

Dr. SPAHR. Mr. Cross, the definition I used is this one. I did not use the one you say.

Mr. CROSS I am not talking about definitions. You said you thought that all of them, President Lincoln and the Congress that issued that "greenback" money to save this country when it was sinking, and was helpless to save its life—you say that they committed forgery, and forgery means stealing, if you will go and look in any law book, and if you know anything about law.

Dr. SPAHR. I used "forgery", Mr. Cross, as I defined it. I cannot permit you to put words into my mouth.

Mr. CROSS. You are putting words into your own mouth, that they committed forgery.

Dr. SPAHR. And this is forgery, according to the definition as I used it, and I put it into that letter that I released. This is the same thing that I have used: A common form of forgery is the false making and signing of evidences of debt as notes." The "greenbacks" were promises to pay money. It said that on them.

Mr. FORD. How about the bank which issues a check when the amount is 10 times in excess of its reserve and it cannot pay it when there is a demand. Is that forgery?

Dr. SPAHR. No; not at all.

Mr. FORD. Oh, the bank has got \$2,000,000 in reserves, and they have got outstanding obligations, 10 times the amount, and that is not forgery?

Dr. SPAHR. No.

Mr. FORD. Under your definition?

Dr. SPAHR. They have assets against those which can be liquidated for cash to meet those checks if the reserves will not.

Mr. FORD. Is a \$2,000,000 reserve an asset against \$10,000,000?

Dr. SPAHR. Surely.

Mr. FORD. Or \$20,000,000?

Dr. SPAHR. Surely, it is an asset.

Mr. FORD. Suppose it were demanded immediately?

Dr. SPAHR. Then the bank would have to sell its other assets to get enough to meet the deposits.

Mr. FORD. Supposing they could not?

Dr. SPAHR. Then the bank would close up.

Mr. FORD. Then they would not have committed a forgery?

Dr. SPAHR. No; they would have engaged in bad banking.

Mr. FORD. Oh, I see. Then the United States Government would not be engaging in bad practice—it would just be committing forgery—a distinction without a difference.

Mr. CAVICCHIA. What I have in mind, Profesor, is this, that Germany when she started her inflation had practically made the people of Germany and of the world believe that all the resources of the national government were behind those notes, those marks. Isn't that a fact?

Dr. SPAHR. Yes; that is right.

Mr. CAVICCHIA. And later she practically repudiated her internal debt because she could not meet her obligations?

Dr. SPAHR. That is right.

Mr. CAVICCHIA. In that sense you use the word "forgery", that was a forgery against the people? Am I correct?



Dr. SPAHR. That is, the mass of people. That is right.

Mr. CAVICCHIA. And you are using it, I take it, in the same sense?

Dr. SPAHR. Yes; that is right.

Mr. CAVICCHIA. If the United States were to issue billions and billions of dollars in paper money—

Dr. SPAHR. That is right.

Mr. CAVICCHIA. And then this inflation would grow to such an extent that it could not meet its obligations, it would be forced to do the same thing that Germany and other nations that engaged in inflation have come to, repudiation?

Dr. SPAHR. That is right.

Mr. CAVICCHIA. That is right. I pointed out that inflation always leads to one of three results, all of which mean losses, and your government is causing them. In other words, it is causing you people to take those losses, which is defrauding them of their accumulated wealth. It may be repudiation; it may be devaluation; it may be a collapse in the market, all caused by inflation.

Mr. HOLLISTER. Mr. Chairman, I am not interested in terminology; I am trying to bring out the witness' views as to the philosophy of this bill and what may be accomplished by it, and I am interested in what is the proper philosophy and proper function of a central bank. That, after all, is what this committee is trying to decide. Whether or not it is fair play to use the term he used and another gentleman took another term I do not believe would be very material to what we are trying to get at here.

This bill gives the power in the Open Market Committee to compel the Reserve banks to acquire Government securities without any limitation whatsoever, merely by orders of the Committee. Would you comment particularly on that phase and possibility of it?

Dr. SPAHR. Yes; It is not the function of a central banking system to be forced to absorb Government securities. The Government should have to go into the open market to borrow its funds, just as any other individual has to go there. Therefore, if a banking system is so constructed that a government can force the bank to absorb the debt, what is happening is this: The government's deficit is being made an asset of a bank against which deposit currency is being issued. That is an unsound inflationary procedure. No new wealth is being accumulated. No new reserves have been added to the system. But you are pumping additional deposit currency into circulation as a result of the government activities.

Now, the function of a government in raising funds is to simply go into the market and borrow and transfer a corresponding amount of funds from savers to the government. Then your currency system is undisturbed. By that I mean either borrow or tax.

When you set up a banking bill like this that is going to enable the Government to go into your banks and put the deficit into the banks as assets and then create deposit currency, of course you have just started a spiral of inflation there which can just go without limit.

Let me remind you, Germany never issued any currency except against the government securities. There is no limit to what you can do with this if the government chooses to do it, but you can do it for quite a while before the public is aware of it. If you issue paper money, fiat money, as proposed by the Patman bill, for exam-



ple, there is likely to be a very quick psychological response there, because it is fiat money rather than money issued against bonds. But you can go for two, three, four years probably, probably longer, by issuing deposit currency against bonds, or even currency against bonds, and the public will not detect, will not be concerned as to what is going on, until it gets released, and then the dam breaks.

There is that difference, of course, between that type of inflation creating currency against governmental bonds and an outright issue of fiat money. We all have to recognize that. One is a little slower than the other.

Mr. HANCOCK. Suppose those bonds are issued against gold reserves; will they be fiat money, too?

Dr. SPAHR. No; not at all. It is just an expansion of your currency.

Mr. HANCOCK. That is my view exactly.

Dr. SPAHR. An expansion of currency and inflation are two different things.

Mr. HANCOCK. I have always appreciated the real difference.

Mr. GOLDSBOROUGH. You mean to say the accident of somebody's production of gold out of the ground creates a healthy expansion, whereas if it is done in another way it is inflation? Is that what you mean?

Dr. SPAHR. Yes; because the currency is self-liquidating. Nothing can ever happen to it. Your prices, though, will go up, tend to. But there is nothing there that will not liquidate itself, because it is gold, gold certificates.

Mr. GOLDSBOROUGH. What value is there in gold except the imaginary value that was first created in the minds of our ancestors when they began to use it as a medium of exchange?

Dr. SPAHR. It is not an imaginary value, Mr. Goldsborough. It is a thing that satisfies human beings that have doubts about the currency. That is, it is universally accepted. When they have doubts about the currency they rush to get gold.

Mr. GOLDSBOROUGH. When you say "people" what kind of people do you mean?

Dr. SPAHR. Intelligent people of the United States.

Mr. GOLDSBOROUGH. I have never heard anybody except some banker make the statement that you are making now.

Dr. SPAHR. I think the finest evidence in the world of that is the fact that we had the greatest hoarding episode in this country in 1932 and '33 that was ever seen in the history of the world.

Mr. HANCOCK. You regard as a contributing circumstance the money that was outstanding, don't you?

Dr. SPAHR. No; I regard it as supporting my theory that in times of stress people will rush for the thing in which they have confidence.

Mr. HOLLISTER. Which is really an unsound habit of the people, to shift confidence completely in a time like that.

Mr. HANCOCK. May I clarify that—why would a man want to put anything away that was not worth something? Hoarding was act of confidence in the soundness of our money. They knew this Government would always keep it good and sound.

Dr. SPAHR. He would not.

Mr. HANCOCK. Why, of course he would not.



Mr. CLARK. I do not know what the parliamentary situation is, Mr. Chairman, but sometime along here I would like to ask some questions.

Mr. HOLLISTER. My possession of the floor is purely hypothetical.

Mr. CLARK. I understand so but I do not want to break into your train of thought. However, if we do not break in we will never get in.

I just want to ask Dr. Spahr: Did you ever hear of or read the testimony of Governor Eccles before this committee?

Dr. SPAHR. Only the newspaper reports.

Mr. CLARK. You know, so much misunderstanding comes from misunderstanding. I think you might well read it. I have studied your statement with some care as to the language used, and I believe you have, if I observe your statements correctly, a false conception of his philosophy of money.

Dr. SPAHR. I based it on his testimony of 1933 before the Senate Finance Committee, which I read in detail.

Mr. CLARK. On page 2 you make this statement:

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 of this administration regarding the causal relationships existing between the supply of currency on the one hand and taxes, recovery, and prosperity on the other.

I want to state to you this, that if you will read Mr. Eccles' statement before this committee—and I am not familiar with his other hearings—you will find that he denied that casual relationship. In answer to a question from Mr. Cross whether, if he were given this power in the Federal Reserve Board, he could bring about stable prices, full employment, and business stability, he specifically stated that the money system alone would not enable him to do that, or the control of the money system.

Dr. SPAHR. I saw that in the paper, but that is directly contrary to his testimony of 1933.

Mr. CLARK. I will go into that in a minute. Did you go into the reasons why that could not be done by the control of the money system?

Dr. SPAHR. I would not attempt to hold him responsible for a newspaper report. I could not tell that fully.

Mr. CLARK. He said this: That the most he could do if he had sole control of our money system was to control the volume of money; that is, deposit money and currency. He said:

Control of the volume of money is not of itself sufficient to either fix prices or bring about a condition of employment or business stability.

He used a philosophy factor in there which had to exist, a philosophy of money; that is, the national income or the ratio between the volume of money and the national income. He said he could not control that philosophy of money and to do that he would have to have factors completely outside of the banking system.

Now, I am not asking you whether that is right or wrong, because I am not sufficient of an economist to get into a controversy with you on that power, but I do want to say that I believe if you had read Mr. Eccles' testimony you would have found that he had his feet on the ground and that statement of his philosophy here at least at this time is not justified, and that is where so many of our misunderstandings arise.



Now, you made this statement—

Dr. SPAHR (interposing). I am sorry; may I interrupt?

Mr. CLARK. You certainly may.

Dr. SPAHR. I have some excerpts from his 1933 statement which will support my statement. In the 1933 report, page 75, he points out that—

This recovery can only be brought about by providing purchasing power sufficiently adequate to enable the people to obtain consumption of goods which we, as a Nation, are able to produce.

Of course, that is only part of it, but that thought runs all through.

Mr. CLARK. And that is just the point he made here, Doctor, that the control of a money system could not do it, but that you have to balance with that an income-tax program and a program of long-range Government spending.

Now, your suggestion here is that the drafters of this bill—and Governor Eccles takes the chief responsibility, or did take it—that he believes that by control of money he can do this, and you will note in his own statement that he says that he believes that that will not do it, but that you will have to put the purchasing power in the people, and he wants to do that in several ways, which it is not necessary to go into.

Dr. SPAHR. I think you will be interested in this. While this is from the newspapers and perhaps is not accurate, I notice he says, "the question of velocity and supply of money relates to the national income."

Mr. CLARK. That is true.

Dr. SPAHR. And he pointed out, from the newspaper account, that the velocity was fairly steady.

Mr. CLARK. No; quite the contrary. He had charts here which showed that that velocity dropped an enormously greater amount during the depression than did the supply, and he had graphs here to illustrate that very point.

Dr. SPAHR. Yes; that is true.

Mr. CLARK. Yes. That is what he said, and he had graphs here.

Now, the whole tenor of your statement here, in my humble judgment, is a difference of viewpoint, if I may say it, to be mild, with the philosophy that, honestly, Doctor, I do not believe you understand. I believe if you will read Governor Eccles' statement you will get a better idea of what he really thinks now.

Dr. SPAHR. May I ask, to enlighten myself—

Mr. CLARK. Yes.

Dr. SPAHR. According to newspaper accounts, he related the supply and philosophy to national income?

Mr. CLARK. No. He said that the philosophy of money was determined by the ratio between the supply of money and the national income.

Dr. SPAHR. That is the point.

Mr. CLARK. That is, how fast the money moves.

Dr. SPAHR. That is false.

Mr. CLARK. Well, now, that may be false; but he never said, as you say here, or he never intimated to this committee, I think, that the volume of money itself and its regulation, which is all under this bill that the Federal Reserve Board could ever control, could be used as an instrument, of itself, to raise or lower prices.



Dr. SPAHR. Do you know that that statement by Mr. Eccles, as I got it from the paper and as you confirmed it, was almost identical, even to the figures, to one that was published by Mr. Hempfield? As I understand it, he relates currency supply and velocity to national income, whereas, as a matter of fact, there is no relationship that is known. Now, if that were true—

Mr. CLARK (interposing). Of course, there is not. There is no way of controlling it.

Dr. SPAHR. Now, if that were true, if you increase the the supply of currency as they did in Germany, the national income would go to preposterous heights, whereas the people would be impoverished when the income went down.

Mr. CLARK. That is the point; from that we conclude that you cannot increase the velocity or diminish the velocity merely by increasing the supply.

Dr. SPAHR. Yes; you can. That is false. If you inflate the currency, the velocity of course will be terrific.

Mr. CLARK. I think not. I think that when the volume of money remains practically the same—well, it will not remain steady, but reasonably steady—the velocity decreases enormously.

Dr. SPAHR. The velocity would depend upon whether the currency is sound or unsound. If you inflate the currency, of course, the velocity will be terrific.

Mr. CLARK. He says he is not an inflationist. He laughs at inflationists. He laughs at the people who call him an inflationist.

Dr. SPAHR. All I ask is that you compare his present testimony with what he said in 1933. He has changed his mind, perhaps.

Mr. CLARK. Not from what you read. Well, now, one more question: You said here on page 6—am I taking too much of your time, Mr. Hollister?

Mr. HOLLISTER. No. Go right ahead. You are bringing out just the point I wanted to bring out.

Mr. CLARK. You say this on page 6:

This section of the bill—  
referring to section 203—  
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.

Now, of course, that is a general statement, but I do want to ask you this, in all fairness, Doctor, inasmuch as you have not familiarized yourself with Mr. ECCLES' testimony here: Do you know anything of Mr. Eccles' history?

Dr. SPAHR. Yes; I do. That statement is very specific. It is based on the exact statement that Mr. Eccles made in 1933. That statement links the Federal Reserve Board to the planning agencies. This is what Mr. Eccles said in 1933 in those hearings, on page 731:

A national planning board similar to the Industries Board during the war is the necessary and proper coordination of public and private activities of the economic world.

If you go through his testimony you will see that he wanted the whole money and the banking system related to that, and that is why I made that statement.



Now, that clause, that sentence, is in this bill. So I say if it is put in there inadvertently it had better be watched. It may have been put in there out of a determination or intention to use it. Anyway, it is in perfect harmony with what he said in 1933. Now, that is my reason for stating that. Perhaps he has changed his mind.

Mr. CLARK. But it is possible that he may have thought that he was profiting from experience. Of course, you realize that Mr. Eccles is one of the country's most successful, hard-headed business men, do you not?

Dr. SPAHR. Yes, sir.

Mr. CLARK. You realize that?

Dr. SPAHR. Yes, sir.

Mr. CLARK. You realize he is not a theorist. That is, at least if he is a theorist he has had an exceedingly successful career in the banking field.

Dr. SPAHR. I know many of his very intimate friends. I do not know him personally.

Mr. CLARK. Well, he is a fine gentleman. Now this is my last on this: You were saying, referring to 203, subsection 3,

It reveals beyond the shadow of a doubt the purposes of the authors of this bill. They propose to convert the Federal Reserve System into a political instrumentality of the party in power. This section of the bill clearly reflects the author's motives and concepts regarding central banking.

Of course, that is a direct challenge, Doctor, to the motives of Governor Eccles, not to his theories. Many people on this committee disagree with his theories. Some people I think disagree with all of them. But I do not think anyone on the committee challenges his motives, to the extent at least of calling him—and I think it is true—a political shark. Now, why do you question his motives?

Dr. SPAHR. His motive is to make it a political institution.

Mr. CLARK. You say his motives are to create a political instrumentality of the party in power, and I want to know why you think that.

Dr. SPAHR. Because every line in title II does that thing. His testimony of 1933 indicated he wanted to do it.

Mr. CLARK. All right, now; as I understand, you propose to turn this over to a commission. That is your suggestion, the constructive suggestion in your statement?

Dr. SPAHR. Yes.

Mr. CLARK. Who would appoint that commission?

Dr. SPAHR. I think this committee, followed up by the Senate.

Mr. CLARK. Any commission, in order to be a fair commission, would have to represent very divergent views?

Dr. SPAHR. Yes; I think so.

Mr. CLARK. Now, can you imagine a committee on this question ever coming to any conclusion as to what part of a banking bill should be written?

Dr. SPAHR. It has been done in the past.

Mr. CLARK. On a matter of this kind?

Dr. SPAHR. We had a National Monetary Commission in 1911.

Mr. CLARK. Ah yes; but there never was the controversial question about overhauling the entire money system then as we have now.

Dr. SPAHR. We had the McMillan Commission in England that drafted the plan for England.



Mr. CROSS. That commission never got together in England, Doctor. They all disagreed.

Dr. SPAHR. They evidently could not, because of the circumstances that followed immediately after. But my point there, Mr. Cross, is this, that any Member of Congress has a thousand and one things thrown at him. He has to be an expert on everything, and he just simply does not have the time. He cannot possibly do it. Now this is the most technical, most sensitive machine we have in our economic system, I suppose. It ought to be studied over a period of a year or more.

Mr. CROSS. This committee has held hearings for years and years and years and had at least a great many of the experienced bankers, a great many of the outstanding—of course, you say they are not outstanding unless they hold views along your line, but we have had all kinds of those here. We have had the leaders of the great agricultural organizations, and we have had men from all the different parties. When in the name of God are we going to get down to where we are going to do anything? The members of this committee, it is true, are in Congress and their time is occupied by other question, but we concentrate on one committee, though we may follow these other committees. We divide our time as best we can and study these questions. We do not try to keep up on hundreds of subjects.

Dr. SPAHR. You cannot possibly keep fully conversant with them all, Mr. Cross.

Mr. CROSS. Oh, no; but all you fellows think just like you do. Each one will come in and present his views, and you are more severe in your terms and you call it "baneful"——

Dr. SPAHR (interposing). We do not differ very much. Here are 66——

Mr. CROSS (interposing). Oh, I know, that 66. That makes me suspicious of them, Doctor, when 66 men get together. It looks like there is some big force back of them, when they all say they agree, when we cannot get a dozen of us here who will honestly get together on anything. That makes me suspicious, 66 getting together, and I think there is some kind of influence or power back of those birds. That is the way I look at it.

Dr. SPAHR. May I tell you how it is done?

Mr. CROSS. No.

Mr. HOLLISTER. Tell me.

Dr. SPAHR. I submitted a tentative draft of title II to the members—and there are 95—and asked them to criticize and to draft what they felt was the right thing to do. There were only 66 we could reach. I got those back, I dovetailed them together and sent them out again for any other corrections they cared to make, and then I sent them again and asked them if they would authorize their names to be used on that release. Some approved outright. Most of them approved it outright. Some approved it with reservations, and we published that with each man's authorized signature.

Now, there is no pressure. We cannot put the pressure on anybody. We cannot use a man's name unless he approves. That is as open and above board as anything we can have. You could not buy one of those men. You could not persuade them under any circumstances. Now, I believe that that opinion of 66 is worth something.



Mr. HANCOCK. You are the secretary of that committee?

Dr. SPAHR. I am the secretary.

Mr. HANCOCK. Is Mr. Sprague a member?

Dr. SPAHR. Mr. Sprague is a member of the executive committee.

Mr. HANCOCK. And Mr. Parker Willis?

Dr. SPAHR. Mr. Parker Willis is on the executive committee.

Mr. HANCOCK. You have studied under Mr. Willis, have you not?

Dr. SPAHR. Yes; I have.

Mr. HANCOCK. Is it not a fact that you and Mr. Willis, both, Doctor, have consistently been political opponents of everything that has been proposed by the "new deal" since Mr. Roosevelt was inaugurated?

Dr. SPAHR. No. I said this morning that I approved a tremendous amount of things that this "new deal" has done.

Mr. HANCOCK. Have you not written a number of articles and issued a number of pamphlets criticising most of the financial policies that this administration has inaugurated since it came into power?

Dr. SPAHR. No; I don't think so. This committee is a money and banking committee. This committee was formed with the original idea of helping the President if he would permit them.

Mr. HANCOCK. And you feel that you have been helping the President?

Dr. SPAHR. Certainly; because we stood for sound money and banking.

Mr. HANCOCK. President Roosevelt does, too.

Mr. GOLDSBOROUGH. You say "Every member of this committee." Do you mean to say that every member of this committee would say that a government is guilty of robbing its people and guilty of forgery when it issues its own money to pay its own obligations to its own people?

Dr. SPAHR. No; that statement was issued on my responsibility, not in the name of the committee.

Mr. GOLDSBOROUGH. Well, let us go back and see whether you mean what you say. If an individual creates money in this country without the authority of the Government of the United States, he is guilty of forgery.

Dr. SPAHR. That is right.

Mr. GOLDSBOROUGH. The only authority to issue money, to the banks or anybody else, is authority given them by the Federal Government. Then why do you say that when the Federal Government gives a bank the right to expand its money 10 times, and it does it, that is good money, but when the Government, that gave the authority to the banks, undertakes to issue its own money it is forgery and bad money?

Dr. SPAHR. When a bank issues money it issues against assets, which is something which is payable, a promise to pay that is good. Perhaps it is the Government's own bonds, but it is a good asset.

Mr. GOLDSBOROUGH. When the bank issues money through the Federal Government, it issues it on the Government's bond, which is nothing in the world but the Government's credit. Now what is the difference between the Government's issuing the Government's



credit to a bank and getting the money from the bank, and issuing the money directly?

Dr. SPAHR. There is as much difference as night and day.

Mr. GOLDSBOROUGH. But what is it?

Dr. SPAHR. When the Government issues fiat money it has no intention of paying it, there is no provision for paying it, and it is payable on demand and there is no reserve there to meet it. Now, a bond is an interest-bearing obligation and it is sold to the people. The people turn over their savings, or the banks turn over their savings created by deposits, to the Government.

A bond is evidence of a debt that bears interest. As a consequence it is not payable on demand. It is payable at some definite future date. It is an entirely different proposition.

Mr. GOLDSBOROUGH. The Government is not limited in the amount of bonds it can issue.

Dr. SPAHR. Certainly not.

Mr. GOLDSBOROUGH. It is not limited. It can issue bonds indefinitely.

Dr. SPAHR. Certainly not; that is true.

Mr. GOLDSBOROUGH. Is that forgery?

Dr. SPAHR. No; not necessarily. "No" is the answer.

Mr. GOLDSBOROUGH. Now, then, tell us this: The Government issues, I will say, \$100,000,000 worth of bonds and sends those bonds to the Chase National Bank. The Chase National Bank gets some bookkeeper that it pays \$25 a week to make a credit on its books in favor of the United States Government for \$100,000,000, which means that the bank, if it is doing business profitably, has already loaned to private interests much more than its entire capital and surplus; it has already done that before it begins to operate on the Government at all, so when the Government sends its bonds to the Chase National Bank, the Chase National Bank actually has nothing at all left. It has already loaned more than its capital and surplus. The Government sends it bonds down there and gets this book credit, which means that the bank, which has nothing, loans the Government, which has everything, \$100,000,000, and the Government loans that money back to the bank and then proceeds to pay it interest on it.

Do you mean that that is a business proposition, or is it a racket?

Dr. SPAHR. It is an inaccurate statement.

Mr. GOLDSBOROUGH. How is it inaccurate?

Dr. SPAHR. Because when the Government sends the bonds to the bank or the bank buys them, the bank has to maintain legal reserves against the deposit which is created. The law requires it.

