and then your currency will flow in circulation, and your price will come right up as business expands, and that is what you want. Therefore, your problem comes back to the simple thing of enabling the business men to start. It is not a currency problem, Mr. Cross.

Mr. CROSS. Your school of thought is just the reverse of that of Dr. Warren, and Fisher, and Vanderlip, and Hemphill, and Senator Owen.

Dr. SPAHR. Just the reverse.

Mr. CROSS. They are all wrong, are they not?

Dr. SPAHR. Yes, sir; all wrong.

Mr. CROSS. Absolutely. I thought they were.

Mr. GOLDSBOROUGH (acting chairman). Mr. Hollister?

Mr. HOLLISTER. I do not want to ask very many questions, but we have a specific bill before us, and I want to bring out if I can a little bit more of the philosophy which we are entitled to. What do you conceive to be the purpose of a central bank?

Dr. SPAHR. The fundamental purpose lying back of this is to control currency with the idea that you can generate recovery by forcing currency into circulation.

Mr. HOLLISTER. That is, you say what is behind the bill? What is your conception of what the function of a central bank should be?

Dr. SPAHR. The chief function of a central bank should be to extend legitimate credit to commerce, agriculture, industry, and to Government; and by that I mean, when I say "legitimate", I mean appraising the collateral that is offered accurately and then substituting its own credit, which is generally acceptable, for that of the borrower's, which is not. Now, that means an avoidance of inflation. That is what a bank is for, merely to substitute its credit, which can be used widely and generally, so that you can draw checks, so you can carry on your exchange without inflating your currency.

Now, that means if that is done the institution must be free to do just those things, which means it cannot be subjected to political influences and be made to accommodate a government. Now, in this bill is the notion that the Government credit should be favored, it



should be given a special rating. The only real test we have of the validity and the soundness of Government credit is for the Government to go into the open market like every other borrower and ask terms. Therefore, it is not proper for a central bank to give an artificial rating or to provide an isolated market for Government securities. Therefore, it forces us back to this point, that any independent bank, to perform its functions properly, must be so constituted that it can do it, and that means it must be free to act as an independent agent. It provides our chief medium of exchange. It enables business men to go on about their business and to carry on their exchange freely and without disturbance. Now, that philosophy is not in this bill.

Mr. HOLLISTER. What do you read into the philosophy of this bill?

Dr. SPAHR. A belief that a Government body can regulate the price level as it sees fit, and that it can put currency in circulation as it sees fit and get a sound rise in price level when it chooses, whereas as a matter of fact it will give an unsound rise in price level because it will be the result of an inflation; and then also, that it can do something to prevent a collapse after the currency has been inflated, whereas the experience of the world is that once you have inflated a currency there are only three possible results. If you stop inflation at any point there will be a collapse, or if you wish to avoid that collapse, the thing to do is to inflate right on to the bitter end, to avoid the collapse; then you will reach repudiation. In between those you have another. You can inflate up to a certain point, as others do, for example, and then you can leave your people in doubt for say a period of a year or more as to what you are going to do sometime, so as to let prices become stabilized there, and then you will have to devalue in order to peg things right where they are.

France, Italy, and Belgium did that. Italy was not very wise in the way she did it. Now, those are the only three things you can expect if you inflate.

This bill has lying behind it the philosophy that some Government board can raise the price level by raising the currency and then avoid any one of those three consequences, and the lessons of the world are that it cannot be done.

What we need is to let prices come up normally and naturally, and that forces us back to this point, that there is nothing that needs to be done at this time. We have more currency than we need, that is available. All we need to do is to let it be drawn into circulation, and it should not come until business can again use it soundly. No man has any business borrowing unless he can repay. There is no such thing as forcing currency into circulation on any sound method whatsoever that is known. You cannot do it.

Mr. GOLDSBOROUGH. I know you say you cannot do it, but what proof have you from any stable government, that it cannot be done?

Dr. SPAHR. You will inflate if you do.

Mr. GOLDSBOROUGH. When did it ever happen that a stable government went to pieces through inflation by issuing its own money to pay its own obligations at a time when it was in a condition of depression?



Dr. SPAHR. Of course, a government like that is not stable. That is the point of your question.

Mr. GOLDSBOROUGH. Oh, well, that is begging the question.

Dr. SPAHR. A government that would do that is not stable. I know of no stable government that would do it. Now, our Government is fairly stable, and still we collapsed in 1929 as a result of inflation. That was bad enough.

Mr. GOLDSBOROUGH. We collapsed in 1929 because we deflated when we were on a stable basis. We deflated in 1920. That is what happened.

Dr. SPAHR. That illustrates the point I made a moment ago, Mr. Goldsborough.

Mr. GOLDSBOROUGH. And we cut the stability out of our monetary system at that time, and then when we began to try to creep back. What happened was that from 1924 to 1929 we went into a period of speculation and the Federal Reserve System did not know what to do with it; and they finally acted to raise rediscount rates, and that actually caused the collapse of the New York stock market; and in view of the fact that the whole country was in the New York stock market it just stopped the whole machinery right there. That is what happened.

Dr. SPAHR. I would answer that this way, that apparently stable price level from 1924 to 1929 to an illustration of the point I was trying to make to Mr. Cross, that a stable price level that is maintained by artificial means when your economic system is not in a state of economic equilibrium is a dangerous thing, because it was supported by inflation and the underpinnings gave way in 1929, which ought to be conclusive proof that a stable price level under conditions is not a thing that can maintain itself, and you cannot maintain it. That price level from 1925 to 1929 was supported to a large degree by inflation, and the reason of that was that we tried to avoid the maladjustments or readjustments which the war had created. Therefore, we bolstered up that thing with every device we could think of.

Mr. GOLDSBOROUGH. Was not the first mistake made in 1920 when the deflation took place?

Mr. SPAHR. Our reserves were exhausted in 1920. That was a different system the Federal Reserve banks had to pick up.

Mr. CROSS. You mean they had to do it?

Dr. SPAHR. They had to do it. They had to; yes, sir.

Mr. GOLDSBOROUGH. In other words, we had money of so little use that we were not in a position to expand it further in order to maintain the stability of our price level and the stability of business, and is not that a situation bound to be created under this gold standard you are talking about?

Dr. SPAHR. Yes; but the reason for that was that we had inflated so much prior to 1920 that our reserves could not stand it, and we reaped the consequences of inflation again. That is why I am arguing so strongly against inflating again. The experience after 1920 illustrates it. The one at 1929 illustrates it.

Mr. GOLDSBOROUGH. You agree with me that we were in good shape in 1920, and that if we could have continued without inflation we would have been all right; do you not agree on that?

Dr. SPAHR. But we could not continue, because we were inflated.



Mr. GOLDSBOROUGH. We could not continue because we did not have the money. That is what you mean, is it not?

Dr. SPAHR. That is always the case when you are inflated.

Mr. GOLDSBOROUGH. We did not have the money?

Dr. SPAHR. We did not, but that is always the case when you are inflated, you do not have the money.

Mr. GOLDSBOROUGH. You think that for the Congress to exercise the prerogative to create its own medium of exchange, in order to maintain the stability of society, would be wrong and a "forgery"?

Dr. SPAHR. Yes, sir.

Mr. GOLDSBOROUGH. All right.

Dr. SPAHR. May I define that term "forgery", Mr. Goldsborough, for you?

Mr. GOLDSBOROUGH. Well, you defined it pretty well in your article. If you desire to do it again it is all right with me.

Dr. SPAHR. I used that term. It is from the dictionary.

Mr. GOLDSBOROUGH. No; you went further than that. You defined it, too. I read what you said. You reflected very greatly on me personally in this statement you made. Now, what you said was this:

Mr. Goldsborough proposes to have the Government pay off these investors, not by money raised through borrowing or taxation, but by means of paper money printed by the Government. Such money is in the nature of forged notes, forged by a Government against its people. He is asking the Government to go into the business of forging notes. If in his private affairs a man borrows at a bank or elsewhere, then finds them calling it, and gives a forged note or a changed note, in settlement, he is put behind the bars.

We demand that he live up to his contract and that he get the wealth with which to pay his debt. We do not allow him to issue forged notes or to set up a printing press and run off the necessary amount of notes with which to pay his debt.

In simple and accurate terms, this is exactly what Mr. Goldsborough and several others in Congress are proposing to do. Elected to high office to legislate in behalf of the people, they are devising schemes to forge notes against the people of this Nation and to defraud them of their savings.

Now, if you want to give a different definition from what you have given in this article, that is up to you.

Dr. SPAHR. It is not different. I want to show how accurate it is. This is the dictionary definition of "forgery" which I used there:

Forgery—the act of feigning; fiction. A common form of forgery is the false making and signing of evidences of debt as notes.

That is what your issue of paper money is.

Mr. GOLDSBOROUGH. Do you mean to tell me that a sovereign government, even aside from what is in the Constitution of the United States, has not a right to issue its own medium of exchange?

Dr. SPAHR. I did not say it did not have the right, but I said that is what it is doing.

Mr. GOLDSBOROUGH. Do you mean to say it is forgery when a sovereign people does that?

Dr. SPAHR. Yes; exactly. That is what I mean to say.

Mr. WILLIAMS. Were all the "greenbacks" forgeries?

Dr. SPAHR. Yes.

Mr. GOLDSBOROUGH. And the only way that a government, which has behind it as its resources the wealth of all the people, could get money would be to borrow it from some bank?



Dr. SPAHR. No. When the government is set up, it is presumed that the government will raise its funds in two ways—either by borrowing or taxation. That is what is always presumed. Now, when it turns around and prints paper money, which is a promise to pay money, and it has no intention of paying money, it comes under this definition exactly. Let me read it again:

A common form of forgery is the false making and signing of evidences of debt as notes. That which is falsely devised, or counterfeited.