Mr. GOLDSBOROUGH. One-tenth reserve, of course.

Dr. SPAHR. All right; the law requires that. That is an asset.

Mr. GOLDSBOROUGH. I would say so.

Dr. SPAHR. When the Government issues paper money it has no reserve against it.

Mr. GOLDSBOROUGH. It has the reserve of every resource in the country, including the banks' resources.

Dr. SPAHR. Nothing at all.

Mr. GOLDSBOROUGH. Oh, yes, it does. It can tax the banks, or any individual, or any corporation, or any business to the extent necessary to carry on its finances.

Dr. SPAHR. But it does not when it issues fiat money.



Mr. GOLDSBOROUGH. Oh, yes; that fiat money, as you call it, is redeemable just as much as any other money. You would have to redeem it with some other kind of money that the Government issues, just like you would have to redeem any Government obligation by some sort of money that the Government issues.

Dr. SPAHR. But the point is the bond is presumed to be payable at a certain date in money that is universally accepted by the people. But paper money—

Mr. GOLDSBOROUGH (interposing). Has anything happened in this country since the Government decided to abrogate the gold clause? Has that caused any terrible condition in this country? Has anything happened?

Dr. SPAHR. No; but that is merely a temporary situation. It can happen.

Mr. GOLDSBOROUGH. What is temporary?

Dr. SPAHR. The maintenance of a fairly stable price level and fairly stable foreign-exchange rates and good credit conditions. That can continue for 2, 3, 4, 5, or 6 years. Nobody knows.

Mr. GOLDSBOROUGH. You mean that the Government has got to resume the statement that it is going to pay in gold these bonds in order to permanently maintain the Government's credit, when everybody knows that the money is not in existence to redeem the bonds?

Dr. SPAHR. Yes; to the extent that the time is going to come when the Government is going to have to resume its payments in specie in order to maintain its currency and to maintain its credit.

Mr. GOLDSBOROUGH. The Government now has something over \$8,000,000,000 in gold. It has bonds which were formerly redeemable in gold to the extent of about twenty-eight or twenty-nine billions of dollars, right now. What is that gold clause in the bond, except a fraud on the purchaser of the bond, when everybody knows that the gold is not in existence to redeem that bond with?

Dr. SPAHR. That presented no problem until we had to suspend specie payments, did it? You could not pay all your bank deposits, either, in terms of gold, if they were all due at once. The point is bonds are not payable at once. They come due in series. Deposits do not become payable all at once. They come in rotation. That is the reason banks are able to pay out money as loans against deposits, because they know that the gold is merely a clearing fund.

Let me illustrate that another way. There is hardly an economic instrument that you can think of that could carry the load that could be thrown upon it at once. For example, suppose all the Senators and Representatives wanted to use the same elevators at once. They could not possibly do that. The elevators are physically incapable of carrying them all at once, though they can carry the normal number that would use them.

Suppose everybody wanted to use the railroads at once in this country. It could not be done. Suppose everybody wanted to use the airplanes in this country. It could not be done all at once. That is true of practically everything you could point your finger at.

Mr. GOLDSBOROUGH. Yes, but the railroads do not guarantee to carry 120,000,000 people at once; but these bonds do say that they



are all payable whenever they are due when we do not have the gold to pay them.

Dr. SPAHR. The railroads have to carry anybody that wishes to ride. They offer themselves to the public. The same is true of our reserves. They support all of the deposits that are created, but it is known from practical experience that everybody is not going to draw at once. Therefore the reserves can be smaller than the deposits, and properly so.

Mr. GOLDSBOROUGH. You are aware of the fact, of course, that the Supreme Court of the United States has said in a very recent case that, in view of the fact that the money the bondholder gets is just as good as the gold, there is no right of action in the Court of Claims?

Dr. SPAHR. Yes; I read that case.

Mr. GOLDSBOROUGH. You think that the Supreme Court is wrong, don't you?

Dr. SPAHR. I do not care to comment on that.

Mr. GOLDSBOROUGH. What is that?

Dr. SPAHR. I do not think I should comment.

Mr. GOLDSBOROUGH. You prefer not to comment on the Supreme Court's action, but it is not in line with the contention you have made today, is it?

Dr. SPAHR. I would rather say that your contention is not in line with mine, if I may.

Mr. GOLDSBOROUGH. Well, that is not the question I asked you. Of course, I knew all the time you didn't agree with me.

Mr. HOLLISTER. Dr. Spahr, at the same time, eight members of the Supreme Court said that Congress committed an unconstitutional act, did it not, when it passed the act of June 25, 1933?

Dr. SPAHR. Yes, sir.

Mr. HOLLISTER. Eight of the nine Justices have said that, merely in different ways. Some of them found that there was no right of action in that particular case.

Mr. GOLDSBOROUGH. Because there was no loss.

Mr. HOLLISTER. I know, but four judges intimated that. The fifth judge went the whole way and said that Congress had committed a constitutional act, unconscionable though it was. The single judge said that, that is the way a majority against the four was created in that particular case.

Mr. FORD. Dr. Spahr, might I ask you a question with reference to this reserve matter: Assuming that the reserves are good on a basis of 10 to 1 and the Government is going to use gold as a basis; with \$8,000,000,000 of gold in its possession could it not still by sound money issue \$80,000,000,000 of obligations against that eight billion on a 10-percent reserve basis?

Dr. SPAHR. If it chooses to do it.

Mr. FORD. Why?

Dr. SPAHR. Because the Government's note issue does not operate the way currency does with the banks. The Government has to stand ready to meet the full amount. Consequently, it is normal for a Government to issue merely certificates and then let the banks hold the reserves against deposits, for the reason that banks will take other types of assets, for instance, the commercial paper, which the Government cannot do.



Mr. FORD. You are assuming that the United States Government has no assets. What kind of an asset is the taxing power of the the Uniter States Government?

Dr. SPAHR. It is not an asset against which it can issue its currency.

Mr. FORD. It is an asset by which it has complete power to tax everything within its jurisdiction.

Dr. SPAHR. That is true.

Mr. FORD. And all the wealth within its jurisdiction. It has that, plus, at the present time, \$8,000,000,000 worth of gold. Now, if there is anybody mathematician enough in this crowd to tell me just what the limit of its assets is, I would like to now, under those circumstances.

Dr. SPAHR. There is no limit to the Government's power to tax except the limit of the power of the people to pay.

Mr. FORD. But it is not sound. But it is sound for a bank to issue 10 times its reserves.

Dr. SPAHR. Because a bank would take in liquid assets; but its reserves are not adequate to meet cash demand. The Government is not doing that because it is not doing that class of business. The Government only issues gold certificates and silver certificates, if it engages in the right type of currency issue, and then it supports the banks by putting the certificates on hand for use.

Mr. FORD. I thought we were talking about the basis for sound money?

Dr. SPAHR. We are.

Mr. FORD. Now you say we have got to get back to specie payments.

Dr. SPAHR. That is right.

Mr. FORD. And we have only got to issue \$8,000,000,000 worth of money, because we have only \$8,000,000,000 worth of gold?

Dr. SPAHR. If those 8 billions could get issued under a banking system, those 8 billions could be multiplied by eight and a half.

Mr. FORD. But that cannot be done by the Government?

Dr. SPAHR. No; not soundly. I am glad you brought that point out.

Mr. HOLLISTER. Will you go a little further than that?

Why can't the Government do it soundly and it can be done by a banking house?

Dr. SPAHR. Because the function of a bank is to take the borrower's paper as an asset. When you create a deposit, of course you have to stand ready to pay out currency if the people want their currency. But the Government requires it to maintain only a 17 or 18 percent reserve.

Now, the Government is not engaged in running a private business. Therefore, it does not take the type of assets that the banks take. The only type of assets it has is either bonds or currency, metallic currency. Therefore, if it attempts to issue any other type of currency it is issuing it against nothing except its taxing power, and of course it does not use its taxing power to redeem that currency. The currency is just outstanding, the way the greenbacks are outstanding, until the Government is ready to resume specie payments.

Mr. HOLLISTER. That was illustrated, and is being illustrated, we might say now, by the example that has been set in the last 2 or 3



years, when the taxing power has run far behind the expenditures of the Government?

Dr. SPAHR. Surely.

Mr. HOLLISTER. I do not want to put the words in your mouth, but will you say whether I am correct or not, with this further explanation: The difference is that the Government is not in the banking business?

Dr. SPAHR. That is right.

Mr. HOLLISTER. The Government could, of course, have a super-bank which would be entirely Government run?

Dr. SPAHR. That is right.

Mr. HOLLISTER. But it is not in that business today?

Dr. SPAHR. That is right.

Mr. HOLLISTER. So, therefore, it should not be performing the functions of a bank?

Dr. SPAHR. Yes, sir; that is right.

Mr. HOLLISTER. Unless we want to face the issue and put the Government absolutely in the banking business?

Dr. SPAHR. That is right.

Mr. HOLLISTER. Is that a fair statement?

Dr. SPAHR. That is right.

Mr. GIFFORD. I want to ask you, Dr. Spahr, if the necessities of the hour are sufficient to demand the passage of this legislation.

Dr. SPAHR. I think not of title II. I hope that title II will not be passed, because I know no necessity demanding that.

Mr. GIFFORD. We have to make large borrowings for the Government, and you think the banks will conform to the needs of the Government without any pressure?

Dr. SPAHR. There is ample power in the Federal Reserve Act now for that—too much.

Mr. GIFFORD. What have you to say after reading Governor Eccles' testimony where he stated it would be just too bad for the banks if they did not?

Dr. SPAHR. That implies, of course, the philosophy to which I refer, that there is some way to force banks to make loans. There is always a proper time and place to make a loan.

Mr. GOLDSBOROUGH. What Governor Eccles said was that if the banks did not loan they would probably regret it, because the Government would assume its own function and issue its own money. That is what he said. I just wanted to explain that.

Mr. GIFFORD. I am satisfied with that.

Dr. SPAHR. So am I.

Mr. GIFFORD. There is a further threat here made before the committee that if any further instrumentalities of the Government are set up to carry on private business, if business did not assume its legitimate field and bring about a substantial recovery we would be faced with the performance of such threats as that made here. And then there must be a good deal more money diverted from the banks to the Federal Treasury in order to support those, would there not?

Dr. SPAHR. That is right. You are on your road.

Mr. GIFFORD. I want to know when I vote on this bill whether or not the necessities of financing the Federal Government are such as to demand the passage of this bill.



Dr. SPAHR. They are not.

Mr. GIFFORD. Don't you think that is an important consideration?

Dr. SPAHR. It is an important consideration.

Mr. GIFFORD. Have you considered how much Federal financing must be done within the next year and a half possibly?

Dr. SPAHR. The Government should be compelled to resort for its funds to the open market. The banks are taking too much already. The Federal Reserve Act is loose enough now. It can be compelled, and it is being compelled, to absorb too much now. Therefore, to go any further on this line is simply inviting future trouble.

Mr. GIFFORD. I am trying to simplify that in my own mind, and I have suggested if a member bank holds my note for \$50,000 it can discount that note and loan me another \$50,000, and then discount that again and loan me another \$50,000, and it can go on indefinitely, can it not?

Dr. SPAHR. I do not understand that. I am sorry.

Mr. GIFFORD. Well, in order for member banks to finance me—I am not the Government, but if they hold my note for \$50,000 they can discount it?

Dr. SPAHR. Yes, sir; that is right.

Mr. GIFFORD. If it is a solvent, liquid asset, and it would be if it is a Government bond. And then it can loan me more money and keep going indefinitely in that way?

Dr. SPAHR. Until the reserves are exhausted; that is right.

Mr. GIFFORD. I want to ask you one other question while I am asking these questions: Did the people of Germany regard their Government as dishonest when they took away practically the entire value of their internal debt?

Dr. SPAHR. I cannot say. I would assume they did.

Mr. GIFFORD. Our people might consider we were a little dishonest if we brought about a condition of that sort, would they not?

Dr. SPAHR. I think so. I have talked to a good many Germans who have lived through it, and I presume so. You know what they say about it. What would anybody say if he has his wealth taken away from him and his government is responsible?

Mr. GIFFORD. I would ask you if the terms of this bill would not allow the process I have explained to continue.

Dr. SPAHR. Absolutely.

Mr. GIFFORD. And it does appear to me as giving the preferred place to the Government in financing, but it may be necessary, is what I fear.

Dr. SPAHR. I do not think it is necessary.

Mr. GIFFORD. You anticipate that the banks will have to absorb some 14 billion more? Have you thought of that?

Dr. SPAHR. That is right.

Mr. GIFFORD. And 14 billion—will they have to absorb 14 billion more?

Dr. SPAHR. They may have to under compulsion, as it has been exercised thus far.

Mr. GOLDSBOROUGH. Do you think that the banks want to give up that privilege that they now have?

Dr. SPAHR. I think they would like to.

Mr. GOLDSBOROUGH. Of getting the benefit of buying these bonds?



Dr. SPAHR. I think they would like to loan on legitimate, sound, commercial paper.

The CHAIRMAN. Let me ask you this, Dr. Spahr, on the subject of the loans: What would you have the banks do with reference to Government securities?

Dr. SPAHR. I do not feel that they can do anything. They cannot find good loans to make. They are buying bonds because they cannot find anything else in which to invest to make a small earning.

Mr. GOLDSBOROUGH. I understand you to say a moment ago that they are already holding a much larger quantity of Government bonds than they should hold.

Dr. SPAHR. That is so; they are.

Mr. GOLDSBOROUGH. Then they ought to get rid of them?

Dr. SPAHR. They ought to, but they cannot do anything.

Mr. GOLDSBOROUGH. Then you are mistaken when you say that they should not hold it?

Dr. SPAHR. I say it is a dangerous situation. It is too bad that they do hold them, but they cannot do anything about it under the present circumstances.

The CHAIRMAN. How will they dispose of them if they want to or if they are compelled to?

Dr. SPAHR. That is the interesting thing here, in my opinion. The banks are in a paradoxical condition. They are in a position where they are absorbing notes, and then when business picks up and prices begin to rise the eligible paper comes into the market and prices will fall and then the banks' assets will be reduced in value and the banks will take a terrific lacing.

Mr. GIFFORD. Do not the necessities demand some kind of emergency measure whereby they can dump them into the Federal Reserve?

Mr. GOLDSBOROUGH. You say the banks are taking a lacing?

Dr. SPAHR. Yes, sir; they are.

Mr. GOLDSBOROUGH. How can they be taking any lacing at all; they have not done a thing except put a credit on their books? That is all it has cost them.

Dr. SPAHR. The banks have invested your money and mine in those bonds.

Mr. GOLDSBOROUGH. Well, I don't say whose money they have invested, but the cost of that investment has been negligible insofar as the banks are concerned.

Dr. SPAHR. What any bank does is to take the people's promises to pay, your promise, my promise, or the Government's, as an asset, and create a deposit and say it stands ready to meet that demand on demand in good money, in cash.

Now, to be able to do that the Government requires them to maintain lawful reserves. A bank can only do that to the extent its reserves will permit. The assumption is that those bonds, which are a promise of the Government to pay, can be converted into cash. They are not buying those bonds out of nothing; they are merely substituting their credit.

Mr. GOLDSBOROUGH. Of course they are. They are taking the bonds and making the bonds an asset upon which they issue this money.

Dr. SPAHR. Every time a bank buys a bond its reserve ratio declines, because it creates a deposit.



Mr. GOLDSBOROUGH. Of course it does, but the reason it buys these bonds is because it has reserves that are not working.

Dr. SPAHR. That is right.

Mr. GOLDSBOROUGH. Therefore, I say that it amounts to a gift from the Government in bonds.

Dr. SPAHR. No.

Mr. GOLDSBOROUGH. That the banks are growing fat under.

Dr. SPAHR. No.

Mr. GOLDSBOROUGH. The banks are not suffering an awful lot, not the large banks. The large banks that are able to carry these Government bonds are doing very nicely in a very smug way and standing the chance of losing nothing, and that is the reason when these refundings take place they are always oversubscribed. The banks are grabbing them.

Dr. SPAHR. Because they haven't anything else in which to invest.

Mr. CROSS. I want to ask you a question there, Dr. Spahr: You said that the banks ought not to be in a position to have to take these things, or at least put pressure on them; they ought to get out and sell them on the open market. Is that right?

Dr. SPAHR. Yes.

Mr. CROSS. The open market is in such condition that the chances are they could not sell them, is that true?

Dr. SPAHR. I don't think so.

Mr. CROSS. Well, it probably would be, and in case it was, then what would you say to it?

Dr. SPAHR. I say the Government should have to take what it can get in the open market.

Mr. CROSS. What it can get. Now, listen: You have got some 12,000,000 people out of work, angry, mad. You have got to feed them; you have got to keep them from starving, or you are going to have a revolution. Don't you think it is far better that the Government use the banks if necessary in order to keep down revolution and destroying the whole country and chopping people's necks off and all that?

Dr. SPAHR. I think with inflated currency you will have reached the point of revolution—

Mr. CROSS (interposing). Oh, now—I don't know whether you know it or not, but when you get 12,000,000 people and their families hungry they don't care anything about theories. They want something to eat, and they are desperate. Now, what are you going to do, just say, sit down and let it go, and not take care of that situation?

Dr. SPAHR. In every country that inflated its currency, as a consequence—

Mr. CROSS (interposing). You know what happened in France? It was the question of money that brought on the French Revolution. They had got control of the wealth of France and there was no money. You know that if you have read the old history. The people became desperate.

Dr. SPAHR. May I answer that? When Napoleon came in France—

Mr. CROSS (interposing). Oh, Napoleon came in away after. This was in 1779.



Dr. SPAHR. The first thing he did to get France on a solid basis was to get France back on the gold standard and establish a strong central bank.

Mr. GOLDSBOROUGH. But Napoleon refused to borrow money from the banks. That is the reason he got into trouble with the international banks.

Mr. CROSS. You have a history there of the taking of the lands of France from the nobility and issuing only 4,000,000 francs, to begin with, which was sound. But as the Revolution went on and kept increasing and increasing it was really a mortgage over their land. But finally they issued 49,000,000 of them, of course worth nothing. Yet it served its purpose, because any historian will tell you that they could not have won the Revolution without it. It was an inflation which was bad, uncontrolled. But it enabled France to win the Revolution, just like our continental money enabled us to win the Revolution, just like possibly in Germany, where there was a bad, uncontrolled inflation, it helped win the Revolution. Yet if they had not done it they would probably have gone into bolshevism.

Dr. SPAHR. Are you not aware that inflation impoverished the masses of the people?

Mr. CROSS. Oh, no; they are impoverished now. They are broke. You talk about a man owning these houses and these farms. He has a paper title that is nothing in the world but an interest-paying note, and the fellows up there are collecting off of him, and he is desperate and he is mentally desperate and he is wild.

Dr. SPAHR. Yes.

Mr. CROSS. You could not make it any worse condition.

Dr. SPAHR. And the reason he is in that position, Mr. Cross, is because our currency is inflated and he is now paying for it.

Mr. CROSS. Who inflated it? The banks.

Dr. SPAHR. Everybody—our Government.

Mr. CROSS. The banks were loaning and getting rediscounts.

Dr. SPAHR. And you want the banks to do it again.

Mr. CROSS. And then when the crash comes you say, "Wipe out the whole structure."

Dr. SPAHR. That is what you are proposing.

Mr. CROSS. And the people won't stand for it. You will have a revolution on your hands.

Dr. SPAHR. That is exactly what you are proposing here; inflate the currency and let the people suffer again.

Mr. CROSS. You have got them starving here, and they are not going to stand for it.

Dr. SPAHR. They probably won't.

Mr. GOLDSBOROUGH. If we had a system based on money and not wind, when you reached a certain point you could not go any further. It is this infamous system that you appear to advocate which makes these periods of extreme inflation and depression possible.

Dr. SPAHR. No; you are advocating inflation. I am the one that is opposing it.

Mr. GOLDSBOROUGH. That is what you say.

Dr. SPAHR. I know it.

Mr. CROSS. Aren't we already deflated and deflated and deflated?

Dr. SPAHR. Yes, sir—and what caused it?



Mr. CROSS. Now, hold on now—no matter what caused it. Aren't we deflated to the bottom?

Dr. SPAHR. Yes, sir.

Mr. CROSS. Now, don't you think we ought to have some reflation?

Dr. SPAHR. No. That is not the alternative. The alternative is a sound monetary system and a stabilized system.

Mr. CROSS. It is too late to prevent the fire after the flame breaks out.

Dr. SPAHR. Instead of attempting to tinker with the currency.

Mr. CROSS. Tinker with the currency—Congress alone has the right to tinker with the currency. Congress is the king, and the king can make anything he wants money—always could—coming on down through Parliament into this country. Who tinkers with the currency but these private individuals that manipulate credit? That is tinkering. We do not tinker. We act. We have got the power by authority of the Constitution, and we are not going to let them handle as they have been.

Dr. SPAHR. Well, let us assume that the banks inflated and are paying for it. Now you want the Government to do the same thing.

Mr. CLARK. Have we any assurance as to what this Federal Reserve Board will do hereafter?

Dr. SPAHR. I would like to see a board created that will prevent inflation.

Mr. CLARK. I am for that a hundred percent. I think we are all after that sort of thing, but we are misunderstanding our methods of approach or we disagree on our methods of approach.

Mr. FORD. Give us your idea of control. How could you control it?

Dr. SPAHR. There is never any excuse for inflation, is there?

Mr. FORD. What is your idea of control, if you will answer that for the moment?

Dr. SPAHR. I would say that there are about seven instruments of control that can be used. You can use the discount rate. You can use open-market operations. You can use warnings. You can use persuasion. You can regulate the amount of Federal Reserve notes going into circulation by different devices. You can refuse to accept paper that is unsound, and you can use your reserve if you have to.

Mr. FORD. The things that you have enumerated are not in this bill.

Dr. SPAHR. It is almost all in the present law.

Mr. FORD. It is put in there, and it should be more susceptible to control. That is all in the world this bill is doing, giving the Federal Reserve Board some recourse by which it can pull or push as the situation requires, to control expansion or contraction.

Dr. SPAHR. It has had every power thus far, had it been used.

Mr. FORD. It has none. Well, it had one power; yes. Now, take open-market operations at the present time—who initiates them?

Dr. SPAHR. The Open Market Committee.

Mr. FORD. And who are the Open Market Committee?

Dr. SPAHR. It is 5 of the Executive Committee out of that 12.

Mr. FORD. They can initiate them, but they do not have to carry them out. Suppose the Federal Reserve Board as a body wanted



to start open-market operations. Could they tell the Federal Reserve Boards to cooperate, or should they ask them?

Dr. SPAHR. I understand they can force that Open Market—

Mr. FORD. No; they cannot. That is what we are trying to rectify in this bill. We are trying to take care of that so that the Federal Reserve Board can say when and at what time and to what extent open-market operations can be conducted, whether they are purchasing or selling.

Dr. SPAHR. I would not argue against that provision.

Mr. FORD. That is all it is.

Dr. SPAHR. No; if your board is independent and nonpolitical, but if it—

Mr. FORD. My God, man; how are you going to get an independent, nonpolitical board in a political country? What is politics? It is the science of government. What is a politician? He is supposed to be a man that is versed somewhat in the science of government, is he not?

Dr. SPAHR. But running a bank is a technical thing, and they are supposed to be technically trained.

Mr. FORD. There are technical men on that board and they are the best technicians we could get.

Dr. SPAHR. I doubt it.

Mr. CROSS. You have stated here, I believe, that these very men are the best brains in the country.

Dr. SPAHR. I think they are.

Mr. CROSS. Your 60 men go off and draw up a bill then, the best brains in the country, and see if it covers the whole situation. When you get those 60 men who are agreed together, let them draw up a bill and bring it in here. Why, you will have them fighting and each one saying, "That is what we want", and it will be different for every one of them. We have got to have something concrete. Bring us in something constructive here. Get your 60 men together and draw up the bill.

Dr. SPAHR. I wish you would charge the committee with that responsibility.

Mr. CROSS. It is the responsibility of you, it seems to me. You say you had the responsibility of getting out this pamphlet and the responsibility of issuing articles and statements. Now get them together. You say that you have 66 men who are the best brains in the country. So get those best minds together in a room and draw up a bill covering this thing in detail, like any other bill that has got to have mechanics back of it, and bring it in here and submit it to us. Then argue to us that it is supported by those men, and the reasons for it.

Dr. SPAHR. It would take a year to do it.

Mr. CROSS. Oh, my; haven't you been working on this, and these other 60 best minds of the country, for years?

Mr. GOLDSBOROUGH. Forty years.

Dr. SPAHR. Surely.

Mr. CROSS. And now you cannot sit down and draw up a little bill like this in a year?



Dr. SPAHR. No. That is what I want to object to.

Mr. CROSS. You cannot do it; you 60 fellows would get together and have a fight in no time. You would not get anywhere. It is awfully easy, Doctor, to criticize something that is faulty, but is hard to suggest something constructive. That is what we want to do.

Dr. SPAHR. I am doing that. The most constructive thing, Mr. Cross, that I can suggest is, don't pass title II.

Mr. CROSS. Well, all you say is "don't." Now show us something to do.

Dr. SPAHR. That is constructive.

Mr. CROSS. Well, you say the present system is not right. You say that is wrong. You say "don't" to these things. You say "don't do" and here are the best 60 minds saying the other system is wrong and the Board here is wrong, and all you do is come in and just say "don't, don't, don't." Why don't you go make up a bill and bring it in here?

Dr. SPAHR. Mr. Cross, if you are about to go over a precipice and I stop you, that is a constructive thing. I don't have to sit down and draw up blueprints about how to do it.

Mr. CROSS. If I am so close to the edge that I am liable to fall over, I want you to throw me a rope. You are just sitting out there and saying, "Just sit still. Go on over." I say, "Throw me a rope."

Dr. SPAHR. My answer is, "I will take you away from the edge of the precipice."

Mr. CROSS. You don't take me away; all you say is, "Just sit still. Don't."

Dr. SPAHR. We have a system functioning as well as anything needs to function now. It has every power that is essential.

Mr. FORD. What!

Dr. SPAHR. It has every power that is essential.

Mr. FORD. That system that put us in the morass of depression the like of which was never known before—you want us to continue that?

Dr. SPAHR. No. I say the system as it is devised under the Federal Reserve Act has all the authority that is needed so far as any Federal Reserve System goes.

Mr. FORD. Did it work?

Dr. SPAHR. Certainly it did not. They inflated.

Mr. FORD. Who inflated?

Dr. SPAHR. The banks.

Mr. CROSS. We want all these things corrected.

Dr. SPAHR. You cannot do it in 15 minutes.

Mr. CROSS. We have taken a week, and we can take a little more time.

The CHAIRMAN. You say we have a good system—

Dr. SPAHR (interposing). I did not say that. I say they have all the power and authority now that they need in generating recovery. There is nothing you can change about this Federal Reserve System that will generate a sound recovery. Therefore, let the System stand as it is and let us have a thoroughgoing overhauling of the Federal Reserve System, and in the meantime let



us have a sound currency and let us encourage business recovery. Those are the things that are in order, as I see it.

The CHAIRMAN. Let me ask you this: How do you look upon the Federal Reserve System?

Dr. SPAHR. I think it is a pretty weak System.

The CHAIRMAN. Have you ever been for it?

Dr. SPAHR. Yes; I have. I thought it was pretty good until I saw the consequences of inflation.

The CHAIRMAN. All the bankers, as well as all the economic experts, have agreed during the years that the Federal Reserve System was very fine and a very successful System, have they not?

Dr. SPAHR. I think that is substantially accurate.

The CHAIRMAN. And it did serve admirably and satisfactorily for quite a long time, did it not?

Dr. SPAHR. Quite a long time.

The CHAIRMAN. Do you know where we got the Federal Reserve System?

Dr. SPAHR. Yes; I think so.

The CHAIRMAN. Did you ever stop to think about its history?

Dr. SPAHR. Yes; I am acquainted with it.

The CHAIRMAN. Did you know that it was written by politicians, such men as you see sitting here this afternoon in Congress, and over the protest of almost every banker in the United States?

Dr. SPAHR. Yes.

The CHAIRMAN. And everybody else who was supposed to know anything about it? That is the history of the Federal Reserve.

Dr. SPAHR. I do know who did most of the drafting.

The CHAIRMAN. I am talking about where the Federal Reserve came from. It was the work of politicians, in fulfillment of a partisan, political party platform pledge, and written by a partisan committee. The Democrats wrote it with the Republicans excluded, and they took it to the House and held a Democratic caucus and bound every man to vote for it upon penalty of losing his standing in his party, and then brought it to the House and permitted Republicans to vote for it.

That is where the Federal Reserve System came from, not only from Congress, but from partisan politicians.

Dr. SPAHR. H. Parker Willis and Carter Glass did most of the drafting.

Mr. GOLDSBOROUGH. As to the technical work, that was all.

Dr. SPAHR. And they had a tremendous number of hearings.

Mr. GOLDSBOROUGH. Oh, yes. They had this Capitol swarmed with bankers and experts who would take a backwoods Congressman by the arm and keep after him while they were writing the Federal Reserve Act, because they knew that he did not know anything about it, and they would keep working on him and telling him that it was unsound and improper, the currency was being tinkered with and was certain to result in something that they did not know anything about. But the committee discarded all that advice and went ahead and did it. Isn't that the history of the Federal Reserve Act?



Dr. SPAHR. That is right. This title II has a fundamental conception lying behind it that is quite different from what prevailed in 1913. Here the idea is that they are going to pump currency into circulation.

Mr. GOLDSBOROUGH. You have said that now three or four times. Where do you find that in the bill?

Dr. SPAHR. I got it from all the atmosphere. I got it from Mr. Eccles' testimony.

Mr. GOLDSBOROUGH. Where is it in the bill?

Dr. SPAHR. It is not in the bill but it enables them to do it.

Mr. GOLDSBOROUGH. But we have never had a provision like that.

The CHAIRMAN. If you will permit me, Dr. Spahr—because you want to be accurate in your statements of fact, you are in error in your statement that that is in this bill. I might say that a controversial point among members of this committee hinges around the failure of the bill to undertake the proviso for carrying the thing that you have understood is in the bill.

Dr. SPAHR. My point is, it permits it.

The CHAIRMAN. Oh, well; the present system permits it, you say.

Dr. SPAHR. Yes.

The CHAIRMAN. The people who are advocating this particular thing are setting up the machinery that will make it work. The machinery will not make it work now because the Board won't permit it. I am not saying that it is the last word of wisdom on the subject; I am only speaking of the fact now.

Mr. BROWN. Doctor, I would like to ask you one question: I wonder how many of these 66 professors are now teaching school.

Dr. SPAHR. Nearly all of them.

Mr. FORD. There are several of them dissenting from this thing.

Dr. SPAHR. Yes, some of them dissented in certain paragraphs. I think six men had certain qualifications.

Mr. BANKHEAD. This is just a memorandum on it. I do not see any constructive suggestion in it.

Dr. SPAHR. Their constructive suggestion is not to pass it.

Mr. BANKHEAD. It seems to me that the six best minds would know better than that.

Dr. SPAHR. It seems to me the best thing is don't pass it.

Mr. BANKHEAD. Oh, is that your advice?

Dr. SPAHR. I am not competent to discuss titles I and III.

Mr. HOLLISTER. I would like to ask that this memorandum about that title be put in the record.

The CHAIRMAN. Without objection, it will be printed in the record.

MEMORANDUM IN OPPOSITION TO TITLE II, BANKING BILL OF 1935 (H. R. 5357—S. 1715) SUBMITTED TO CONGRESS BY ECONOMISTS' NATIONAL COMMITTEE ON MONETARY POLICY

The undersigned members of the Economists' National Committee on Monetary Policy wish to point out to the country that the so-called "Administration Banking Bill of 1935", recently introduced in Congress (H. R. 5357 and S. 1715) endangers the development of sound commercial banking in this country in the following principal respects. These warnings relate only to title II of that bill.



1. *Providing for political control of the Federal Reserve Board and Federal Reserve banks.*—The Federal Reserve administrative authorities, instead of being given the independence which is appropriate to the officers of a non-political central commercial banking system, will be brought under direct control of the President. It is proposed to accomplish this end by providing that the membership of the Governor on the Federal Reserve Board shall expire when he is no longer designated as Governor by the President. This provision will enable the President to advance any member to the governorship, then remove him, and in this manner the complete personnel of the Board can be changed quickly and will be subject at all times to Presidential control. Thus the Board can become a politically-controlled Board with little opportunity to exercise independent judgment.

The same will be true of the Governors and Vice Governors of the Federal Reserve banks, since it is proposed that they be appointed by the directors of the Federal Reserve banks after approval by the politically-controlled Federal Reserve Board.

The lessons of central banking teach us that the farther a central banking system is removed from political domination, the better it is for the country.

2. *Providing for the conversion of illiquid assets of Federal Reserve banks into legal tender notes.*—The proposal to repeal the requirements with respect to commercial paper collateral for Federal Reserve notes is unsound. It will enable the Federal Reserve banks to issue legal tender notes against frozen or illiquid assets admitted under the tolerance or policies of a politically-controlled Federal Reserve Board, and will destroy the prospect of restoring the so-called "elastic" characteristics of these notes—a feature which financial leaders have striven to obtain for nearly fifty years. Although the Glass-Steagall amendment of 1932 and the emergency banking legislation of 1933 gave these notes what is commonly called an inelastic characteristic by permitting the use of government securities as collateral, it was supposed that this change was temporary and that efforts would be made, after the emergency had passed, to restore the "elastic" feature of these notes. Instead of providing us with a note currency which bears the appropriate relation to the sound short-term needs of business, thus avoiding inflationary tendencies, the bill provides the means for the issue of notes against Government bonds—and other assets, regardless of liquidity—and, consequently, opens the way for a huge bank note inflation in this country. The bill enables the Government through the banks to convert the national debt into bank notes until the surplus banking reserves of the country are exhausted. The Federal Reserve Board, furthermore, is given the power to reduce the reserve requirements of member banks as it sees fit, thus increasing immeasurably the possibilities of inflating the currency. The passage of such a measure will invite ultimate disaster for this country.

3. *Providing that noncommercial and illiquid paper may be eligible for rediscount at Federal Reserve banks.*—The proposal to make "any sound asset" of a member bank eligible for discount at a Federal Reserve bank opens the way to converting what should be a commercial banking system into an illiquid noncommercial system. The supply of noncommercial paper eligible for rediscount should be further restricted, not enlarged. This bill makes a politically controlled board the sole judge of the soundness of the assets to be admitted to the Federal Reserve banks. It is the function of a central banking system to maintain at all times a liquid portfolio, since the system holds the ultimate reserves of the nation's banks.

4. *Providing for the broadening of member bank loans on real estate.*—The proposal to permit member banks of the Federal Reserve System to loan an amount equal to 60 percent of their time and savings accounts or an amount equal to their entire capital and surplus on real estate, for periods of 20 years up to 67 or 75 percent—depending upon circumstances—of the value of property, is unsound. Making such loans is not an appropriate function of a commercial banking system. Real estate loans of a far more restricted nature have caused great losses and have been a source of great trouble for the commercial banks of this country. This is one of the outstanding lessons of the decade of 1920–30, with its holocaust of bank failures and paralyzing losses. To increase the possibility of such losses and difficulties is hardly rational.

All measures designed to correct weaknesses in the Federal Reserve System should seek to increase, rather than destroy, its independence of political in-



fluence. They should increase, not reduce, its commercial nature. They should assure, not impair, its liquidity. And they should free it from Government financing rather than link it more closely to the fiscal needs of the Government.

[Signed]: Arthur B. Adams, The University of Oklahoma; Eugene E. Agger, Rutgers University (with reservations as to par. 2); James W. Angell, Columbia University; Charles C. Arbutnot, Western Reserve University; Leonard P. Ayres, The Cleveland Trust Company; George E. Barnett, The Johns Hopkins University; Don C. Barrett, Haverford College; James Washington Bell, Northwestern University; Ernest L. Bogart, University of Illinois; Jules L. Bogen, Journal of Commerce and New York University (with reservations as to par. 2); Frederick A. Bradford, Lehigh University; R. P. Brooks, The University of Georgia; Charles J. Bullock, Harvard University; Neil Carothers, Lehigh University; J. Ray Cable, Washington University; Wilbur P. Calhoun, University of Cincinnati; Edward H. Collins, New York Herald Tribune; Alzada Comstock, Mount Holyoke College; William W. Cumberland, Wellington & Co.; George W. Dowrie, Stanford University; Eleanor Lansing Dulles, University of Pennsylvania; William E. Dunkman, University of Rochester; D. W. Ellsworth, The Annalist; William D. Ennis, Stevens Institute of Technology; Clarence W. Fackler, New York University; Fred R. Fairchild, Yale University; J. Anderson Fitzgerald, The University of Texas; Roy L. Garis, Vanderbilt University; Lewis H. Haney, New York University; E. C. Harwood, American Institute of Economic Research; Hudson B. Hastings, Yale University; John Thom Hoedsworth, The University of Miami; F. Cyril James, University of Pennsylvania (with reservations as to par. 2); Edwin W. Kemmerer, Princeton University; Elbert Alvis Kincaid, University of Virginia; David Kinley, University of Illinois; William H. Kniffin, Bank of Rockville Centre Trust Co. (with reservations as to par. 4); Frederic E. Lee, University of Illinois; Ray V. Leffler, Dartmouth College; Esther Lowenthal, Smith College; Arthur Marget, University of Minnesota (with reservations as to pars. 2-3); A. Wilfred May, New York City; Mark C. Mills, Indiana University; Margaret Myers, Vassar College; Melchior Palyi, The University of Chicago; Ernest Minor Patterson, University of Pennsylvania; Clyde W. Phelps, Chattanooga University; Howard H. Preston, University of Washington; William A. Rawles, Indiana University; Harold L. Reed, Cornell University (with reservations); Leland Rex Robinson, New York City; R. G. Rodkey, The University of Michigan; Olin Glenn Saxon, Yale University; Joseph A. Schumpeter, Harvard University; William A. Scott, University of Wisconsin; James G. Smith, Princeton University; Walter E. Spahr, New York University; Oliver M. W. Sprague, Harvard University (with reservations as to pars. 2-4); William H. Steiner, Brooklyn College; Alvin S. Tostlebe, College of Wooster; James B. Trant, Louisiana State University; Rufus S. Tucker, Westfield, N. J.; Ray B. Westerfield, Yale University; Nathaniel R. Whitney, Procter & Gamble Co.; H. Parker Willis, Columbia University; Max Winkler, College of the City of New York; Ivan Wright, University of Illinois; John Parke Young, Occidental College; Ralph A. Young, University of Pennsylvania.

(Issued through the office of Secretary-Treasurer, 100 Washington Square, New York City. March 7, 1935.)

The CHAIRMAN. Gentlemen, we will meet at 10:30 tomorrow morning to continue with the hearing, and we certainly thank you, Dr. Spahr, for your patience and your assistance.

Dr. SPAHR. Thank you, gentlemen.

(Whereupon, at 5:10 p. m., the hearing was recessed until 10:30 a. m., the next day, Thursday, Mar. 28, 1935.)



BANKING ACT OF 1935

THURSDAY, MARCH 28, 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 former Congressman William Schley Howard, of Atlanta, Ga., who wants to discuss one of the features of this bill with reference to savings banks.

I am quite sure, Mr. Howard, that the committee will be delighted to hear you.

STATEMENTS OF HON. WILLIAM SCHLEY HOWARD, ATLANTA, GA.; GEORGE M. BROWN, PRESIDENT GEORGIA SAVINGS BANK & TRUST CO., ATLANTA, GA.; JAMES E. CAROLAN, VICE PRESIDENT AND TREASURER ATLANTA SAVINGS & TRUST CO., SAVANNAH, GA.; AND J. P. HOULIHAN, VICE PRESIDENT GEORGIA STATE SAVINGS ASSOCIATION, SAVANNAH, GA.

Mr. HOWARD. Mr. Chairman and gentlemen of the committee, I will inflict myself upon you only a very few minutes.

We have a rather peculiar situation in the State of Georgia, in that we have never had any laws under which mutual savings banks could be organized. Therefore the banks that I have the honor to represent before you gentlemen are chartered banks—chartered by the superior courts of our State—doing a similar business as that of the mutual savings banks that are exempted in the bill now pending before you, and the Morris Plan Bank.

We do not commercial business whatsoever. Our banking activities are confined exclusively to savings banks' activities, and, as I say, the banks are chartered by the superior courts of our State.

We have 9 such banks in Georgia, and 4 or 5 of the officials of those banks have accompanied me here to present this phase of the subject to you, with an amendment that we are asking you gentlemen to adopt as a part of this bill, putting the savings banks in the State of Georgia, who are peculiar in their own situation, in the same category with the mutual savings banks and the Morris Plan Bank.

I know how very valuable the time of this committee is at this particular juncture, and I do not want to consume your time unnecessarily. I do not want to consume a single moment longer than necessary.



The CHAIRMAN. You may take all the time your desire, Mr. Howard. The committee will be glad to hear you.

Mr. HOWARD. I have drawn an amendment, which we desire to propose to you. If you will turn to page 37 of the pending bill, H. R. 5357, section 23, subsection (y) (1), I will indicate where our amendments would appear.

As the provision now reads it says:

No State nonmember bank, other than (a) a mutual savings bank or (b) a Morris Plan Bank—

And so forth. After the word "bank", the second time it appears in line 19, we ask the committee to insert this language:

and other incorporated savings banks, the deposits of which are not subject to check, engaged in similar business.

Then, on page 67 of the same bill, at the top of the page, after the name "Morris Plan Banks", in line 3, which contains the exception from the operation of the provisions of this bill, we ask that the same language that I have just quoted be inserted at that point, so that the language in parentheses beginning in line 2 of page 67 will read:

except mutual savings banks, Morris Plan Banks, and other incorporated savings banks, the deposits of which are not subject to check, engaged in similar business.

Gentlemen of the committee, in order that you may understand the operation of these banks in Georgia, I will try to explain them to you. For instance, I am thoroughly familiar with the operation of the Georgia Savings Bank & Trust Co. in Atlanta.

It has a capital of \$500,000, and it has been in business for some 30 years. It has made, in that period of time, some 26,000 or 27,000 loans, exclusively, on real estate. Those loans have ranged from \$1,000 to a maximum, in 90 percent of the cases, of \$2,500. The length of time that those loans run is usually 5 years.

The borrower pays that money back at a low rate of interest, it being amortized over the period, with 60 monthly payments, including interest and a reduction in the loan in each payment. All of the other eight banks in the State have practically the same system.

In the city of Atlanta, for instance, we have aided in the erection of homes to the number of about 7,500, which have been built under that plan. We have no money that is loaned except on such paper as is not rediscountable under the Federal Reserve act.

We buy mortgages or what we call trust deeds, or loan deeds, rather.

Our business is confined exclusively to that kind of business; all of the money deposited with us seeks an outlet to small investors in homes.

If this amendment meets with the favor of the committee we can continue to do that business. If not, if the rate of interest that we can pay on the deposits is restricted to 2½ percent or 2 percent, then it means that these banks will simply have to liquidate and go out of business.

There is another matter that I would like to call your attention to in relation to one or two of these banks. As to the Georgia Savings Bank & Trust Co., we have borrowed on what are termed "capital



debentures." A capital debenture is a capital note, and we have borrowed on those from the Government of the United States some \$500,000 during this recent emergency. That money is to be paid back within a period of 20 years.

If we cannot pay our depositors a sufficient amount of interest to attract those depositors to our institution and they go elsewhere, inasmuch as money always does seek the highest rate of interest that it can obtain, then we will receive no deposits, and that being our business, and nothing else, it will leave us in debt to the Government in the sum of half a million dollars that we can never repay, and puts us out of business.

That is about the sum and substance of everything I have to say, Mr. Chairman. I do not think I could express myself as to our situation more elaborately than I have if I talked all day, because that is the true situation as to these banks that have several million dollars at stake in their business.

We ask that you gentlemen give consideration to this class of bank. The president and other officials of those banks are here this morning. They are thoroughly familiar with the practical end of the business that I have tried to explain to you, and if you would like to ask any of them or myself any questions, we will be glad to answer them.

Mr. BROWN of Michigan. Do you have capital stock in these banks?

Mr. HOWARD. Yes, sir.

Mr. BROWN of Michigan. So they could not come under the definition of a mutual savings bank?

Mr. HOWARD. No, sir; we have no set-up in Georgia under our law for the establishment of mutual savings banks. All of the charters of these banks were obtained through our superior courts.

The savings bank in Savannah, represented by some of its officials here this morning, has been organized for 45 years, or it has been in business for 45 years.

We have in Georgia what we consider a very fine State banking law. These banks are all chartered. In other words, the protection given to the depositors under the laws of Georgia is complete. We have the strictest sort of examination of our banks, and the banking laws of the State of Georgia are very strict. All of these banks obtain their charters under the laws of the State of Georgia.

The Georgia Savings Bank & Trust Co. has a capital, as I have said, of \$500,000. Then we have the Atlantic Savings & Trust Co., of Savannah, which has a capital of \$50,000, a surplus of \$50,000, and undivided profits of \$64,022.63.

The Albany Trust & Banking Co., of Albany, Ga., is a small bank in a small town in the southwestern portion of our State, in a very splendid, growing section. That bank has a capital stock of \$100,000; it owes the Government on capital notes, \$50,000; it has a surplus of \$20,000, with undivided profits of \$11,255.86.

Then the Home Savings Bank, of Columbus, Ga., has a capital of \$150,000; a surplus of \$20,000, and undivided profits of \$4,509.02.

The American Savings Bank, of Atlanta, one of the first banks organized in the history of our State, has a capital stock amounting to \$200,000, a surplus fund of \$100,000, and undivided profits amounting to \$20,724.02.

The Realty Savings & Trust Co., of Augusta, represented here this morning by Mr. Lyeth, the secretary-treasurer, has a capital



stock of \$100,000; it has capital notes issued under the plan I have outlined to you gentlemen, amounting to \$100,000. They cover money borrowed from the Federal Government on the 20-year plan. So they owe the Government on those capital notes the amount of \$100,000. They have a surplus of \$26,949.07, and undivided profits of \$2,426.28.

In reference to the Georgia Savings Bank & Trust Co., Atlanta, I have already told you what their capital stock is, amounting to \$500,000. Then they have capital notes amounting to \$500,000, a surplus fund of \$100,000, and undivided profits amounting to \$72,519.55.

The Georgia State Savings Association, of Savannah, Ga., is a very old and a very strong bank for the locality in which it has carried on its business for years and years. It has a capital stock of \$325,000, a surplus fund of \$325,000, and undivided profits amounting to \$52,524.30.