The CHAIRMAN. I think Mr. Hollister desires to ask a question.

Mr. HOLLISTER. I yield to Mr. Ford. I do not mind who asks the questions, but just let him finish.

The CHAIRMAN. Mr. Ford.

Mr. FORD. In your opinion, President Lincoln and the Congress of the United States committed forgery when they issued the "greenbacks"?

Dr. SPAHR. Yes; that is right.

Mr. FORD. They did, they committed forgery?

Dr. SPAHR. Yes. I use that term for the reason it is accurate, but is not the common one we use in every-day life.

Mr. GOLDSBOROUGH. No; but you use it as comparable to the man who forges a paper in private business?

Dr. SPAHR. Yes.

Mr. GOLDSBOROUGH. That is the way you used it in this article?

Dr. SPAHR. Yes; because I wanted the public to see that your plan is exactly that, except that you are doing it in the name of the people of the United States.

Mr. GOLDSBOROUGH. Well, I say, your contention is that the only way for a sovereign people to get their medium of exchange is to borrow it from one of the sovereign people?

Dr. SPAHR. Or from taxation.

Mr. GOLDSBOROUGH. In spite of the fact that the Government has as its resources to pay off the obligation that it issues, all the wealth and all the resources of all the people of the United States?

Dr. SPAHR. I am not talking about the power of the Government. I am talking about the nature of the transaction.

Mr. CROSS. "Honesty."

Mr. GOLDSBOROUGH. Well, whoever heard before that it was dishonest for any Government to issue its own medium of exchange?

Dr. SPAHR. That is what I am trying to make clear, that it is. The people ought to understand it.

Mr. CROSS. Does he think President Lincoln and the Members of Congress at that time ought to have been sent to the penitentiary when they enacted that law?

Mr. HANCOCK. May I inject one question, Mr. Chairman?

The CHAIRMAN. Certainly.

Mr. HANCOCK. Do you maintain that a Government like the United States under its sovereign power cannot legally and validly issue its notes against future taxes?

Dr. SPAHR. No; it can do it.

Mr. GOLDSBOROUGH. You have just said it is forgery to do it.

Dr. SPAHR. It is.

The CHAIRMAN. Dr. Spahr, let me make you a suggestion. I want to help you out. I think you have made an extreme statement when



you attempt to attach to the act of a sovereign government in issuing money the elements of legal forgery as a crime. You are not a lawyer, are you?

Dr. SPAHR. No.

The CHAIRMAN. If you will read the law on forgery—

Mr. SPAHR. Pardon me—I qualify that. I am something of a constitutional lawyer. I used to teach constitutional law.

The CHAIRMAN. I mean if you will study the law of forgery, while I think I know what was in your mind in making the statement, I think you will agree that probably your language is not well chosen to convey the idea you have in mind. In any event, I do not desire to take any time. If you gentlemen are through questioning the witness I should be glad to have Mr. Hollister resume his discussion.

Mr. GOLDSBOROUGH. I want to say this, because I do not want any misunderstanding about how I feel about it. I want to say that when a man says that I am engaged in a business or in conduct which is equally culpable with forging a note as a private citizen, which is a crime for which imprisonment is provided, I say it is a very personal reflection, and that is the way I regard it.

Dr. SPAHR. I am sorry, Mr. Goldsborough. I am interested only in the welfare of the country, as I presume you are, and not concerned with personalities at all.

Mr. GOLDSBOROUGH. Well, that is what you engaged in, all over the country, and you got this article in the subsidized press all over the country. Of course, you did. That was for the purpose of discrediting me; it could have been for not other purpose.

Dr. SPAHR. No; to discredit your plan.

Mr. HOLLISTER. You mean when you say that such a note issued by the Government is a forgery that it is really a fraud on the person who is asked to take that piece of paper as something of value?

Dr. SPAHR. Exactly.

Mr. GOLDSBOROUGH. Even though the purchasing power is just as good as any other obligation or any other piece of money?

Dr. SPAHR. But it is not.

Mr. GOLDSBOROUGH. Well, the Supreme Court did not agree with you, I will say that. I only want to call attention to the fact that you and the Supreme Court are not in agreement at all on the value of money issued by the Government.

Dr. SPAHR. I never questioned the legal capacity of the Government to do it; never questioned it. I was merely pointing out the nature of the transaction. Governments frequently do it. All of them have done it, I presume, but they defraud their people when they do it.

Mr. CROSS. I just want to ask this, because I feel somehow as if there is a reflection there that ought not to be in the record. Maybe you have some explanation. Of course, forgery is stealing, is it not?

Dr. SPAHR. No. I used the definition I read you there.

Mr. CROSS. I am an old prosecuting attorney, and you say you are a constitutional lawyer, and if you know anything about the law, forgery is stealing of the worst type. Now, you say that President Lincoln and Congress committed forgery, and you say they committed theft, they stole, and I do not think that that slur ought to be left on the memory of those men.