As has been stated, these are all capital-stock banks. They operate on the identical plan as mutual savings banks of other States, and also the Morris Plan Bank, and we simply ask that we be placed on the same footing with those banks, as the banks of other States that do that mutual-savings-bank business.

The CHAIRMAN. I am not sure that I understand just what your legal status is as to institutions in the State of Georgia.

Mr. HOWARD. We are incorporated under the laws of the State of Georgia, that is, under the banking laws of the State of Georgia.

Mr. HOLLISTER. Are they corporations for profit, or are they mutual?

Mr. HOWARD. They are not mutual savings banks; they are capital-stock banks.

Mr. HOLLISTER. And the profits inure to the holders of the capital stock?

Mr. HOWARD. Yes.

Mr. HOLLISTER. How do they differ from the ordinary savings banks in other States?

Mr. HOWARD. They have mutual savings banks.

Mr. HOLLISTER. How do they differ from the banks that are not mutual?

Mr. HOWARD. They do not.

Mr. HOLLISTER. Such an amendment, if adopted, would not apply specifically to that particular kind of bank, but it would apply to all savings banks?

Mr. HOWARD. That do the character of business that we do. We simply receive deposits. We have no checking account. We take the profits and pay the depositors a certain amount of interest. Under the laws of the State of Georgia the reserves are safe-guarded, and those funds are loaned.

Mr. HOLLISTER. But they could draw the money out?

Mr. HOWARD. They could draw the money out on a 90-day notice.

Mr. BROWN of Michigan. Will you turn to page 2 of the bill and tell me whether or not subsection 1 of section 3 does not cover your particular type of institution.

Mr. HOWARD. I am going to be perfectly frank with you gentlemen. I took this bill and studied it for several days, not having the



original bill before me at that time, of which bill this is amendatory, and I could not comprehend all these amendments. Which provision do you refer to?

Mr. BROWN of Michigan. Page 2, section 3.

Mr. HOWARD. Where it says—

by inserting a new subsection to read as follows.

Mr. BROWN of Michigan. Starting there, and under subsection (1), I am wondering whether that would cover your particular type of bank, particularly the language in lines 17 to 23.

The CHAIRMAN. I understand it does cover them, and that is where his trouble is.

Mr. HOLLISTER. They want to be excepted.

The CHAIRMAN. That language does cover such a bank. It is a State bank within the definition under the section to which he refers, and no State bank can avail itself of the benefits of the insurance fund after the first of July 1937.

Mr. HOWARD. That is right.

Mr. BROWN of Michigan. That problem we have not yet come to.

The CHAIRMAN. I understand that, but he is not familiar with the situation we have. He is assuming this law will stand as it is.

Mr. HOWARD. Yes.

Mr. BROWN of Michigan. You stand in the same position as every other State nonmember bank.

Mr. HOWARD. Yes; savings banks. This is the reason why we ask for this exemption. We cannot avail ourselves of the rediscount privilege of the Federal Reserve banks with the character of business we do, because the banks are not permitted, or will not be permitted, I think, after January 1, 1937, to lend money at all on mortgage loans, that is, on real property.

Therefore, under this bill, we are restricted, and yet none of the benefits inure to our class of banks.

Mr. SPENCE. Are there other States where savings banks are organized similar to yours?

Mr. HOWARD. I do not know. I have a list of the banks in the United States doing a similar business.

I hope you gentlemen understand me. I do not want to leave the impression that we are not doing the same character of business that the Morris Plan banks are doing, identically the same kind of business, and the same character of business that the mutual savings banks do.

The CHAIRMAN. You do the same kind of business they do, but are you restricted to that kind of business?

Mr. HOWARD. Yes; under the charters under which we do business. We have never established any mutual savings banks in Georgia.

Mr. HOLLISTER. Your charters could be amended so as to permit you to do a different kind of business, could they not?

Mr. HOWARD. We might go into the courts and ask them to amend our charters to allow us to do a general banking business.

Mr. HOLLISTER. If this exception were put in the bill would it not include banks which do quite a different kind of business than you do?

Mr. HOWARD. I think not, because you have excepted Morris Plan Banks and you have excepted the mutual savings banks.

Mr. HOLLISTER. Yes.



Mr. HOWARD. We do not call them mutual savings banks; we call them capital stock banks, because we operate on capital stock. There is no assessment.

Mr. HOLLISTER. What I am trying to get at is how your banks are differentiated from the ordinary savings banks which are not mutual.

Mr. HOWARD. I presume they are all mutual or all capital stock savings banks.

Mr. HOLLISTER. Then do you except all savings banks?

Mr. HOWARD. We except all capital stock savings banks doing business of a similar character.

Mr. HOLLISTER. Have you discussed this provision with the Federal Deposit Insurance Corporation?

Mr. HOWARD. We have an amendment that we understand will meet their approval.

Mr. HANCOCK. Suppose an amendment were offered which would make eligible Morris Plan Banks or other similar institutions; would that take care of your situation?

Mr. HOWARD. Yes, sir.

Mr. HANCOCK. I understand that such an amendment has been approved by the officials of the Federal Deposit Insurance Corporation, subject, of course, to the approval of this committee.

Mr. HOWARD. The only difference, Congressman Hancock, between the language you have just quoted and our amendment is that our amendment reads like this:

Other incorporated savings banks, the deposits of which are not subject to check, engaged in similar business.

That is a little more explicit.

Mr. HOLLISTER. "Similar business" there applies both to savings banks and Morris Plan Banks. That is what I do not like about your language. I think a bank which does a business similar to the Morris Plan Banks, as suggested in the amendment referred to by Mr. Hancock, perhaps would be properly excepted.

Mr. HOWARD. Or mutual savings banks.

Mr. HOLLISTER. I do not think so. The mutual-savings bank does a savings business. I am not sure we should extend the exception to all savings banks, capital-stock banks, as well as mutual banks, unless they are doing solely a business similar to that of the Morris Plan Bank.

If the Federal Deposit Insurance Corporation, or the drafters of this bill, had believed that savings banks doing solely a savings-bank business should be excepted, they probably would have said so. These are two distinct kinds of banks, and if they had wanted to exempt all savings banks doing solely a savings-bank business they probably would have said so.

It seems to me the suggestion made by Mr. Hancock is the amendment we should adopt, and that the nature of the business referred to should be that of a Morris Plan Bank rather than a mutual-savings bank.

Mr. HOWARD. We thought you had excepted mutual-savings banks and Morris Plan Banks and that, as Congressman Hancock suggested, an amendment putting us in the same category with the mutual-savings banks and Morris Plan Banks would be fair and just to us, because we do absolutely the same character of business that they do.



Mr. HOLLISTER. Then if Mr. Hancock's amendment would cover you, you would not need the language you suggest.

Mr. CAROLAN. The Morris Plan Bank is chartered just the same as we are, and if they are excepted we think we should be excepted with them, for that reason.

Mr. HOLLISTER. That is what I say; if we state in the exception that you are excepted if you do business like the Morris Plan Banks, that is enough, is it not?

Mr. CAROLAN. You refer to mutual-savings banks; they do quite a different kind of business.

Mr. HOLLISTER. If you take your language, that will put all savings banks, practically, in the excepted class. I do not think that is the request you want to make. You want to make the request that capital-stock savings banks doing a business similar to the Morris Plan Bank business should be excepted.

Mr. CAROLAN. And mutual-savings banks.

Mr. HOLLISTER. No.

Mr. CAROLAN. Why not?

Mr. HOLLISTER. Because you are a capital-stock bank.

Mr. CAROLAN. But we are doing the same kind of business as mutual-savings banks.

Mr. HOLLISTER. Does not that raise the question as to that proposition—as to making a distinction between the two banks?

Mr. CAROLAN. There are very few of these banks.

Mr. HOWARD. I have here a list showing the number of the same character of banks in the different States.

They have 2 in Alabama; 2 in Arizona; none in Arkansas; 11 in California; Colorado has none. The savings accounts there are handled through any regularly organized bank.

Florida has none; Georgia has 9; Idaho has none; Illinois has none; Indiana has none; Iowa has 2; Kansas has none; Kentucky has none; Louisiana has none; Maine has none; Maryland has none; Massachusetts has none; Michigan has 3; Minnesota has none; Mississippi has none; Missouri has none; Montana has none; Nebraska has 2; Nevada has none; New Hampshire has none. I have a notation here that they are sending their annual report.

New Jersey has 1; New Mexico has none; New York has none; North Carolina has none; North Dakota has none; Ohio has none; Oklahoma has none; Oregon has 1; Pennsylvania has 1; Rhode Island has none; South Carolina has none; South Dakota has none; Tennessee has none; Texas has none; Vermont has about 20 or 25; Virginia has none; Washington has 1; West Virginia has none; Wisconsin has none; and Wyoming has none. So, as has been stated, there are very few of this character of banks in the country. They are in a class almost by themselves.

The CHAIRMAN. Of course, it might be well to remember in that connection that the legislation we pass will probably stand for a long time and cover the developments for many years. So, of course, we cannot anticipate what the probabilities might be, as time runs along.

Mr. HOWARD. But, as has been suggested, it means that if our banks are not included in the exception, we cannot pay a sufficient rate of interest to attract savings to our banks, if we are put in a class of banks doing a commercial business as well as a savings



business. If the paper that we take exclusively for the people's money that we loan out cannot be rediscounted, so that we cannot pay over 2 or 2½ percent in interest, then, as I said at the inception of my remarks, it means liquidation and nothing else, if we are not put in the same category with the Morris Plan and mutual savings banks.

Mr. CLARK. Why cannot your paper be rediscounted under this new legislation, if it is passed?

Mr. HOWARD. As I understand it—and I want to plead ignorance of the manipulations of that bill, because I have not been able to comprehend it in the bill that I have had before me—my understanding is that you cannot rediscount mortgage loans and loan deeds, or any paper that is secured by realty.

Mr. CLARK. The purpose of this legislation is to do just that thing, to enable a bank with real-estate mortgages, amortized mortgages, to go to the Federal Reserve bank and borrow money from that bank on its note and to pledge these mortgages to that bank. That is the liberalizing feature that has been written into this bill.

Mr. HOWARD. The very purpose, and the very life of a savings bank is the fact that it receives from people their very small deposits, and they accumulate those deposits, and they loan that money that has been so accumulated, with a certain safe reserve, to the poorer classes of people who seek to build homes. That is our justification, and our only right to live, doing that sort of business, and that is all we have.

Mr. FORD. It does not interfere with the other banks.

Mr. CLARK. Do you understand that this legislation will permit you to discount or borrow the money from the Federal Reserve bank on real-estate loans, if you are a member of the Federal Reserve System?

Mr. HOWARD. Yes; we understand that. But we are put in the same category with the Morris Plan Banks because they are chartered under the very same conditions that we are.

Mr. SPENCE. You loan exclusively on real estate?

Mr. HOWARD. Yes, sir.

Mr. SPENCE. You make no other loans?

Mr. HOWARD. That is our business and has been our business for 35 years, and we furnished the money with which to build 7,500 homes in the city of Atlanta through the savings of people of this kind, giving them accommodation at a low rate of interest.

If a man comes to us and wants to build a home and wants to borrow \$2,000, and we loaned the \$2,000, he pays it back in 60 monthly notes, reducing the loan during that period.

Mr. CLARK. You can pledge that with the Federal Reserve bank for that money, if this bill passes.

Mr. CAROLAN. That is not the objection we have. We object because of the rate of interest we would have to pay. We do not care about borrowing from the Government. We can get along without doing that. We can make sufficient connections without borrowing from the Government.

Here is the whole proposition. The Morris Plan Bank is allowed to pay a higher rate of interest than we are allowed to pay. And they are doing a similar business to ours; their set-up is just the same.



Mr. FORD. But they do not loan on real estate, do they?

Mr. CAROLAN. Yes, sir; here is a Morris Plan Bank which will be chartered by the State and examined by the State, and here is its statement published by the State. We think we should be allowed the same privileges that they are allowed in the way of an examination.

We are doing the very things now that the Government is doing in the Federal Reserve Act in making long-time loans and amortizing them over a long time.

But we are not commercial banks; we have no commercial accounts. We have not a checking account in our bank subject to demand. All of our deposits are time deposits, which require notice before there can be any withdrawal from them.

The majority of our money is on time certificates, put in the bank for a year. We could not survive unless we could get a differential in the way of higher rates of interest for our time deposits, because we make our loans on long-time contracts.

We are not competitive in any way with commercial banks, and for that reason we are not seeking any of their deposits.

Where a man comes in and puts in a thousands dollars for a year, we think we should not be limited to 2½ percent, like a commercial bank on a demand deposit. That is what it amounts to.

Mr. SPENCE. What do you pay your depositors?

Mr. HOULIHAN. We pay them 3 percent now. Under the new regulation of the Federal Deposit Insurance Corporation we will be cut down to 2½ percent. We are on the same footing as the building associations. We are in the same line of business as the building and loan associations.

Mr. CLARK. If you did not go into the Reserve System, the Federal Deposit Insurance Corporation could fix your rate of interest?

Mr. HOULIHAN. They fix the rate, and they will fix it so as to comply with that of every member of the Federal Deposit Insurance Corporation, and that is what we do not want them to do. We think we should be in the same class with the Morris Plan Bank because we are doing the same kind of business. If they are going to examine them we think they should examine us.

Mr. HOWARD. I have a letter here written by our State Bank Superintendent, Mr. R. E. Gormley, which I would like to put in the record, in which he states that our banks are on the exact basis with the Morris Plan Bank.

I would like to call your attention to this particular communication from the superintendent of banks of our State, written to Mr. George M. Brown, and received only yesterday. The letter says:

DEPARTMENT OF BANKING,  
Atlanta, March 26, 1935.

Mr. GEO. M. BROWN,

*President Georgia Savings Bank and Trust Co., Atlanta, Ga.*

DEAR MR. BROWN: In regard to proposed revision in Federal Banking Act which permits regulation of interest by the F. D. I. C. and which will restrict rate of interest paid by your type of institution on savings to that permitted banks engaged in both commercial and savings business, I regard it very unfair to your type of institution that some differential in interest permitted paid on savings not be allowed to those banks engaged solely in the business of receiving savings deposits. As I see it, there is no distinction in the type of service performed by your bank and that performed by Morris Plan banks and mutual savings banks. In your operations in my opinion should be given the



same discretion as regards payment of interest on savings accounts as that permitted to those types of banks.

My general objection to the proposed revision of the Banking Act of 1933, commonly known as the Banking Act of 1935, is the fact that complete supervisory and at least conflicting regulatory power is granted to the F. D. I. C. by the proposed bill. I also object very strenuously to the provisions of the proposed bill and the original bill regarding Federal Reserve membership as a requisite for membership in the insurance fund after July 1, 1937, due to the fact that the majority of our nonmember State banks are located in agricultural sections and also to the fact that these nonmember banks now received a considerable revenue from exchange, which source of revenue would be eliminated in the event they were forced into the Federal Reserve System and thereby endanger the safety of these banks, I deem it of the utmost importance that the proposed bill contain an amendment eliminating that section regarding Federal Reserve membership.

Very truly yours,

R. E. GOBMLEY, *Superintendent of Banks.*

Mr. CLARK. There is one thing I did not quite understand. I did not get this particular point. Your entire objection is in reference to the matter of interest, is it not? You object to the interest rate being fixed?

Mr. HOWARD. Restricted. That is one objection; that is not all.

Mr. CLARK. Would you object to being forced into the Federal Reserve System if a provision was put in the bill requiring them to make an exception of your type of banks in fixing uniform interest rates?

Mr. HOWARD. These gentlemen here are in the business, and they can tell you better than I.

Mr. CLARK. As I recall the evidence that we have received, Governor Eccles expressed a desire to have a unified banking system so that in an emergency it could avail itself of the liberalized provisions of the act.

There is some sentiment against it to the effect that by this method, by requiring them to go into the system before getting the insurance, it would be a disadvantage.

Have you any objection to going into the Federal Reserve System if an exception was made in the act as to your banks, as to the system of fixing your interest rates?

Mr. CAROLAN. As to the rate of interest we could charge on loans, if they would do that, we would not have any objection. The thing we object to is as to the interest rate we pay. We cannot survive if they do that.

Mr. HOWARD. Mr. Chairman, Mr. George M. Brown, who is here, has been engaged in this particular business all his life, and he represents the largest savings bank in Georgia, with one exception, and the oldest savings bank, with one exception. He says he would like to make a statement of 2 or 3 minutes in reference to this matter.

The CHAIRMAN. We will be glad to hear him.

Mr. GEORGE M. BROWN. Our real objection to this bill as it is set up is not based on any fight we are making against the Morris Plan Bank.

I will tell you what our position in Atlanta would be. If this bill is passed, excepting Morris Plan Banks and not excepting the other savings banks—the Morris Plan Bank is chartered by our State, with the same powers we have—if they are excepted and we are left out, as the State superintendent of banks said in his letter, the result of that set-up would be this:



We would be restricted to any interest rate that the Federal Reserve bank or the Federal Deposit Insurance Corporation might name, and the Morris Plan Bank would have no restriction whatever, if the bill were passed in that way. I would rather own stock in the Morris Plan Bank in Atlanta than in any one of the commercial banks, because they have a monopoly of the savings-bank business in the city of Atlanta.

We are asking that we, doing the same type of business as the Morris Plan Bank, be excepted. The Morris Plan Bank is really a bank doing an industrial business, loaning on real estate to the working class of people. As a matter of fact, the business we do is very much more like the business of the mutual-savings banks and the building and loan associations than the Morris Plan Bank.

Mr. GOLDSBOROUGH. Did I understand you to say that you are engaged in the same type of business as the Morris Plan Bank?

Mr. GEORGE M. BROWN. We have the same charter and the same powers.

Mr. GOLDSBOROUGH. Why do you not become a Morris Plan Bank; then you would be exempt?

Mr. GEORGE M. BROWN. They picked out the Morris Plan Bank, and that it done because it is an industrial bank, dealing with real-estate loans. Instead of saying just the Morris Plan Bank, we would have no objection to it if you would say the Morris Plan Bank and all banks engaged in similar business.

Mr. HANCOCK. Have you the bill before you?

Mr. GEORGE M. BROWN. Yes, sir.

Mr. HANCOCK. Let me invite your attention to line 19 on page 37 of the bill. Suppose after the words "Morris Plan Bank" in line 19, an amendment in this language were inserted: "or other incorporated banking institutions engaged in similar business."

Mr. GEORGE M. BROWN. That would be satisfactory, but let me tell you one thing. I may be wrong about this, and I mean no offense to the committee, but I believe you failed to draw a distinction between a mutual-savings bank and a commercial bank and a capital-savings bank. The deposits are subject to 90 days' notice before you can withdraw.

We have not got a dollar on deposit in our bank that a man can withdraw without 90 days' notice. If they are not willing to let him do it, he cannot draw it out. In the commercial banks you can draw your money out at any time.

With that provision we can make long-time real-estate loans that we could not make if we were a commercial bank. It is only within the last 2 or 3 years that any commercial bank, State or national, has been allowed to make any real-estate loans whatsoever. All homes in the United States, all buildings in the United States, all factories in the United States, have been built on money secured largely from the New England and New York savings banks and mortgage companies and building and loan associations and savings banks throughout the country.

In my State, for 25 years there have been no building and loan associations in existence. They all went broke in 1893 and 1894 and have just recently been reestablished in the last 2 or 3 years.

In my city of Atlanta, if you wanted to build a home you were dependent on the Georgia Savings Bank & Trust Co., the American



Savings Bank, or the insurance company alone. You could not get such a loan from commercial banks.

Mr. HANCOCK. You have building and loan associations in Atlanta, have you not?

Mr. GEORGE M. BROWN. We have, and have had them within the last 2 or 3 years. We did not have one for about 25 years. All of them went broke in 1893 and 1894.

Mr. HANCOCK. How many have you there now?

Mr. GEORGE M. BROWN. Frankly, I do not know. I should say probably there are five of them there.

Mr. HANCOCK. Let me make again the suggestions I made before. If the committee should determine that that is a wise amendment, that is, the amendment I referred to, the same expression should be repeated in line 24 on page 37 after the words "Morris Plan Bank."

Mr. GEORGE M. BROWN. And also on page 67.

Mr. HANCOCK. On page 67, in line 3, after the words "Morris Plan Banks", the same language should be inserted.

Mr. GEORGE M. BROWN. Yes, sir.

Mr. HANCOCK. My understanding from the Federal Deposit Insurance Corporation's general counsel, Mr. Birdzell, is that this same language I have just suggested was employed in section 5 of the Banking Act of 1933, and in order to carry out the same purpose.

Mr. GEORGE M. BROWN. May I say in that connection that Mr. Gormley notified me that when he was up here about I think, within the last 5 or 6 weeks, when all the State bank superintendents in the United States, or a large number of them, were here, discussing the bill with the Federal Deposit Insurance Corporation, that his understanding was that the Federal Deposit Insurance Corporation was willing to put this language in, and that they agreed to amend the bill on page 37, line 19, by adding after the words "Morris Plan Bank" the words "and other banking institutions engaged in similar business."

They said to Mr. Gormley they did not know there were any banking institutions outside of the Morris Plan Bank in the United States that were strictly savings banks with capital stock. I think I have quoted him correctly. That is my understanding of what they stated that they did not know that.

Now, in reference to the interest rate you are confronted with this situation. We do as nearly as possible the same line of business as the building and loan associations or the New England mutual savings banks.

Under the present law the building and loan associations are allowed to pay 5 percent and the Government guarantees the 5 percent up to \$5,000, just the same as they guarantee bank deposits. You can readily see that if you allow the savings banks to be cut out entirely you are going to turn the business in Atlanta over to the building and loan associations, because you will not come to me and pay me 7 percent and get 5 percent from them, and have it insured by the Government.

We are not making any fight whatever on the Morris Plan Banks. They are engaged in the same line of business that we are, and we think they ought to be excepted. We think, too, that we ought to be excepted, and we believe we would have been had they known about this class of business.



It is a very serious problem with us if we are forced into the Federal Reserve System unless it is mandatory on the Federal Reserve bank to make a differential in the case of savings banks of, say, 1 percent.

The Federal Reserve Bank System will be governed by the large banks throughout the country, and the small State banks; in our State we have numerous banks with \$15,000 or \$25,000 of capital; and if they are going to fix the uniform rate—in fact, at the present time, so far as State banks in the State of Georgia are concerned, there are 224 State banks today and they are paying 2½ percent interest, on the ruling of the Federal Reserve Bank.

We are not in the Federal Reserve System, and we are paying 3 percent; we are doing that because the Federal Deposit Insurance Corporation has not the right, under the present law, to fix the rate of interest that we pay. If we are forced into the Federal Reserve System, unless we are given a differential rate, we will be in a bad fix.

The commercial banks in Atlanta—and I suppose the same thing applies to any savings bank—do not care anything about savings deposits; they say they are a burden, and they would rather not have them. But what they really mean is that they want to get the deposits and do not want to pay for them.

Mr. SPENCE. What do the State banks pay?

Mr. GEORGE M. BROWN. The State banks pay 3 percent—all of them not in the Federal Reserve System. Those in the Federal Reserve System are tied up with 2½ percent.

Take a town in Georgia, one of our smaller towns, where we have a national bank and we have a State bank. At the present time the national bank is in the Federal Reserve System, and they are paying 2½ percent, and the State bank is paying 3 percent. Or, to reverse the example, take a town where there is one State bank in the Federal Reserve System and another State bank not in the Federal Reserve System. The bank in the Federal Reserve System is only allowed to pay 2½ percent. We think both of them ought to be allowed to pay the same.

I am not raising any point against the bill in any way, except to call your attention to the fact that our class of business is similar to that of the building and loan associations, and as near as possible to that in the building and loan associations as the mutual-savings banks.

The main difference between a savings bank and a commercial bank is the fact that what decides it is whether your deposit is subject to check or not. Take the Federal Reserve law; if you have a savings account they have to have a reserve of 3 percent. They differentiate between commercial accounts and savings.

Mr. SPENCE. What interest do you pay your stockholders?

Mr. GEORGE M. BROWN. To be frank with you, we have not been able to pay them anything in the last 3 or 4 years. We started on \$35,000, and we gradually got up to half a million capital, and we paid in about \$150,000 of that surplus, and when we paid in for the stock we raised that surplus up to \$500,000 and had \$120,000 of undivided profits. But when this calamity of 1929 came along we marked off \$400,000 from the surplus account to profit and loss.



We had built up that surplus account over a period of 35 years, and we paid as much as 8 percent to our stockholders.

We see no reason why because it happens to a Morris Plan Bank, with banks in different States that they should be excepted and we should not. They kept them well informed about their banks but they did not know anything about us; they did not know that there were any other banks except Morris Plan Banks. Their charter and our charter and their powers and our powers are the same.

One reason why we did not want to be in the Federal Reserve System was this: We did not want to be in the shape where the Government's \$5,000 guarantee to building and loan associations is confronting us with 3-percent interest because we did not see where we were going to get off. It is bad enough now with them having 5 percent and we 3 percent.

The Government is interested in building and loan associations, and is interested in our banks. That is our whole fight. We want to be included. We have the same charter powers and we have no deposits subject to check, and we want to be included. Wherever the Morris Plan Bank is excepted we want to be excepted.

I think the Federal Deposit Insurance Corporation thinks we are right and I feel sure you will think so.

Mr. HOWARD. Mr. Chairman, we want to express our deep gratitude to the committee for the hearing you have given us. We appreciate it.

The CHAIRMAN. We are very glad to have had you here and we thank you for your statement.

#### STATEMENT OF CHARLES C. MAYER, WASHINGTON, D. C.

The CHAIRMAN. Mr. Mayer, will you come around, please, sir. You may give the stenographer your name, your address, and whom you represent.

Mr. MAYER. Mr. Chairman, I undertake to speak for the 80 percent or more of our citizens who are economically and financially disfranchised through the operation of this unconstitutional system. The Supreme Court has just affirmed or confirmed the decision of the Seventy-third Congress that the banking system interfered with the—rendered ineffective the power of the Congress; and the Seventy-third Congress set out—

Mr. FORD (interposing). Mr. Chairman, I would like to know who this man is.

The CHAIRMAN. I was just about to bring out that information, and ask Mr. Mayer to make a general statement as to whom he is and whom he represents.

Mr. MAYER. I appear here also as the friend of the court, or the honorable committee, and as a spokesman for the End Poverty in Civilization Society, that was started last year in California. I claim—

Mr. GOLDSBOROUGH (interposing). What is the name of your organization?

Mr. MAYER. End Poverty in Civilization Society.

Mr. FORD. Would you mind stating where you live?

Mr. MAYER. 2015 Taylor Street N.E., Washington, D. C.

Mr. FORD. You live in Washington?



Mr. MAYER. And it was organized—

Mr. GIFFORD (interposing). Is that the same as the End Poverty in California? Is that the same name for the whole organization?

Mr. MAYER. Extending all over the country.

Mr. FISH. Who is the head of your organization?

Mr. MAYER. Upton Sinclair.

The question here is the sovereignty of the Government or the sovereignty of the preferred class of bankers, who have ruled economically, except for a short period that Andrew Jackson put them out of business, a period of 20 years, when the national debt was entirely eliminated and the country had so much money that it distributed some surplus among the States. Private debts were practically negligible at that time.

The Civil War came along in the sixties, and at that time we were forced into an alliance with private gold-monopoly bankers, internationally allied, under the same conditions that the Bank of England was started, through merchants in Parliament and merchants out of Parliament cooperatively giving to themselves the power to issue money under the Government; and the same system that was inaugurated under Alexander Hamilton when his friends in Congress combined with his friends, his banker friends, in New York, to give them the issuing, the power to issue, money unconstitutionally.

They chartered the First Bank of the United States, unconstitutionally.

Thomas Jefferson said that a revolution was needed every 20 years to get rid of the tyrants. That bank lasted for 20 years; and those tyrants disappeared.

In 1817 or 1818 the second bank was chartered and it lasted for 20 years, until Jackson took away their power. And for the next 20 years we had a normal Government, a democratic form of Government.

Then, in 1862, 73 years ago, the Congress violated the Constitution and gave back to the private monopolists, the gold monopolists, the power to issue money.

Money—the definition, mine—is anything agents of the people choose to issue under their sovereign fiat power to serve as a legal tender, representative, token-instrument for value created or rendered by production or services to be used for the consumption and satisfaction of our commercial transactions, trades, and transfers of property, clearances, balances, settlements, and lawful obligations and debts, regardless as to whether it is an imprinted metal coin or a paper certificate, with or without intrinsic value.

Mr. FISH. Are you in favor of the central bank?

Mr. MAYER. Under State—under control of all 48 States—yes, sir; the same as we have our Government under the control of all 48 States, its Representatives in Congress, who alone have the power to coin money, to issue a sufficient quantity to carry on the business of the country, to regulate the value of that money by naming the interest charge, the same as the Treasury and the Federal Deposit Insurance Corporation undertook, in January, a two and one-half percent basis for savings accounts, a rate that is held in abeyance, so that Congress can decide what is a fair return. The President says the Home Loan should have 5 percent and the Reconstruction Fin-



ance Corporation says 4 percent, and has loaned on that basis. That control has been turned over unconstitutionally, I repeat, for 73 years, to private promoters, who have run the Government and have dictated the economic power of the Government.

Mr. GOLDSBOROUGH. Speaking concretely, you say you are in favor of a central bank, controlled by all 48 States. Do you have in mind the bill introduced by Mr. Sweeney, the Coughlin bill?

Mr. MAYER. Yes, sir; a bill similar to the one introduced last session by Senator Cutting.

We have got to have a representative government, and the vital fundamental, all-important, all-essential, power of the Government pertains to the economies that regulate the Government, to the money issuing power and the power over the sword. That is supreme. If we are going to turn the supreme power of the Government over to the private manipulators, we have no representative government. We have had no such representative government for 73 years, until the last Congress.

And this Congress has taken back, is getting ready to take back, that control.

The Government has failed in its duty and we have had barter and trade, reversion to the cave age of mankind, in various States, because they cannot get the currency they need to do business with.

They surrendered their power to the national Government and were not permitted to issue or to coin money, with the understanding that the general Government would supply them with the—with sufficient circulation, and that has never happened.

We have had 200 billion dollars of inflation; and I would be glad to submit the figures, more or less detailed, from official records, for the information of the committee, showing just how we had 200 billion dollars of inflation, and had complete deflation.

The inflation hijacked the prices of everything in the country, and the people contracted to pay those prices, and then, when the period of deflation set in, why, nobody could meet the prices, and homes had to be foreclosed, 10,000 a week. The record showed, in the Home Loan hearings, as per page 236 of the hearings on H. R. 5531 and figures obtained by Congressman McFarlane, of Texas, 275,000 individual urban homes and 244,000 farms were wiped out in one year, because of the scuttling of humanity.

And nothing has taken the place of that 200 billion dollars. Yet we hear objection to just replacing 2 or 3 or 5 percent of that in real money. We have based everything on a few billion dollars of gold, which is not money and is worthless except as a commodity that may be used in the arts and trades, unless it has the fiat stamp of the Government on it, with enough alloy to keep it from wasting away, to make it legal tender. It is no more legal tender than our greenbacks were and greenbacks are backed up by all the energies and all the intelligence and services and productive capacity of 126 million people, which makes our money supreme. The Supreme Court was unanimous—Mr. Gifford spoke of eight members being unanimous on one point. It was unanimous.

The CHAIRMAN. It was Mr. Hollister.

Mr. MAYER. Oh, it was unanimous in saying that Congress has been or is unconstitutional. Four members, the minority, said they



violated the supreme sanctity of contracts. Five said they had violated the Constitution by interfering—

The CHAIRMAN (interposing). Eight of them said—

Mr. MAYER (interposing). No; five said they interfered with the power granted to Congress or interfered with the power of Congress. I have that here somewhere.

Mr. GOLDSBOROUGH. I think all the members of the committee are familiar with the decisions of the Supreme Court.

Mr. MAYER. I would like to get that exact wording: "Interfered with the exertion of the power granted to the Congress." That was the majority. And that has been going on, as I said, for 73 years.

Mr. FISH. Mr. Chairman, can we find out whether the gentleman is advocating any specific legislation?

Mr. MAYER. I am advocating the central bank, proposed by Mr. Sweeney, with some elaborations to get rid of some of our \$250,000,000,000 of debt money and in its place a little constitutional money, that will liquidate debts, and not keep the entire public in subjugation, and not destroy our democracy, and not encourage socialism, that the President, on the 12th day of this month, says must be combatted in business, in order to prevent its spread nationally. I am opposed to the promoting of communism, that the bankers' community of interest promotes.

The CHAIRMAN. You and Mr. Fish are agreed, then?

Mr. FISH. I would like to have someone liquidate my debts. I want to find out how to do it.

Mr. MAYER. I will give you that formula. I have been advocating it for years. I also found that Speaker Byrns, on the 15th day of June, in the Congressional Record, page 11836—I think that is the exact page—said that Congress had been modest in its expenditures, compared with its power to secure money. He said that we could issue \$10,000,000,000 of cash legal tender, safe, constitutional money—not in those exact words—and redeem it by laying aside the revenues from alcoholic taxes. On the same basis you could issue any part of twenty-five billion to fifty billion of dollars by laying aside the excess revenues, after allowing a fair return, to the power interests, on their portion of over a billion dollars of revenue per year—take the more than 3 percent that Congress now collects—after two efforts, through Congress, the first of which was beaten in conference by Mr. Crisp of Georgia, who was kept at home because he beat it—and increase that 3 percent revenue up to 50 percent or more, if necessary, and lay that aside, \$500,000,000 a year, and in time you will have enough to liquidate the twenty-five or more billions of honest legal tender cash.

A fair return—the Supreme Court's last decision is the going value of money. A previous decision was, in the *Baltimore Rate case*, 7.46 percent. The Treasury Department has been trying to fix it at 2½ percent, one-third of 7.46 percent. If the utilities are allowed to earn 2½ percent on a guaranteed basis, then all the revenues between 2½ percent and 7½ percent can be allocated for the use of the people of the United States, whose wealth it is. They produce that wealth.

Mr. FISH. How would you get the money used for relief purposes at present?



Mr. MAYER. Issue bonds to the Treasury Department instead of to the bankers, and let the Treasury Department hold those bonds for the date of redemption, and deposit them against money issued the same as the bankers do the bonds now given to them.

Mr. FISH. The banks draw interest on the bonds?

Mr. MAYER. Yes; and let the bonds draw sufficient interest to liquidate them in a given number of years, issue money against them, set aside whatever revenue from cigarette taxes, 60 percent of the consumers' purchase price, or alcoholic taxes, or gas company taxes, the gasoline and power company taxes, any taxes you need to levy on, to liquidate those bonds, and issue your honest money, not subject to inflation by the bankers, not subject to deposit as reserves and inflation 10 or 20 times, as Hamilton at first proposed, and actually operated.

Mr. FISH. What would you do with the bonds that are now outstanding?

Mr. MAYER. Gradually, very gradually, slowly, replace them with tax-redeemable bonds.

We have followed the fraudulent British system of money all through our history; and they are talking about not impairing the credit of the Government, because we have not reached the limit that the Bank of England has reached, or the English Government has reached, which is a false model to follow. We broke away from England to get away from its money controls; and immediately we lost our independence when we subjected ourselves to the same kind of money controls. We have had no democracy, such as the patriots of 1776 fought for. We have never had the opportunity to deal among ourselves on a fair and equal basis, with justice, even-handed, distributed to all. We can never have any such democracy until we are able to independently deal with one another on a settlement basis, in cash, without being tied to bondage slavery and debt.

Mr. CLARK. If you called in these bonds and replaced them by currency, you would not cancel the bonds, you would deposit them in the Treasury?

Mr. MAYER. If you called in the outstanding bonds and replaced them, you would have to issue new bonds, liquidated by tax revenue.

Mr. CLARK. You would not issue currency to pay off the present outstanding bonds?

Mr. MAYER. Not without new bonds to be liquidated through revenues accumulating from taxes.

Mr. CLARK. The original statement was that, instead of issuing bonds when the Government needed money, that it would issue bonds and deposit them merely in the Treasury instead of in the national banks.

Mr. MAYER. Yes, sir.

Mr. CLARK. Why do you not follow that method in paying the outstanding bonds that are now held in the banks?

Mr. MAYER. I would follow that and redeem them.

Mr. FISH. I am not at all worried about the so-called "distribution of wealth." I am a little bit worried about the distribution of poverty. That is what I am afraid of; and your organization is to end poverty. Cannot you tell us how you are going to end poverty?



Mr. MAYER. Yes. I am on the opposite viewpoint from you, the same as I am on the opposite viewpoint from Dr. Spahr. Yesterday he assumed that when we used money—

The CHAIRMAN (interposing). Neither one of you believes in communism, I understand.

Mr. MAYER. Yes, sir.

He is opposed to national communism and I am opposed to bankers' communism. We have had redistribution of wealth in the last 5 years. We had redistribution of wealth in 1929, 1930, 1931, and 1932, concentrated into fewer hands than before.

Seven times we had a panic, whereby—I have the figures; I have dug them out, after a great deal of trouble—\$200,000,000,000, nearly, of stock market inflated values were deflated.

Mr. FISH. Distributed?

Mr. MAYER. Distributed among the bankers.

Mr. FISH. Do you not think that the rich man has had his fortune pretty well distributed in the last few years, not necessarily from the stock market crash, but from the deflation of real estate values and other values? Don't you admit that?

Mr. MAYER. I admit that he has lost a portion of his fraudulent wealth.

Mr. FISH. He has lost at least 50 percent of his wealth?

Mr. MAYER. He has lost probably 50 percent of what he fraudulently gained prior to 1929; and every panic has redistributed wealth in the hands of fewer and fewer people. Now, that has been going on 40 percent of the time, 1 year out of every 2½ years, when we have had a depression.

Mr. FISH. Now, can you tell us how you are going to end poverty?

The CHAIRMAN. Just a moment, gentlemen. I want to suggest that the committee meet in executive session at 3:30 o'clock. I hope all of the members will come. That meeting will be held in the other committee room, at 3:30 o'clock.

Now, you may proceed, Mr. Mayer, with your statement, before we quit.

Mr. MAYER. When Congress decides—

Mr. FISH (interposing). Could he tell us, briefly, how he proposes to end poverty? That is what his organization stands for and it is a very interesting proposal.

Mr. MAYER. I would end poverty by producing all the wealth we reasonably can, with all the facilities now prevailing, improved upon.

Mr. FISH. Well, then, you mean that you would abolish the A. A. A. and the N. R. A.?

Mr. MAYER. I do not believe in any of the palliative, alphabetical, soup tureen, bread-line measures.

Mr. FISH. This is treason, Mr. Chairman.

Mr. MAYER. They are all just camouflage. The big problem is how to get back to the Andrew Jackson Democracy—

The CHAIRMAN (interposing). Let me suggest to you that Mr. Fish has directed your attention to a line of questions that we would like to hear discussed.

Now, you say that you are in favor of unrestricted production?

Mr. MAYER. Yes, sir.



The CHAIRMAN. Now, will you follow up that line of discussion.

Mr. MAYER. The average income per family is under a thousand dollars. I think in 1929 it was around \$800. The Brookings Institute has told us that \$2,000 is the subsistence level. The President, I think, says around \$1,800, and other authorities go a little higher. Take the standard of living figure of the Brookings Institute, \$2,500; and if we had \$2,500 a year for 25 million families or 30 million families, we would have had 75 billions of dollars, that would turn over a number of times, and it would outstrip all our present productive capacities. We could not produce goods enough to meet the demand. Never in history have goods been produced in such quantities that they could not be consumed. The reason was that there was no purchasing power. There was no means of distributing these goods. Everything in America has been tied to the banker's control, his power.

Mr. FISH. Your proposition is that we cannot overproduce goods and commodities; that there can be no such thing as overproduction?

Mr. MAYER. No such thing as overproduction, because we have never had anything but underconsumption.

The CHAIRMAN. Now, you do not mean to say that you could not overproduce? But you mean to say that we never have had overproduction.

Mr. FISH. That is what I wanted to find out, because I wanted to follow it up by the question that you could certainly in a month's time produce more shoes than the people could wear, or more tooth-brushes than they could use, or hats, or anything else.

Mr. KOPPLEMAN. Just at that point. I heard you say that \$2,500 would do it; but, if you took an average of \$2,500, would not that be inflation which would result in that \$2,500 only building up the purchase prices? What about the quantity in goods and services it would purchase?

Mr. GOLDSBOROUGH (interposing). Just a moment—

Mr. KOPPLEMAN. I would like to get that explanation. Would not you right now get back to the basis we now have? I might extend my question on the same basis and ask, if Mr. Townsend's plan for old-age pensions went through, then, if at the end of a year his \$200 a month would not have dropped down to \$30 in purchasing power, so that they would not be any better off by reason of the fact that they got more money?

Mr. GOLDSBOROUGH. I presume your answer to that would be that production would increase correspondingly with the increase in money, so that there would be no raise in prices, no inflation? Is that what you mean?

Mr. MAYER. Yes, sir. here would be a balanced production. It should be developed gradually.

Mr. KOPPLEMAN. That does not quite answer my question.

Mr. GOLDSBOROUGH. If you do not increase your money any faster than you increase your production, then you will not have any inflation.

Mr. KOPPLEMAN. Now, if you do not mind, let us get to that thing. If I have \$18 and if I can buy for that \$18 a suit of clothes; and then, next week, instead of \$18 I am getting \$25 and I cannot buy any more than that same suit of clothes, that cost the week before \$18,



but due to the fact that more money has been given to me the price of the thing has increased correspondingly—and it would increase correspondingly—therefore I would be no better off by reason of having that \$25 than when I had the \$18.

Mr. MAYER. On that hypothesis, yes; but if you used your \$25 to liquidate your debts then you would be that much better off.

Mr. KOPPLEMANN. You are talking now about paying debts and are not answering the question asked you.

Mr. MAYER. Well, used for constructive purposes, and not used entirely for one purpose, but used in a balanced way. Say that you are going to pay—you are going to get \$6,000 revenues next year instead of \$3,000, and the mortgage on your house is—

Mr. KOPPLEMANN (interposing). I can readily see the wiping out of debts, that you intend to argue with me. Now, I am talking about purchasing power, underconsumption, and overproduction, and the problems they involve. Let us confine ourselves a moment to that question. I am very much interested in the value of this money for the purpose of taking up production, so as to give everybody employment, and that is the foundation of my question. I am trying to arrive at a situation where there would be enough produced to give all the people jobs.

Mr. MAYER. Only in a very gradual, slow development can that be done without disturbing our equilibrium. We cannot have a crash or an expansion suddenly without upsetting our whole national economy, which has just been upset because we had a crash from \$200,000,000,000 of bankable, negotiable values that floated around in the channels of trade to nothing now. We cannot reflate \$200,000,000 instantly without calamity. Give everybody a job at a dollar a day, if necessary, to start with, more or less, and then gradually build up the consuming power and gradually build up the productive power and not make all the shoes that people, surplus numbers, were devoted to making at one time, and include the production of every other necessity of life to balance that production.

Mr. KOPPLEMANN. Well, you based your statements on that Brookings Institute analysis of the situation, which they have just investigated, over a number of years; and in that Brookings Institute statement, the summary of it is that if you were to raise the people's income from \$2,000 to \$2,500, it would take care of production, so that there would not be overproduction; and you have just confirmed that, that there never was such a thing as overproduction; that it was always underconsumption.

Mr. MAYER. Yes.

Mr. KOPPLEMANN. I am inclined to go along with you on that thought. But what stops me is the question I put to you, namely, what difference will it make if they get \$2,500 instead of \$2,000? I want to see an increase of production, so as to provide employment.

The CHAIRMAN. Mr. Kopplemann, it would not make any difference, if there was no change in production, and you would be entirely right. It is Mr. Mayer's conception that, with the provision of an increased income, production would be immediately absorbed and that, as production was increased, distribution would take place among the people without any rise in prices.

Mr. KOPPLEMANN. Yes; that is what you have got just now. You have got—



Mr. MAYER (interposing). Yes.

The CHAIRMAN. You have got that same principle applicable, for instance, Mr. Kopplemann, in the case of wheat. Suppose you had 20 bushels of wheat. Wheat would be worth, we will say, a dollar a bushel. Now, then, if you had 40 bushels of wheat, if you doubled your production of wheat, you could bring \$40 into the picture, and still your wheat would be worth only a dollar a bushel. If you increase your production, as you increase the money increase the supply, you will not raise the price level, for it does not get out of balance.

Mr. KOPPLEMANN. Do you think that the increase or the decrease of the volume of money alone would solve the problem?

The CHAIRMAN. Do I think so?

Mr. KOPPLEMANN. Yes.

The CHAIRMAN. Oh, no; I do not. I think it is one factor in the solution.

Mr. KOPPLEMANN. I was going back to Governor Eccles' theory.

Mr. MAYER. The money must not be put into circulation unless there is something to represent it.

Mr. KOPPLEMANN. That means purchasing power?

Mr. MAYER. No; it means value.

Mr. KOPPLEMANN. If the money does not represent value, you do not have the purchasing power.

Mr. MAYER. Yes, sir; and if you are going to go back to the 1929 level of true income, not \$2,000, but \$800. Increase up to \$900 or ten hundred—you cannot do it in 1 year—and go on up to \$2,000 and then stabilize your prices; not make them subject to the bankers' inflation and have everybody contract and buy on high prices and then let them call their loans, that are inflated by them 10 to 20 times based on what they call the reserve. They have no right to have the reserve of the country in the banks.

Mr. FORD. Don't you see in the bill that we are considering a very substantial step in that direction that you have in mind?

Mr. MAYER. Unquestionably. This present Congress and the last Congress have been determined to crystallize the demands of the country; and they have the genius to go ahead and put those demands in such form that people can get money more freely and liberally than they have heretofore, through this bill, with whatever improvements can be injected into it, against the opposition of the greatest force and the greatest power there is in the world, that controls the money, the international control of money, which has been set aside, slightly, now.

In 1763 the British Parliament declared all colonial acts for the issue of paper currency—legal tender—to be void. A year later the British Board of Trade went on record in opposition of any of the Colonies exercising local sovereignty to issue its own money, independent of the dictation of Great Britain.

Private "money changers" who had been in control of the money issuing monopoly manipulation privileges over credit inflation and control of wealth, demanded that only those who hoarded gold in vaults had authority to issue diluted paper money tokens, bank notes, bank debts, and credits as substitutes for a fractional amount of "intrinsic" value in gold. Private bankers for 70 years had usurped this authority in England and operated it as an exclusive racket.



American colonists had no gold or coins except a meager supply that came from England and Europe to balance trading accounts. Dominating the supply of money and trade was more potent than control by political persuasion.

Taxation measures, stamp taxes, payable only in English money, credited instant friction. Force was used to compel obedience to trade and tax measures. British soldiers were quartered in New England. Friction caused the Boston Massacre, 1770. Three years later the Boston Tea Party resulted in further restrictive measures. Two years later the skirmishes of Concord and Lexington hastened the Declaration of Independence, 14½ months following.

Fiat money issued by the Continental Congress, helped by some specie money from "prizes" captured at sea, from trade credits, and some metal money and military support supplied by France, won the War of the Revolution.

Determination to be economically free from money controls in spite of large numbers of royalist Tories, sustained by intense loyalty of devoted patriots to self-control of their economic destiny and liberty surmounted all hardships regardless of the lack of money and bare necessities.

Desperate financial conditions were indicated by the petition of soldiers presented by General MacDougall to the Continental Congress January 6, 1783. Demands for pay included these expressions: We are unable to go further—we have borne all men can bear. Our property is expended; our private resources are at an end. We beg a supply of money. We have been the sufferers by hunger and nakedness and wounds. Seven long years have made conditions wretched. They (soldiers) entreat independence of America shall not be placed on the ruin of any particular class of her citizens. Without some payment a mutiny might ensue. The Army is verging on that state which will make a wise man mad. Congress was taunted with the fact legislators always paid themselves and as regularly left unpaid the military.

On June 9, 1783, a few hundred mutinous infantrymen stacked arms before Independence Hall, threw rocks, refused to disperse. Alexander Hamilton advised Congress "think of eternity", as he did not believe they had "more than an hour to live." Pennsylvania's own militia, insubordinate, offered no protection. So Congress at night fled to Princeton and later to New York.

In 1786 Shay's rebels prevented the Massachusetts Supreme Court from sitting. They engaged in skirmishes with the State militia with a few casualties, tried to capture the arsenal, and burned a few buildings. They demanded pay for Revolutionary War services. They opposed extravagant pay of the Governor and complained of extortionate, predatory policies of lawyer legislators that burdened the poor with taxes.

After 5 years of exhausting human wastage, conditions today are much the same.

Alexander Hamilton was a radical inflationist. As early as 1780 he proposed a Bank of the United States with "a foreign loan of \$200,000,000; a subscription of \$200,000,000 more guaranteed by \$10,000,000 of specie or a bona fide equivalent currency." That is inflation 20 times.



The half-British Hamilton, opposed by Thomas Jefferson and James Madison, evidently hoodwinked George Washington in the establishment of the First Bank of the United States in 1791, patterned after the Bank of England.

Washington had expressed his fear of fraud thus:

The wisdom of man, in my humble opinion, cannot at this time devise a plan by which the credit of paper money can be long supported.

Through Hamilton's privately established, Government allied, privately controlled bank, the wealthy citizens whom Hamilton thought alone were fit to govern, inflated and juggled values on a thin basis of deposited specie money. That constantly increased their wealth. Hamilton's friends in Congress put through a funding operation to pay off war obligations due to Revolutionary soldiers and others. They bought up these claims for a few cents on the dollar, and cashed them, through a cooperating private bank, for 100 cents on the dollar. Government funding obligations carried 7 percent and 8 percent interest. The Government was pledged to buy \$2,000,000 of the private bank stock, through notes.

Hamilton had drafts issued on European bankers for \$2,000,000, had them credited on the books of the bank, transferred the credit to the account of the United States on the books of the bank, protected by Government notes, and then canceled these trumped-up drafts, which were never intended for collection. Reference: John McConaughy's *Who Rules America*, pages 33, 34, and 35. This operation created \$2,000,000 of privately issued, intangible money. Similar methods have been pursued by the private bankers in control of the money power of the country throughout the history of the United States.

Regarding funding schemes William Pitt, British Chancellor of the Exchequer, is credited with this statement:

Let the American people go into their debt-funding schemes and hazardous banking systems; and from that hour their boasted independence will be a mere phantom.

In regard to the Civil War inflation Abraham Lincoln said:

If a government contracted a debt with a certain amount of money in circulation and then contracted the money volume before the money was paid, it is the most heinous crime that a government could commit against its people.

The United States Monetary Commission of 1876 made an exhaustive study of the terrible depression following the Civil War. A few of the conclusions of the Commission I outline briefly, as follows:

Price is the relation in money units to the quantity or unit of every other thing in exchange. Under a credit system, to pay at future periods, steadiness in prices becomes all-important, and depends upon the quantitative relation between money and all other things. All contracts are based on existing prices.

Generations of falling prices and ruin might come and go before relief—if dependence were had on pure gold supplies, through the lapse of centuries, to match the relative amount and activities and services that human progress demands.

Metallic intrinsic values are based on gamblers' chances and on finding precious metals, and there is—



no scientific relation to the increase or decrease of population and commerce, which alone should govern the stock of money.

Limitation of quantities regulates the volume of money—  
whether imposed by fiat yield or by nature's yield. Fiat yield is measured—

by the wisdom and justice of man. The value of money is measured by the cost of obtaining it.

A balanced supply is necessary for equity to debtors, whose contract terms must be met by submitting—

to the partial or entire confiscation of property—

when money ceases to circulate.

Money is the primary and governing force, whose functions cannot be superseded by any devices, checks, bills of exchange, clearing houses. These expedients grow out of money and could not exist without it.

Use of government fiat money is the one important advance civilization has made over barter. Credit money was impossible under the barter system and is a corrupt use or exploitation of the money system. Volume of money controls prices, not volume of credit.

Credit is the explosive element in business. There never can occur a universal fall in prices without a decrease in the volume of money.

Credit depends upon liquid cash value, which collapses when inflated credit collapses.

This explains why, since 1929, the Government has been virtually compelled to squander \$500,000,000 under Hoover to help peg farm products and why thousands of millions of dollars in the past 2 years have been employed to minimize the collapse of values of all kinds, to maintain other related values.

Money alone, actual money, liquidates debts.

Credit depends upon whims and caprices, on abnormal mental conditions of the moneylender, a disease which must be treated psychologically.

Long-term stretching of debt credit money for homes, and so forth, now take the place of collapsed credit, to prevent further collapse of values.

It is notorious that most of our universities have been built with endowment from privately acquired bankers' monopolized and usurped wealth. The jobs of nearly all of the 66 so-called "economists" signing a memorandum of objections to title II of H. R. 5357 may be considered subsidized, endowed, or controlled by usurped wealth. Practically no one of the 66 signers has qualified as an independent, untrammelled, or free and unprejudiced student of the money question. Orthodox and confirmed Tories, maintained in jobs because they are orthodox, because confirmed Tories, cannot render disinterested opinions, except as orthodox, confirmed Tories. These 66 men had as their spokesman yesterday Dr. Walter E. Spahr, of New York University, unquestionably a confirmed, orthodox disciple of predatory wealth.

The Supreme Court sustained the action of Congress in nullifying impossible contracts to save the existence of the Government, through the supreme power of Congress. Justice Stone explicitly stated that "power to regulate the currency which we now hold to be superior to the obligation of the bonds."



Prof. Walter E. Spahr, spokesman yesterday for the 66 economists, evidently considers the money decision of the Seventy-third Congress, affirmed by the Supreme Court, as a forgery—false utterance.

Dr. Spahr is correct regarding the "creating of money by borrowing—but not from bankers—and through taxation." Borrowed bankers' money is merely borrowed Government money, created and issued by the Government. Therefore, Congress would "render ineffective the power of Government" over the supply and control of money by not issuing its money direct through the Treasury Department upon the deposit of authorized, self-liquidating bonds.

Congress should borrow and create money only on the taxable, redeemable assets of all its citizens and not through the preferred privileges and powers heretofore allowed to a small class of private citizens who have controlled the congressional power "to coin money, regulate the value thereof" for many decades.

Bankers should not exist on a Government-subsidized, bond-based, dole system; but as conservators and custodians of wealth left in their protection for safekeeping and administering. Some bankers are finding it necessary to meet expenses by charging for such services, as lawyers would do. Let the depositors pay for protection from burglary. Let bankers collect for services by acting as local agents for the State authority to be set up to administer the "coin money" and regulatory powers of the National Government, not by inflating credits and manipulating values for their interest yield and confiscatory possibilities. Methods in use up to now have always caused economic crashes and bank collapses, that have constantly accelerated the concentration of wealth.

Ill fares the land, to hastening ills a prey,  
Where wealth accumulates, and men decay.

New banking legislation must minimize control of the constitutional power to regulate money by private bankers, who have been sustained on a dole basis for many decades, to dominate and control the economic welfare of all the people of the United States.

The CHAIRMAN. Well, I had understood that Mr. Mayer would finish in 15 minutes. I appreciate the fact that he cannot say what he wants to say in a few minutes. I will make this suggestion, that you can extend your statement in the record by adding further expression of your views.

Mr. MAYER. I thank you, sir.

The CHAIRMAN. And I want to say to you that members of the committee appreciate your statement.

Mr. CLARK. I want to say, too, that I have a little different idea.

Mr. GOLDSBOROUGH. I would like to say that I consider Mr. Mayer's statement extremely helpful to this committee and to his country.

Mr. MAYER. I more than appreciate your courtesies.

(Thereupon the hearing was adjourned, subject to the call of the chairman.)

#### EXTENSION OF REMARKS, C. C. MAYER

Excerpts cited from United States Monetary Commission, United States Senate Reports, Forty-fourth Congress, appear volume 5, part I, pages 33-37.

Concerning Hamilton's Government-allied bank, "Who rules America?" reveals, page 35, "it was Hamilton's custom to borrow money from the bank when there were sufficient Government-tax funds available to meet Government requirements."



Regarding 200 billions of bankers' promoted inflation and deflation, United States Senate Hearings on Stock Exchange Practices, page 7923, part 17, lists 33 of the largest banks of America as promoters of stock-market pools and syndicate operations. These 33 top-notch banks are located in 10 cities: New York, Boston, Providence, Philadelphia, Pittsburgh, Cleveland, Chicago, Milwaukee, San Francisco, and Los Angeles. Two other greatest banking institutions, the Rockefeller Chase Bank and the J. P. Morgan partnership of 19 bankers, along with Detroit banks, had their infamous operations exposed in extended hearings that covered their notorious exploitations to the extent of hundreds of pages.

Congressman A. J. Sabath's committee currently investigating real-estate reorganizations has reported defaults upward of 8 billions. Deflation of many billions of dollars in real-estate bonds has crippled 4,000,000 of America's thriftiest investors and savers, affecting "indirectly 20,000,000 of our citizens", says the report submitted January 29, 1935.

Senator Hiram Johnson's investigation in 1931-32 of foreign-bond promotions by New York bankers revealed many billions of these bonds defaulted, with much of their value wiped out and lost to innumerable investors.

National City Bank stock values were inflated to a valuation of \$3,190,000,000, at \$580 per share, with promises of much higher value. More than 3 billions of this "established" stock-market value was wiped out. Similarly, the Rockefeller-Aldrich-Al Wiggins Chase Bank stock, the George Baker-Sam Reynolds First National Bank stock, Sam Insull's 2 billions of inflation, and a few other over-the-counter (or over-the-fence) cats-and-dogs approximated another 10 billions of deflation in bankers' negotiable values.

Rockefeller's Standard Oil of New Jersey was inflated to \$2,160,000,000, at \$84 per share, was pegged temporarily at \$50 per share, and shrank to one-fourth of its boomed price. Kentucky, Indiana, and other Standard Oils were overvalued other billions. J. D. Rockefeller, Sr., and Jr., halted the first great stock crash by propagandizing through stock-exchange tickers: "Me and my son are buying safe stocks." There were no safe stocks, as demonstrated by six new, successive panic smashes, bear raids, deflations, between November 13, 1929, and July 1, 1932. Rockefeller's New Jersey and Indiana Oils were deflated 3 billions between them.

Morgan's Alleghany Corporation, United Power, Standard Brands, United States Steel were fictitiously valued, collectively more than several billions in the bankers' slaughter-house boom. United States Steel was inflated to \$261 per share and has sold much below its recent \$30 price. More than 2½ billions in "values" disappeared when these frauds were deflated.

The Morgan partners' General Electric was inflated to nearly 3 billions; Morgan's Electric Bond & Share and its American & Foreign Power, both step-child brats of General Electric, were inflated above another 3 billions. These three produced a holocaust of paralyzing losses in "values" more than 5½ billion dollars. General Electric deflated 2½ billions, Bond & Share over 2½. The latter was rigged to \$189 and dropped to under \$5 per share for its 13,560,000 shares.

The blue-ribbon ringleaders of superlative inflations and deflations were the Morgan-Baker dominated American Telephone and the Morgan-Du Pont-Raskob General Motors. Motors was rigged to 4 billions and deflated to one-third of 1 billion, dropping 3½ billions.

Du Pont de Nemours stock, which holds nearly 40 percent of General Motors, was juggled to a "value" of 2½ billions and reduced to one-eighth billion. American Telephone was the largest culprit. Telephone subscribers were baited with this "investment" to a valuation of \$4,350,000,000 which shrank to less than 1 billion. From \$310 to \$70 per share for 14 million shares.

Preceding the second Hoover panic of May-June 1930, stock-market jugglers employed by American Telephone's masters unloaded over one-half billion new stock on preferred subscribers with "rights" at \$250 per share. Two months later, in May-June, American Telephone became deflated in value 25 million dollars average every day for a solid month, reaching a total shrinkage over 800 million in 30 days.

Anaconda ("any large snake which crushes its prey in its folds") Copper stock was rigged to \$174 per share for 8,840,000 shares and sunk to \$3, a drop of another 1½ billions of bankers' credit inflations.

Almost as shamefully as Anaconda was Kennecott Copper whirled about to \$104 high and \$5 low for 9,385,000 shares, nearly 1 billion shrinkage.



Inflation and deflation of only two railroad exploitations equalled 2% billions of disappeared "values." Pennsylvania with its Penn Road monstrosity subsidiary and New York Central with its exploited pets were boosted to \$110 and \$256 per share, respectively, and dropped to to \$6.50 and \$8.75 for their 13 and 5 million share issues.

The Federal Trade Commission reveals that H. L. Doherty unloaded his Cities Service stock on the public, with the help of Nation-wide newspaper supported publicity and advertisements, to such an extent that Doherty was able to "take" for himself over \$18,000,000 in cash "commissions" and profits. The Kansas State Banking Department reported 10 prior liens approximating \$500,000,000 "before Cities Service common (stock) would participate \* \* \* of questionable or worthless value." Cities Service printing presses ran off 29 million share-certificate substitutes for money to unload as high as \$68 per share, and with a price deflation under \$1 March 29, 1935. A drop of two-thirds of \$100 per share shows worthless inflation around 2 billion dollars by H. L. Doherty.

Bankers' manipulated New York Consolidated Gas was floated as high as \$183 with 11½ million shares. Current prices \$15 to \$20 show a shrinkage of nearly 2 billions in inflated paper stock substitutes for money, sanctioned by bankers.

Columbia Gas & Electric, United Gas Improvement, North American (electric utility), collectively inflated their printed paper money substitutes to within a few millions of 4 billion dollars. Evaporation of bank-made "values" in these three cats-and-dogs exceeds 3% billions.

International Nickle and International Telephone jointly became worth 1,900 hundred million, and later less than 100 million according to "bankers' valuations" to show deflation of 1% billions.

Radio Corporation of America was run up as high as \$540 per share and ran down almost to the vanishing point to show 700 millions of evaporation.

Foreign bonds and real estate floated bonds were exploited over 10 billions of deflation and losses.

Over-the-counter New York bank stocks (three of them), Sam Insull's stocks, and several others show more than 10 billions inflation-deflation.

A score of New York Exchange stocks recorded above were inflated and deflated collectively more than 35 billion dollars.

Over 1,200 other New York Exchange and 800 Curb Exchange stocks aggregated more than an additional 100 billions of inflation and deflation.

Bonds and preferred stocks on the two New York Stock Exchanges alone were boomed and broken more than 20 billions in "values" by bankers.

Loans and discounts with the resources of all our banks were expanded and contracted much over 20 billions, from 60 to under 40 billions.

Urban home and farm home values were contracted 15 billions, more or less.

Defaulted debts of foreign governments exceed 10 billions deflation.

Individual unable-to-pay debts run many billions.

Authentic, official records prove the correctness of the approximations given above and show conclusively that there has been much over 200 billions of disappeared values to vitally shake the economic welfare of more than 80 percent of all our citizens. They prove the necessity of promoting "the general welfare" by restoring the well-being of our economically disfranchised citizens. Without restoration there can be no recovery.

"The epoch of the decline and fall of the Roman Empire" was due to failure "to solve the problems of the poor", says J. Blake Lowe in the February Forum, 1935. "Money got out of hand", says H. G. Wells. "Decline in the silver and gold mines of Spain and Greece" (contraction in the circulation of money tokens), says Sir Archibald Alison. The natural, early conception of money, of numerical, quantitative money used as symbols and tokens (numerata), became a thing, gold, and for a while silver, radiant and glistening—which a few learned to control—(moneta). Then it took another step toward materialism according to arbitrary weight (ponderata). When "the weights were degraded, the thing fell to barter", says A. Del Mar, a British authority, in 1886. He states the Renaissance reestablished weights first and then "pounds, shillings, and pennies, dennies, or denarii, which passed by tale." Nations have succumbed to the hypnotism of gold, the lure of spoil.

Prophetically, Del Mar observed: "Metallic money seems like one of the machines designed by illiterate mechanics for perpetual motion; it carries with it its own negation. \* \* \* It has begun to fail from the very instant when it was first set in motion. \* \* \* The civilization of India, of Egypt, of



Greece, and of Rome have all moved toward a vanishing point, and that is where gold and silver mining ceased to be sufficiently productive; and unless proper measures to avert it are adopted in time, it would seem that that of the modern world must move in the same direction."

History is strewn with the wrecks of governments and civilizations. The greed of money changers has ruined many.

Canada's Minister of Trade and Commerce, Harry Stevens, says "big business", made up of "unscrupulous financiers and business men, exploited Canada's consuming public, starved her producers, sweated her workmen, gouged her industries, and left her a choice of reform, dictatorship, or revolution."

Mr. Chairman, shall recessions, recessions in the circulation of currency, denials, depressions, poverty, restrictions, and destruction of our "surpluses" (undistributed) prevent a bountiful life and crush our civilization?

Japan threatens our white and mixed-race population. Shall our white people survive?

Japan buys surplus crops of food, cotton, and especially scrap iron. We junk or sell as junk or destroy the natural wealth that Japan buys. Japan's commerce grows all over the world. Ours decays.

The glory that once was the United States fades. Our people grow constantly poorer, subjugated by monopouly master kings of coined boodle who control our wealth, our economic and industrial facilities. They refuse to let 100,000,000 people produce their necessities. Natural wealth is destroyed, not distributed. Prices are increased artificially. Scarcity is increased. Poverty is increased. With Japan the picture is entirely reversed. And Japan conquers the trade of the world while the "glorious" United States declines and fades out of the picture.

All American values dealt with above, Mr. Chairman, and other existing values, especially stock market quoted "values", are arbitrary values, wholly dependent upon Congress' regulatory power to stabilize valuations by limiting earnings and taxing the surplus above maximum earnings. Stock-market masters have ruthlessly ruled in juggling values. They have run wild in fictitiously fixing manipulated prices and in usurping extravagant profits.

Because the weights, values of money, and money instruments in America have been expanded and degraded over 200 billions in recent years, as summarized above, business in hundreds of communities throughout the United States "fell to barter" as during Rome's declining epoch.

Financial tyrants have monopolized the money power and economic functions of Government for the benefit of financial tyrants. An overwhelming harvest of greed, graft, and financial corruption, with wars, almost starvation, have disruption or depression 40 percent of the time, want, poverty, starvation, have resulted. To palliate poverty is no remedy. To promote democracy, money must circulate freely to liquidate debts and abolish poverty as nearly as possible.

More bondage indebtedness without adequate tax-redeeming measures means more poverty for the masses, less liberty, less economic freedom.

"Orthodox" Wall Street stock market operators consider their accumulated wealth not only legitimate but praiseworthy. They pretend to be public benefactors. They own the tax-bearing bondage bonds sucked up through Wall Street's machinery.

Andrew Mellon, John D. Rockefeller, J. P. Morgan, John J. Raskob, H. L. Doherty, the Du Ponts, and others consider themselves outstanding patriots.

This current week a large Wall Street operator (B. M. Baruch) revealed to the United States Senate Munitions Committee he has \$7,000,000 in Government bonds laid aside. His constructive efforts in life have been devoted to bankers' inflations and deflations, pool operations, etc., through Wall Street. His one item of wealth in seven millions of Government interest-bearing bonds enable him to spend or squander \$1,000 per day for 7,000 days. Continuously for over 22 years, omitting Sundays, he can squander dollars at the rate of a hundred \$1 bills every hour for 10 hours each day, without touching any of his interest coupons or other wealth. Some consider this kind of wealth legitimate or "patriotic" wealth.

All holders of United States bonds, and amounts held, will soon be listed for Congress.

Masters of monopoly money controls have ruthlessly raided the ranks of the masses of mankind by inflation and deflation, to strip them of their earnings and accumulated savings periodically. In this way, according to incontrovertible evidence, the few have grown steadily more powerful by subjugating the masses with increasing poverty. And the poor have grown more numerous in con-



stantly widening circles until they threaten to engulf the whole of humanity unless enlightened money policies of Congress provide a method of escape to undo the wrong policies of the past.

Constitutional control of money by Congress, replacing bankers' control, alone can halt and prevent usurped attempts at unlimited license to loot; the economically strangling usurpations such as have reddened the records of human welfare in recent decades.

Since the Seventy-third Congress renounced the unconstitutional money system that rendered "ineffective the power of government", the only course consistent to pursue is a complete return to the Constitution and its mandate to Congress to regulate the value of money.

Vital national affairs concerning control of commerce and trade, affecting all 48 States in all economic activities, must be dealt with constantly on a national basis through "coin-money" agents of all 48 States. There can be no safe turning back to any makeshift substitutes through any dominating influences that do not synchronize identically and interchangeably with the supreme power of Congress.

Human progress demands trading on a broad basis with (money) restrictions minimized. Services and products of human energies and genius must circulate freely, constantly to pass their benefits from man to man. Ancient methods of barter limit rigidly the scope of human activity. The gold-control basis of barter, inaugurated and established by the Bank of England, is only one step removed from prehistoric methods of exchange tied to any one thing, as in barter. Credit expansions and contractions based on control of any one thing—gold—have proven their destructive, annihilating effects periodically. Control of the barter—gold and credit mechanisms—have too frequently been manipulated fraudulently to confiscate the wealth and destroy the welfare of the bulk of humanity.

An adequate, honest system of barter and exchange under a uniform representative medium of value—money—is possible only through the eternal vigilance of Congress, agents of all the people, who alone can assure and protect the rights and liberties of all our citizens.

Man's ascent from barbarism demands an adequate, liberal governmentally controlled supply of money as a system of settlement for the consummation of human negotiations, deals, and trades in all their relations.

Dissolution of democracy never has been the design or purpose of any Congress. Yet there is today a Nation-wide negation of democracy by destruction of the equal rights of an overwhelming majority of citizens to life, liberty, and the pursuit of happiness. Neglect of Congress' constitutional power—abuse and effects of abuse of improper money measures for generations—are responsible.

Debt slavery and poverty have submerged preponderant numbers of citizens. Our debt-slavery era, built upon the displacement of chattel slavery, is far more malignant and cruel today than human slavery ever was in the South, in most instances. The tender care and consideration given to its human chattels, their health and welfare, necessarily selfish though it was, put to shame the ruthless cruelty practised toward tens of millions of dispossessed citizens by the debt-owning class of wealthy monopolists who are the present slave-owning masters of men.

Chattel slavery, Mr. Chairman, was beneficent philanthropy compared to today's begrudging charity and deliberate denial of the right to work and live.

England's Americanized system of debt slavery was deliberately planned to replace the chattel slavery ended by Civil War.

What amounts to an undeniable and undenied bankers' conspiracy was saddled upon the whole American people as evidenced by the British Bankers' John Hazard confidential circular of 1862, and the American Bankers James Buell circular which sought to firmly establish monopoly national banking, by bribery as suggested by Mr. Buell.

Debt slavery and monopoly money-issuing privileges have gone hand in hand as proposed, immediately following and steadily, since the adoption of policies laid down in the Hazard and Buell circulars over 70 years ago.

Debt and economic slavery drive men mad or to destruction. They foreclose families out of their homes, rob the unemployed, set whole families adrift, destroy their welfare ruthlessly.

When bankers made "ineffective the power of government" by establishing their bondage, debt-slavery system in 1862, their monopoly money policies, controlled by the usury demands of private bankers, became, and still are, a com-



plete negation of our independence and the principles for which our Government was established through the Revolution of 1776.

Money monopolists' mighty wealth drives civilization to destruction through its heretofore irresistible force of sovereignty and power over the purse.

Mr. Chairman, greed, man's greatest curse, and money monopolies, have so completely condemned the loins and limbs of labor to a slavery existence as serfs, encumbered with idleness, irredeemable debt, and refusal to provide an adequate circulation of money, there is no escape except by revolution unless Congress reverses wrong policies.

Reversing wrong money policies of two and one-half generations, now started, must be followed by complete restitution of the rights won by the American Colonist from their British money masters. Constitutional control of the purse, regulation of the value of money, with their rightful implications, mean an entirely new rededication of our lives, liberties, and energies to the inalienable principles of equal rights, equal justice, equal opportunities, equal economic freedom.

Wrong money policies are criminally cruel.

Wrong economic (money) policies ruined Rome.

They vitiate, destroy the binding effect and control of government.

Mr. Chairman, they have destroyed many civilizations.

Wrong money policies were eternally wrong for every American caught in their meshes and economically disfranchised or fleeced for life.

Wrong money theories and practices have proven to be as cruelly criminal as autocratic, oligarchic governments that despoil, enslave, or deny the common rights of man. They have created over 250 billions of existing debt slavery in the United States and are less defensible than human slavery ever was.

Economic slavery is more intolerable than political slavery.

Untold millions of men are held in debt slavery today. They no longer get sent to prison as in another era. But they live virtually as prisoners in corporation-owned shacks and cannot hope to pay their back rents. They are held bound to their masters in bondage.

Wealth, fraudulent wealth, always has violated and exploited economic and financial laws, moral and civil, brutally with the brute force of brutes.

Exploitations of the many by the few has been the one fixed policy always used against the American people all the time, in depression periods as well as boom periods.

Exploitation more flagrant and violent than ever, has grown intolerable.

The same disruption that destroyed Rome is now happening here. Wealth was absorbed, seized, hoarded by economic autocrats.

National wealth has been siphoned into the hands of the few. Unbearable debt burdens and poverty have been saddled on the backs of the many.

The poor in Rome as here were dispossessed and pauperized.

Says H. G. Wells' Outline of History, regarding Rome: "The growing mass of the expropriated (the masses of humanity) was permeated by that vague, baffled, and hopeless sense of being bested, which is the preparatory condition for all great revolutionary movements." Rome's decline initiated a thousand years of stagnation.

"The failure of the Romans to manage the money mechanism \* \* \* was due, in part, to the absence of paper, printing, and a convenient numerical system. \* \* \* For a thousand years the policy of European states was vitiated by the crudest and silliest fallacies concerning the nature of money. \* \* \* Money, like dynamite and other tools used by men, can very greatly damage, as well as very greatly serve his society", recites Norman Angell's Story of Money (pp. 107 and 151).

"Accumulated wealth was hoarded; decay ensued."—Prof. W. Cunningham.

The inevitable, drastic change in our money system, now in transition, demands an entirely new viewpoint on all legislation. Demands a recasting of our whole banking and economic set-up.

A new deal civilization must discard all the old, outworn, misdirected, and untenable theories of money.

Our few money lords must yield to the vital necessities of 126,000,000 citizens.

Men will not indefinitely suffer privation while living amid a superabundance of all they can desire to provide a full life of plenty.

To check lengthening cracks in our civilization we must have production for use on a mutually advantageous or profitable basis. Monopolized production must not supply constantly increasing tribute to redeem falsely built-up vested capital.



Purchasing power, velocity of turnover of money actually used in trade, alone promotes the public welfare.

Insufficient circulation of money compels depression and distress.

Ample circulation of money and of trade is the all-important necessity to promote the general welfare.

Only 5½ billions of pocket money are now extant in dollars, mostly hoarded in bank vaults. For every self-liquidating dollar now owned and outstanding there are nearly 50 inflationary, debt-shackling dollars in circulation. There must be several times as many self-liquidating, cash-in-the-pocket dollars as now pass in trade and actually circulate to promote the general welfare.

Taking the falsely bottomed, falsely built, falsely boomed, and repeatedly wrongly buttressed financial-industrial monopolized combines now in control, and supporting them on a status quo basis to rehabilitate or reconstruct society is a denial of all the inherent rights of mankind. There must be no continued acceptance of tribute-exacting financial tyrannies that consume, through their excessive hydra-headed interest and profits system, the substance of humanity, saddled with scores of billions of frozen debts.

There must be a reversal of the mistakenly promoted economic financial manipulations of the past 73 years, since the issuance of legal-tender dollars ceased and were succeeded by the now repudiated gold standard system of closely controlled, piratically exploited, money-token securities and measures monopolized by a few master dictators of men, their associates, and beneficiaries.

Money should have no interest or bondage value, but to be disbursed only in payment for wealth values as created or transferred.

Money should be loaned to governmental subdivisions at cost, approximating one-thirtieth of 1 percent, with a service, collection, or redemption charge added in lieu of interest, penalty, or tribute charges.

Money should be loaned to quasi-public corporations at 1 percent or less for wealth-creating, productive purposes to help reduce the cost of a high standard of living, to help reduce the cost "of liberty and the pursuit of happiness."

Money should be loaned to all real-estate owners at 1 percent or less.

Payment of the soldier certificates (bonus) should be made at once.

Proper banking legislation contemplates a redeemable, noninflationary currency, issued to all the public on their negotiable assets. Money is to be issued and loaned in the same manner the Government now issues and lends money to the Federal Reserve banks, at cost, said cost being from 30 cents to 40 cents for a thousand dollars.

Private, monopolized control and ownership of tools, of money-token and other tools, has become a basis of enslavement.

Autocracy in industry cannot exist alongside democracy in government.

The existence of luxury in the presence of poverty and destitution is contrary to good morals and sound public policy.

The present depression is one that prevents the existence of abundance to enforce the poverty of scarcity.

A small group of men have vast, overwhelming wealth while the rest of mankind have vast, overwhelming debts, subjugating and unbearable.

Proper banking legislation must mitigate, minimize existing debts.

It is contrary to common sense that men should be pauperized because they produce too much of their necessities and even of their luxuries.

Small bands of our forbears took over a vast continent on the basis that unshackled, free men were endowed with equal rights. They built great industries with continental networks of transportation and an unrivaled capacity to produce beyond the bounds of the supremest wants of many scores of millions of their fellows. Free citizens now deny that any group of men have the slightest justification to proscribe the inalienable rights of 126,000,000 people and their posterity.

Obsolete, impossible-to-bear money controls cannot be revived synthetically. A decadent system cannot survive.

With radio's freedom of speech outstripping the petty financial-enslaving propaganda of special interests, their press and their lilliputian one-track mentalities, our national strength united will inevitably be asserted to block or surmount any further financial shackling of producers to restrict purchasing power, consumption, and an abundant life. A new deal that actually gets somewhere by abolishing economic slavery or insecurity cannot be denied.

A national monetary system owned and operated by 48 States is inevitable.



America's wealth was bequeathed to all its citizens. Not merely to a small group of money-manipulating monopolists, controlling, unconstitutionally, the power "to coin money, regulate the value thereof."

Unbearable high-interest debts have nearly all been accumulated since the days of McKinley and Teddy Roosevelt. They account for the pauperization of a preponderant percentage of distressed citizens with "80 percent of our population on the border line of poverty", says Senator Borah.

Mark Hanna's gold-bug victory started our present topheavy debt-money inflation. In 1897 the total debt structure of our then existing 82 industrial combinations is reported at only \$1,000,000,000. In the next 4 years a dozen more combines added 250 percent additional debt inflation, including Morgan's United States Steel.

In the 7 years ending 1929 new "securities", corporate and foreign bonds, were floated to the extent of nearly \$50,000,000,000, according to the Commerce Yearbook 1929. These 7 years produced nearly 50 times as much corporate debt-money inflation as the total outstanding corporate debt structure in 1897.

Wall Street's financing of the Great War by manipulation and inflation through the privately owned and operated Federal Reserve added scores of thousands of millions (scores of billions) to our debt-money burden.

While foreign nations have mostly repudiated their debts of all kinds our nationals continue to hobble along with impossible-to-pay debts and our burden continues to increase through mistaken policies.

Private monopoly ownership of money-issuing privileges, of debt-imposing tools and instrumentalities of industry, trade, and commerce are the basis of enslavement of the people of the United States.

Monopoly and luxury flourishing in the face of poverty and destitution of an overwhelming majority belie our independence and Constitution and disrupt the general welfare.

Natural drought and famine can be tolerated. Man-made depressions, scarcity and poverty because of money stringency are intolerable.

To establish an equitable, well-balanced growth and development of the whole of the United States, all State, municipal, and local taxes should be progressively taken under control of the National Government. Money needed to carry on State, municipal, and local activities should be apportioned out of the income of the United States so as to give every part of the country prosperity under State supervision.

Mr. Chairman, most of our countrymen are in shackles and chains. Economically they are enslaved. Enslavement is eternally wrong and cannot last.

Chains and shackles that bind the limbs of productive labor—farmers, clerical workers, wage earners—must be broken.

Economic slaves must be freed.

Liberty dwells only where men are free. What crimes have been committed in the name of liberty!

"The general welfare, inalienable (equal) rights, justice, domestic tranquility, the pursuit of happiness," are all denied to the tens of millions of economically disfranchised, dispossessed, economic slaves throughout our 48 States today.

Idle men become economically disfranchised citizens and serfs. Boys without marbles or sports lose their mutuality, their cooperating activities, and languish just as men without money income must also languish.

Congress must provide money circulation. There is no equal alternative.

Congress is now obligated to adopt an honest money system by beginning to assume its sacred constitutional power "to coin money, regulate the value thereof", so as to put everybody on a work basis or a security basis.

A few billion dollars of actual gold or other cash cannot by any possibility be stretched to pay 250 billions of existing debts. In his inaugural address President Roosevelt promised to drive from the temples the "money changers" who have piled up our enormous, unbearable debts through their private control of money-issuing privileges.

Railroads, cities, corporations, and farmers have been favored with legislation by Congress to repudiate impossible-to-pay debts. Hundreds of thousands of farm and home owners have lost their homes through foreclosure of impossible-to-pay debts. Nearly a million other home owners have been saved from foreclosures by recent legislation. Fifty million povertyized citizens must have the help and humanity offered by the Lundeen bill.

Many millions of families, workers, and producers of wealth have been impoverished through no fault of their own



For 73 years Congress has allowed private brokers and bankers to control the circulation and issuance of money, an abrogated constitutional power.

For 73 years, since legal-tender dollars were demonetized and discontinued, Congress has allowed the British-Rothschild gold monopolists to gold-brick the American people in alliance with Wall Street's money masters and money conspiracies. They have gouged the Government with high interest charges for letting the Government use its own money. They have printed or ordered money printed by the Government's own printing presses. They have paid from 29 cents to 40 cents for each \$1,000 of this printed money we now use as dollar bills for pocket use. They have had the exclusive right to deal in this money. They buy it cheap as the cost of paper, ink, and printing costs. They sell it dear (exchange it) for Government bonds, paying the bankers interest in the hundreds of millions of dollars annually.

For generations the Wall Street-British-Rothschild allied gold monopoly bankers have collected billions of dollars tribute from all our citizens for the bankers' unconstitutional, exclusive power to issue or deal in money. They still continue to get all the Government printed money they want, printed at their direction, at cost of printing, for their exclusive use, for them to lend back to the Government or to hire out to the public and corporations at their price and profit.

For the past 73 years all money deals and all debts have been based on a minimum supply of monopoly-controlled gold and a multiplying supply of debts. Due to the control of gold by a few money jugglers the American people have been put through the wringer and drained of their wealth periodically in nearly a dozen deliberately managed panics, depressions, and Wall Street stock market squeezes, gold corners, etc.

"Gold", said the famous Senator John J. Ingalls, "is the money of monarchs, and was in open alliance with our enemies in the Civil War."

To resume a march of orderly progress America must quickly emerge from the economic fog of past generations so as to escape the enthralling disorders of a medieval age of financial imbecilities. Imbecilities grown up and copied from those who first inaugurated, governmentally, a private bank of issue when James I was dethroned in the seventeenth century by the organizers of a banking system of human subjugation, 1694. This system developed our present age of debt slavery and exploitation under the domination of international gold-money monopolists who saddled upon America the money-governing, economic-control policies of English bankers.

Nothing less than a complete reshaping of banking and finance measures, which govern all welfare and economic measures, under a proper conception of equitable wealth of money, its functions, purposes, and reasonable relations to "the general welfare" of all the people living in a democracy, can secure "inalienable (equal) rights" and "the blessings of liberty."

Many coercive palliatives that attempt to correct and minimize the multitudinous wrongs of the past by frivolously setting aside nature's economic and deeply rooted, solidly established laws and principles of proven worth, antimonopoly and other vital law structures, have little or no constructive values. They merely undertake to regulate existing wrongs instead of removing their causes. Yet, almost unavoidably our Government has been impelled to enter into a plethora of experiments to counteract the resultant evils that have so completely disrupted our society of 126,000,000 Americans under bankers' control of Congress' constitutional power over money for generations.

Our troubles are fundamental. They are identical with and an outgrowth of the heresies and fallacies inherent in a corruptive system of banking saddled upon the United States in February 1862-63, 25 years after Andrew Jackson had eliminated banker "vipers" from national control of Congress' constitutional power over money.

All banking atrocities comprehended herein deal with the immediate present in which the Seventy-fourth Congress aims to reverse and replace the payable-in-gold banking rackets of the past seventy-odd years.

Our United States currency is a strange jumble of various kinds of money, relics of political contingencies and necessities, but tied together and interchangeable by reason of the law that gives them all equal lawful money value.

In a report of New York City bankers, in February, to the New York Chamber of Commerce, containing replies to questions by Senator Fletcher, chairman of the Committee on Banking and Currency, these two admissions are found:

"We have at the present time neither a currency system nor a banking system. By reason of the emergency legislation passed since March 1933,



our former currency system has been discarded and in its place there has been substituted a currency dictatorship, which, no matter how well suited to meet the requirements of an emergency, cannot in any sense be described as a system adequate to meet the needs of moderate economic life.

"In the same way, it is necessary to point out that our present banking system is not a system but a hybrid hotchpotch of relics of various old systems upon which has been superimposed an emergency structure."

Upon such foundations have the monopoly bankers, internationally tied together, built their tinsel temples of synthetic money, their pyramided profits from debt-enslaving structures, and their gargantuan towers of bizarre holding-company and other monopoly controls.

Debt, interest-bearing obligations of all money-token instruments outstanding throughout the United States, I again state, exceed \$250,000,000,000. To save our civilization, to begin to give the people of these United States the independence, liberty, equal rights, and pursuit of happiness which our forbears fought to gain and were denied, our Government must reverse its monetary policies as pursued for generations and as devoted continuously to creating debt-bearing, interest-absorbing, unearned-increment, wealth-confiscating measures controlled by private usurpers of the constitutional, exclusive Congress power "to coin money, regulate the value thereof"

Unless our debt-shackling policies of the past are entirely reversed and new policies pursued to finance all anxious workers to create wealth to be diffused among the workers and all citizens, then other nations, especially Japan, will supply the raw and finished products of commerce that we deliberately forego by destroying produced wealth in food and material crops. We not only create scarcity, poverty, high prices, and impossible debts among our own people through a private monopoly control of money; we also deliberately remove our surplus products from the world markets to favor competing nations and minimize the usefulness of our merchant marine.

Naval equality, destroyed 12 years ago, is now being restored. Merchant-marine equality must also be built up. But if we progressively impoverish and pauperize our own citizens and also destroy international trade, we are hopelessly lost.

Our civilization tends to fall apart, due to generations of misconceived monetary policies.

Denying inherent, fundamental independence and constitutional rights, pursuing any policy to further encumber with debt and with inescapable poverty most of our citizens by refusing to increase and exchange our national wealth, inevitably continue to pyramid disaster and chaos. To break the Gordian knot debt-free money must circulate freely. A plentiful supply of money must employ men who must have work. They must have tools and materials with regular, decent, or substantial income. To increase more interest-bearing bonded indebtedness means more misery and more ultimate poverty. Debt-hobbled money restricts work and prevents prosperity.

Legal tender constitutional dollars are the one form of all our various kinds of money that most completely comply with the purposes and intent of the Constitution. Legal tender greenback dollars are the one kind of money that is our most democratic and least barbarous form of money, and which has been most tenacious of life in spite of many fierce and demagogic assaults. These constitutional dollars first appeared as Civil War greenbacks, known as "Abraham Lincoln money." This money has not been encumbered by bonded debts or tributes to bankers who have dictated control of all our other money issues, money tokens, bonds, etc. It has survived all artificial changes and modifications of monetary laws.

The constitutional dollars issued for early Civil War needs to save our Union alone symbolize the independence, liberty, economic freedom, equal rights. They are free-born non-tribute-paying legal-tender dollars. Not being conceived in iniquity, they are free from debt charges of annual interest-bearing bonds. These unfettered symbols of liberty have been the constant dread of money changers and have aroused a fury of lustful antagonism among monopoly bankers who consider them mongrel money. Although unorthodox, they are more respectable than any other dollars among the brats of blue-blooded parentage, whether gilded in gold or silver, or based on bond-bedecked trappings.

Non-debt, non-gold dollars meant freedom from monopoly controls. They meant freedom from foreign entangling alliances and the autocratic domination of domestic financial despots. They meant strength and power diffused



among the many, free from tryanny or domination of the few. They meant a wide-spread growth of true democracy under a truly democratic money system.

Non-debt legal-tender greenback dollars of the Constitution were set aside by the monopoly bankers. They were entirely, utterly opposed by the cupidity and rulership of the well-born, of those demanding special privileges for the few. They meant the negation and doom of domination by triumphant, irresponsible autocrats and economic oligarchs.

Non-debt dollars were dangerous to the money shavers and money changers; to those who idly live on the toil of others; to those who exact tribute, and who shackle and fetter humanity with bondage balls and chains; to those who neither sew nor spin, who never faced fire, never risked their necks, never yielded their lazy luxuries, never gave up their soft and sheltered security of life and limb, or the usurped security of their claimed sacred, bond-bloated wealth—cunning, scheming, crafty racketeers.

Men born free should not be chained to bondholders. Bondage bonds should not be forced by government. Free men and their free institutions should not yield to autocrats of any kind, foreign or domestic. Freedom cannot flourish when bound to bondage. Free-born men cannot attain freedom when chained to any form of consecrated economic wealth or autocracy, or to any system based on the divine right of kings or their kind.

Men cannot live in liberty outside the pale of poverty when burdened with the bonds of money masters. Pursuit of life, liberty, and happiness becomes impossible under the whiplash of economic tyrants. Instead, failure, despair, death fiddle their alternate tunes.

Debt-free legal-tender money is dangerous to socialism. To socialism such as President Roosevelt fears may develop to counteract the socialism he spoke of in March as already developed by private, preferred business monopolists preempting exclusive privileges. Debt-free dollars are as dangerous to Fascism and Communism as they are to monopoly, to autocracy, and socialism.

The supreme menace of legal-tender, nondebt dollars is implied in the modest measure of social justice they can render to more than 10 million economically disfranchised unemployed and their 30-odd million dependents, to 4 million World War heroes with over 10 million dependents, and to 2 million superannuated old folks needing pensions.

Too much democracy may be wrapped up with and would spread through use of debt-free dollars. They would result in independence, equal rights, the establishment of justice, an equal voice in government, equal privileges, and abolition of most restrictive economic influences that cause crimes.

The rights of man are paramount. All men are superior to a small controlling class of tax-exempt bondholders or tax-dodging banketeers and financiers. Tax-free dollars will necessarily spread wealth to "promote the general welfare" by tapping our unlimited reservoirs of national riches belonging to all our citizens, high and low, haughty and humble, wealthy and few, smart and dumb. There will then be money enough for all who can honestly earn it, meted out with even-handed justice when Congress coins legal-tender dollars to comply with the Constitution, and regulates the value thereof.

Since our Constitution was adopted the most important legislation in five generations abrogated the use of gold as money. The Supreme Court affirmed this vital overthrow of a wrongly built-up money system. The pending institution of a valid constitutional money system affects the fundamental concept of our society as a free people entitled to self-government rather than a subject people controlled by a few money masters. It contains the most vital principle ever involved in any legislation—control of the power over money, social justice, and economic liberty.

Discarding the use of gold as having a fixed, intrinsic property value, and its barbarous power as an enslaving, subjugating measure of wealth accelerating the decline and threatening as it did the extinguishment of our 300 years of American civilization, now makes possible the rehabilitation and restoration of the independence and general welfare of 50 to 100 million of our citizens.

The reaffirmed money power of Congress is a mandate for a new (money) Bill of Rights to promptly institute a safe and sane currency system to replace the untenable system that has chained and shackled humanity by piling up hundreds of billions of debt-bearing burdens surreptitiously according to authenticated, acknowledged records.

The legal tender constitutional dollars of Civil War days, the nondebt dollars, became sidetracked. They were followed by "payable in gold" bonds (interest



and principal), the gold being controlled and monopolized by International-Wall Street bankers. As a result our total debts have reached a collapsible condition. They have become an insuperable and almost insurmountable burden upon our civilization in competition with Japan and other nations, especially those that repudiated their internal and external debts.

Blundering on and off the vicious, illusive, enslaving, tyrannous gold system of money control, as England has done, is unworthy of a great democracy that assumed 160 years ago to cast asunder from the British system of financial gold control and domination—a domination that has clutched America's throat and dictated our destiny most of the time since 1776. England's monarchical, imperialistic problems and policies are no criterion or model for the United States, especially the falsely built-up gold-controlled, consols debts dictated by the bosses of the privately owned Bank of England, based on economic imperialism.

"Reconstruction and control of finances in both countries is most essential", said Lloyd George recently. Here they transcend any attempt of emergency experiments to further tax and hobble employment with makeshift insurance measures, and through new swarms of bureaucratic leaches, before there is a solid approach of national stability in employment.

"America is prodigiously wealthy. Its riches are to (should) be utilized to ensure a higher standard of life and greater security for its workers", says Lloyd George. But only by assuring work for all idle willing workers through operation of a constitutional money system legally directed by Congress, not by crippling production or export power or purchasing power under direction of hordes of bureaucrats to further muddle our present almost insoluble distress. But by nation-wide employment and generous circulation of debt-free money in reach of all workers.

The Treasury Department, in March 1935, ended the 72-year-old racket of money-issuing privileges by national banks, coining their own imprinted currency upon hundreds of millions of legal-tender greenbacks, printing-press paper money. The absurdity of this racket was indefensible.

A sovereign government's supreme constitutional power to issue money, to make its legislation effective by directing control of its national wealth and economic destiny was surrendered during the Civil War period, to the guidance and control of international bankers through their development of privately monopolized and usurped privileges to issue money, to inflate money, to deflate money, or the equivalent money tokens and money substitutes.

America's ablest authorities have all sensed the dangers to our Republic by a denial or repudiation of democracy in monetary matters. Abe Lincoln foresaw "a crisis \* \* \* the money power \* \* \* prolong its reign \* \* \* until the wealth is aggregated in a few hands, and the Republic is destroyed." Lawyer Salmon P. Chase, made Treasury Secretary and influenced through his New York banker friends, confessed "the national banking act was the mistake of my life \* \* \* has built up a monopoly \* \* \* should be repealed \* \* \* the people will be arrayed on one side and the banks on the other in a contest such as we have never seen in this country."

Thomas Jefferson condemned "government subserviency to private interests" and warned, 75 years ahead of Lincoln's warning, similarly, "allow private banks to control the issue of their currency first by inflation and then by deflation, the banks and corporations that will grow up around them will deprive the people of all property until their children will wake up homeless on the continent their father conquered." Henry Clay opposed any concentrated power over the "purse and the sword." He opposed the "anti-American, \* \* \* British institution" of banking. Webster decried "allowing a banking corporation to issue a substitute for money as one of the greatest political evils, \* \* \* a contrivance for cheating \* \* \* mankind." Senator Randolph of Virginia, said, "Charter a bank \* \* \* learn its power, \* \* \* find, if you can, means to bell the cat. It will \* \* \* laugh at your laws."

"Of all aristocracies, none more completely enslave a people than that of money; no system was ever better devised \* \* \* they (banks) form a precarious standard by which all the property of the country—homes, lands, debts, and credits—are valued, \* \* \* prescribing every man who dares to expose their unlawful practices", declared a New York legislative committee in 1818.

Said William Pitt: "Let the American people go into their debt-funding schemes and hazardous banking systems, and from that hour their boasted independence will be a mere phantom." "National debts paying interest are



simply the purchase by the rich of the power to tax the poor", said John Ruskin.

James Madison's framed message George Washington intended using to veto the British-patterned, debt-funding, private money-issuing bank charter which Alexander Hamilton unconstitutionally sought for participating Members of Congress and his New York banker friends, was set aside under influences of the privileged few. Hamilton, with Isaac Roosevelt and 10 others, had set up a similar, State-chartered "wild-cat" bank in New York City, 1784.

Andrew Jackson termed bankers "vipers" and "swore by the eternals" he would hang Nick Biddle "as high as Haman." Honest John Tyler vetoed a proposed reincarnation of the British-Rothschild banking scheme ninety-odd years ago.

The British-Rothschild allied gold monopoly bankers of Wall and State Streets brought to bear the influence in the rich man's Senate, as elected then by State legislatures, to completely emasculate the legal-tender values of the law so overwhelmingly passed by the House of Representatives February 6, 1862.

Senate amendments, forced upon the House in conference under urgency and pressure of war necessities, nullified the constitutional value of legal-tender money as not receivable "for interest on bonds and notes, which shall be paid in coin"; also authorized the Treasury Secretary to sell United States bonds "at the market value thereof, for coin or Treasury notes" (outstanding 7.3 percent notes convertible from existing 20-year 6-percent bonds); also provided that coin interest payments on the debt of the United States and coin for a sinking fund should be accumulated from "duties on imported goods and proceeds of the sale of public bonds." Exempting this legal-tender money as not payable for "duties on imports, and interest on the public debt" was a powerful weapon to the gold monopolists. Importers had to bid high for metal money.

The Rothschilds and their New York-British banker allies actually controlled nearly every dollar of gold in the United States. They kept it scarce and manipulated gold in the "gold room" adjoining the New York Stock Exchange to charge enormous premiums for compliance with the specie gold payments the gold monopolists had dictated.

Government bonds and notes were sacrificed as low as 50 cents on the dollar; legal-tender dollars as low as 35 cents, all to the extent of many hundreds of millions of dollars.

Gold monopolists collected tremendous tribute on every Government financial requirement for war purposes. The Army and Navy soldiers and sailors who suffered, bled, or died to win the war, and other creditors, all received depreciated money in disfranchised paper dollars while the "wild-cat banker gold inflationists" took their toll on nearly every dollar that circulated. They dictated ruthlessly to and traded on the necessities of a financially dominated Government. They piled up inconceivable blood-money fortunes in all finance and Wall Street manipulations. And laid impregnable foundations to establish and develop their claims to, and their conquest of, the national wealth and the economic control of these United States.

Customs import duties of \$910,000,000 in 4 years of war were levied upon by the gold monopolists to yield stupendous tribute to enable the Government to collect the juggled gold needed to meet dictated payments continuously required by and to the same gold-juggling monopolists.

The first issue of limited legal-tender money authorized \$150,000,000 in notes on the credit of the United States February 25, 1862. Acts of July 1862, March 1863, and June 1864 authorized added issues of \$450,000,000. There are still outstanding \$346,000,000 of these notes. Some of the original notes were made payable with interest at 5 percent. It is calculated the Civil War legal-tender greenbacks which became a noninterest, nondebt bearing circulation has saved the Government 12 thousand million dollars of accumulated charges (12 billions), figured on a 5-percent basis.

In the 2 years, 1865 and 1866, the Government put out new and refunded obligations of \$1,800,000,000. Total interest payments, not compounded, on those 2 years of war financing have amounted to more than the existing outstanding public debt. Yet those 2 years of war financing and refunding are less than half of our current annual financing. With the use of constitutional legal-tender dollars there would be no existing public debt.

The gold-monopoly money powers dictated the act of Congress July 14, 1870, refunding the public debt so as to make its payment in metal money beyond question.



James G. Blaine's Twenty Years of Congress, page 606, quotes John J. Ingalls: "Gold is the money of monarchs, and was in open alliance with our enemies in the Civil War."

In President Grant's inaugural address, 1869, he alluded to "the sacredness of the public faith", and "let it be understood that no repudiator of one farthing of our public debt will be trusted in place."

Hon. William Mungen, of Ohio, made a powerful presentation of Civil War financing in the House of Representatives, 1869. He detailed how the Government was being bled on a double usury basis and echoed repudiation.

In 10 years' time the Rothschild-American allied gold monopolists had made a profit above 1,500 million dollars upon the outlay of juggling of only 500 millions of jointly manipulated bank bookkeeping credits and a minimum of gold. At 50 cents on the dollar in actual gold they bought 1,000 million of Government obligations with an initial profit of 500 million dollars. Compounded interest, 7 percent or more, on the full face value quickly exceeded 1,000 millions. From a single 500 millions of bank credits and gold combined over a score of thousands of millions (over 20 billions) of tribute have since been drained from the people of the United States, allowing 15 years for each doubling of the first 1,500 millions of profit.

Since a subservient Congress yielded to the gold-monopoly dictators 73 years ago there has been a succession of laws consistently and progressively favoring and granting special privileges to private banking interests, until at last the country is completely under control of a powerful money group, who levy annually an enormous tribute upon industry for the privilege of doing business. Operating unconstitutionally for 73 years under the aegis and auspices of Government agencies.

Those controlling money and finance have controlled our country. They are our present-day masters. The interests of the public have been persistently disregarded, until at last we find ourselves in our present almost inextricable economic predicament. As Lincoln and others had forecast, "wealth is aggregated in a few hands"; people are enslaved economically; inflation and deflation have despoiled society; foreclosed millions have lost their homes; independence is "a phantom" for most citizens.

Because our money masters so completely overplayed their game as to crash the economic stability or povertyize a large majority of all our citizens, many expressions are heard, "they have dug their own grave."

President Roosevelt had no choice but to abandon the gold-monopoly system of money.

The Supreme Court has sustained the debunking of the "intrinsic value" theory of gold, because gold is merely a commodity. So is any other money substance. The Court recognizes only legal-tender constitutional dollars issued under the supreme, sovereign power of Congress, irrestrictible and illimitable. Gold money (clauses—any rigid monetary measures) "cannot fetter the constitutional authority of the Congress." They vitiate Congress' power, "interfere with \* \* \* the power granted to the Congress" (majority, pp. 15, 21). The Court upheld and confirmed the findings of the Seventy-third Congress, which declared "no currency system, whether based upon gold or upon any other foundation" (upon bondage debts or other irrational conceptions), cannot interfere with a Congress' policy or "render ineffective the power of the Government to create a currency and determine the value thereof" (referred to p. 18, majority opinion).

When the guns of the Southern Confederacy began firing on Fort Sumter and the cohorts of secession inflamed the South to arms, immediately gold and silver ceased to circulate. Like two cowards, they hid away in secret vaults or fled from the country, as was the case in all wars in recent centuries.

International bankers, as always, dictated the price of gold and lashed the necessitous government most unmercifully. Men there were in plenty, eager patriots in thousands, tens of thousands, hundreds of thousands, that answered Lincoln's calls to yield their happy homes, their fortunes, their lives to prevent dissolution of their Government. But money and capital, left by Government in control of private banker manipulators, waited, delayed, refused to serve except for dictated profits, profits, profits in the "holy name of gain." Delay helped the enemy organize, recruit, drill. Also business alliances were developed with British-Rothschild gold-monopoly agents and promoters of war, lust, greed, to harass shipping, and for other financing.

To replenish a depleted Treasury, to stimulate action, constitutional "greenback" dollars were issued without regard to gold-monopoly traditions and with



no promise of gold or silver redemption. They were issued as full legal tender for the payment of all Government obligations and private debts within the jurisdiction of the United States.

America's Money Tragedy, by former Senator Henry C. Hansbrough, relates most dramatically the opening Civil War monetary crisis. With permission from B. G. Labore, publisher, we submit 2 pages of Mr. Hansbrough's story:

"In 1861 the United States became the mecca of the international banking group \* \* \* with a view to be sure of the usual war-time harvest. In the realm of high finance, blood and boodle are synonymous, interchangeable on a \* \* \* usury basis.

"John Hazard, of London, representing the Rothschilds, became active to involve America in the European banking system—for fabulous profits to foreign capitalists.

"In behalf of the big bankers of Europe, Mr. Hazard seductively framed a secret circular that shocked the American conscience, \* \* \* for in the final analysis it spelled a voluntary contribution to the usurer who skins the borrower, and the sheriff who knocks him down on the auction block. Addressing the international bankers of this country in 1862, Mr. Hazard wrote:

"Slavery is likely to be abolished by the war power, and chattel slavery destroyed. This I and my friends are in favor of, for slavery is but the owning of labor, and carries with it the care of the laborer; while the European plan, led on by England, is capital's control of labor by controlling wages. This can be done by controlling the money. \* \* \* We are now waiting to get the Secretary of the Treasury [United States] to make this recommendation to Congress."

"FIRST USURER (laying a sheet of blue booscap in front of the Secretary and indicating with his thick finger). A memoranda contract, sir. You are to sign on the dotted line.

"Out of sad but understanding eyes the Secretary looks hopelessly at another of the conspirators.

"SECOND USURER. Sign!

"THIRD USURER. Sign! Why hesitate? The country is at war.

"FOURTH USURER. Sign! It is the the law, be sure of that.

"The Secretary signs, but with mental reservations. Rises, and with a sigh throws himself on a lounge, covering his face with his hands.

"The man was right; it was according to the law, but recently enacted—on July 17, 1861, to be exact—said at that time to be one of the blackest pages in the history of America. Other Secretaries perhaps, and at least three Presidents, because of the exigencies of war, have put their signature to corrupting measures: Lincoln to this gold-purchase bill, McKinley to the Philippine Enabling Act, under pressure by the sugar interests, and Wilson, if not his signature, found it necessary to give consent to not a few outrageous war contracts.

"The historian having the hardihood to question the actual cause of the Civil War would have been guilty of treasonable utterance toward society's golden god. Suffice it to say that slavery was only the capsule. Within the glutinous shell were the almighty dollar and the usurer's substitute for the money of the Constitution. Mr. Jefferson would have freed his own slaves rather than embroil his country in bloody strife, while Mr. Lincoln incurred the bitter opposition of the Northern politicians because, man of justice and equity that he was, he proposed to buy the slaves' liberty and assess the cost upon those who professed their love for the black man.

"So that in the midst of war predicated upon a background of greed, Secretary Chase, the conspirators having sneaked off, made his way to the White House. Said he to the President: 'I have agreed to borrow \$250,000,000 gold and to issue coupon bonds, or registered bonds, or Treasury notes, as I "may deem advisable" (the insinuating letter of the law).

"The PRESIDENT. At your option, I understand?

"The SECRETARY. At my option; yes.

"The PRESIDENT. I have complete faith in your judgment.

"The SECRETARY. But they are a pack of scoundrels, and in all likelihood will again have their way with Congress."

"And so it came to pass. For on August 5, 1861, a supplementary act was put through the legislative hopper directing the administration to issue 6-percent 20-year bonds exchangeable for Treasury notes, bearing 7½ percent interest. From this vantage point the money power was enabled to manipulate the public finances at will. All potent, also conscienceless, it moved corruptly from one stage to another throughout the war.



"It debased or overvalued money and securities as suited its purpose; it discredited the greenbacks, bought them up at less than half their face value, and exchanged them at par for gold bonds; it cornered more of the world's gold; it demonitized silver; it established the gold standard and national banks of issue." (Insurmountable mountains of debt are the result of private bankers' gold-monopoly and money-issuing controls of money. For nearly 25 years after Andrew Jackson abolished private-bank frauds, the United States was not only free of debt but distributed surplus money among some States. Private debts were negligible.)

"It was in the Senate that the legal tender act received its quietus; not alone the act itself but the constitutional money of the people as well, for it was here that the public debt was made payable not in the dollar of the Constitution but in coin, the first godchild of plutocracy." This contention is sustained by the Supreme Court's recent decision.

The Lower House of Congress, February 6, 1862, passed the law which created for the first time a scientific money, by a vote of 93 to 59. Eight days later the legal tender act passed the Senate, greatly altered by amendments, that completely changed the course of America's economic history to result in our present jam by diverting the power of the purse into the control of the gold-monopoly bankers of Europe. Thaddeus Stevens, the grand "Old Commoner", is described by Congressman Judge Kelly as returning to the House with hat in hand and cane on arm after the final conference, shedding bitter tears over the result: "Yes", said he, "we had to yield; the Senate was stubborn. We did not yield until we found that the country must be lost or the banks gratified, and we have sought to save the country in spite of the cupidity of its wealthier citizens."

To comply with its constitutional obligations, to accede to its conventional, bounden duty by accepting the Supreme Court's mandate of February 18, 1935, the Seventy-fourth Congress undoubtedly will initiate far-reaching measures of financial reform consistent with, and mandatory to, a truly democratic form of government. To halt encroaching communistic conceptions of government is one of many important reasons. Also to comprehend President Roosevelt's attitude that "destruction of private socialism is utterly essential to avoid governmental socialism", expressed March 12.

Should it dare to act, Congress undoubtedly has the genius to devise a simple, noncommodity, non-interest-bearing, value-determining legal-tender medium of exchange that will enable the public everywhere to exchange goods for goods, raw materials for finished products, mental services for physical toil, and all the vast products of human invention and energy for other products of human endeavor and accomplishment in endless profusion—all by means of such legalized medium of exchange issued in an adjusted volume so as to bring about a balanced condition of approximately unchanged average prices.

Such a consummation would allow progress and civilization to complete their conquests over the materials and forces of nature. Then freedom, liberty, peace, and prosperity could reign untrammelled among men.

Legal-tender money should not enslave humanity by entailing endless debt-bearing bonds issued to and for other than Government agencies and redeemable progressively by taxes. And issued solely for services that "promote the general welfare", produce wealth, and discharge debts.

Legal-tender money should be based on the energies, brains, labor, wealth, resources, and constructive power of 126,000,000 citizens. It must be representative of value with no commodity value within itself and with no pretensions of being anything but sovereign fiat money. And it must be limited in issue to the careful engineering-ascertained needs of commerce and industry, but issued in sufficient amounts to meet all national requirements on a conservative, safe, and sound valuation basis so as to secure the approving loyal support of all citizens in every class and walk of life.

Hotchpotch blending palliatives would then be promptly displaced by modern monetary reforms that must inevitably promote peace and prosperity under intelligent, mutual understandings of helpfulness to enable humanity to discard the dreams of visionary high-brow well-wishers of mankind so as to actually achieve the brotherhood of man by establishing the rights of man under the supreme rule of reason. The gaining of these rights will automatically abolish crimes and treasons against the social justice of economic liberty.

Justice long delayed has been justice long denied.

Mankind must now emerge from the thralldom of generations of monetary inhumanity, slavery, and injustice.







**BANKING ACT OF 1935**

**TUESDAY, APRIL 2, 1935**

**IN THE 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 Mr. Franklin W. Fort, former Congressman from New Jersey. I am sure that the members of the committee know him. He has come to discuss this bill. We are glad to have you do so, Mr. Fort, and you may proceed in your own way, without interruption, until such time as you desire to be interrogated.

**STATEMENT OF FRANKLIN W. FORT, FORMER REPRESENTATIVE  
IN CONGRESS FROM NEW JERSEY, AND FORMER CHAIRMAN OF  
THE FEDERAL HOME LOAN BANK BOARD**

Mr. FORT. Gentlemen, I have tried to analyze this bill from the standpoint of a practical banker, which is one of my occupations. As a banker, I have had some practical experience which may be of some value to you. The bank of which I am president, for instance, advertised, in 1932, our willingness to lend money; and if necessary, to borrow it for the purpose of relending, and did borrow to relend, right through the depression, and showed the borrowings in our statement without detriment to our standing with our depositors.

Then in December 1934, we reduced the rate of interest on all types of loans, mortgages, collateral loans, and discounts so that no loan pays over 5 percent, where the borrower has recognized his honorable obligation during the depression even though unable to make substantial payments. I mention these things because I shall refer to the results of both of these policies later.

Mr. REILLY. What is the name of your bank?

Mr. FORT. The Lincoln National Bank at Newark, N. J.

There are 2 or 3 phases of this bill, gentlemen, on which I do want to comment—2 or 3 major phases, and some minor ones.

In the first place, my service on the Federal Home Loan Bank Board, of which I had the privilege of being chairman at its inception, substantially modified my views as to what constituted sound mortgage lending.

I have always believed, and still do believe that mortgages are probably the safest form of long-term investment of money. I have



grave doubts, however, as to the wisdom of a straight mortgage under any circumstances by any type of lender. Indeed, since the depression, I am convinced that nothing but amortization mortgages should be made by any lender, unless it is distinctly upon the understanding that the mortgage is to be paid off in full at an early maturity, if it is a straight mortgage.

Then I do not believe that liberal mortgage loans are in the interest of either the borrower or the lender. There are few communities in the United States today where the tax rate is as low as \$3 on the hundred.

Let us take the provision of this bill, and for the moment overlook the 75 percent provision that you may loan 60 percent of the value of the property. A tax rate as low as \$3 on the hundred constitutes a fixed charge for the owner to meet of 5 percent on the mortgage. Nowhere can he get a mortgage at less than 5 percent interest; and in many of the communities where the interest is rate is 12 percent.

Consequently, the minimum fixed charge between taxes and interest on 60 percent of the value of the mortgage is 10 percent on the mortgage—5 percent on the mortgage for taxes and 5 percent for interest; and in many of the communities where the interest is higher and taxes are higher, it can run up practically to 20 percent of the mortgage without difficulty.

There is no property in the United States which can stand that fixed charge, unless it is a speculative proposition which is chiefly unimproved real estate, and you are not dealing with that type of loan here.

Now, in the second place, the depression has shown, as I have said before, absolutely, that there must be amortization of mortgages.

Your bill contemplates, in its 75-percent provisions, a maximum of 20 years for the amortization, which is 5 percent of the mortgage as an annual amortization charge.

If you add that 5-percent amortization to the 5-percent tax minimum and 5-percent interest minimum—if you are going to lend 60 percent of the value of the property, you are putting 15 percent of that mortgage, or 9 percent of the property value, as an annual charge against the borrower before maintenance and upkeep charges, and there are mighty few properties in the United States which can stand that charge these days. I do not believe it is in the interest of borrowers to encourage that type of lending.

We have recently had a survey in New Jersey by the building and loan associations of the whole problem of mortgage lending, in which they have recommended, in spite of their old policies, a limitation on the amount of loans for building and loan associations to a maximum of 60 percent, even on their method of amortization, which allows a share in the profits back to the borrower.

Mr. FORD. What is that method like; how long does it run?

Mr. FORT. About 12 years, with a share of the profits back, in our State, rather than the direct-reduction mortgage method, although they have recommended changing to the direct-reduction method rather than profit-sharing.

They have further recommended another requirement: That the owner must have a substantial equity. In other words, they have looked ahead to the point of opposing first-mortgage loans where the



owner has a substantial second mortgage, because the depression has taught them convincingly that it is not in the interest of either the borrower or lender to make too liberal mortgage loans and to cut into the equity of the borrower too greatly.

Now, let us take the situation, if you start even with the 60-percent-loan provision, a man can budget the 60-percent loan for its first year or two; that is to say, he can figure that, at the end of a year, if he holds his job and holds his health, he is going to be able to meet the requirements of that mortgage for a year, or possibly he can see 2 years ahead, but that is the limit that he can possibly foresee.

Now, let us suppose that he loses his job, or is ill, or for any other reason gets behind the first year. As I pointed out, the minimum fixed charge for taxes and interest is 10 percent of the mortgage. You have increased the mortgage in a little over 1 year of bad luck from a 60-percent mortgage to a 70-percent mortgage; and at 70 percent a conservative lender must foreclose, because the auction-sale value of real estate is very rarely over 70 percent of its normal value.

Consequently, if you start at 60 percent, you are definitely letting your borrower put his neck in the noose.

I think you should start at 50 percent, as the present law is. We all know that banks have had trouble enough in this depression with frozen loans on real estate. I think you should start at the 50-percent rate, but I would favor a provision that permitted the banks to recast their loans upward as far as 60 percent, to save foreclosure.

That is to say, a man that starts at 50 percent may lose his job, he may get in bad health, and the lender must foreclose, if he is behind 1 year. I would like to see a provision that a bank might, at the end of a year, turn in and lend him more money, or increase that mortgage up to 60 percent, and then carry him, give him a chance to come back, not foreclose on him, and not force additional costs on him. But you cannot do this on top of a loan which starts on the 60-percent basis, because that makes your loan too high.

In other words, your lending limit ought never to be at a point beyond which you cannot go in order to save foreclosure; but, if you start at 60 percent, you are rendering foreclosure compulsory in many cases.

I want to emphasize again that what I am urging is in the distinct interest of the borrower, because the lender will still be paid if he forecloses when the loan reaches the 70-percent stage; and the lender must foreclose when it reaches the 70-percent stage, if he has any conception of trusteeship to the depositors in his institution.

Now, so far as the lender's end of this thing is concerned, as I said a moment ago, we have seen plenty of banks close in this depression through 50-percent mortgage loans; that is, supposed 50-percent loans.

May I say in that connection that, of course, the valuation of real estate is the least accurate of the sciences, if it can be termed "a science." You can take any committee in any bank and send them out to appraise a parcel of property, and there is never a chance that three men will agree on that value. They may compromise to reach an agreement, but no one of the three, acting alone, will put the identical value on it the other two did.

Consequently, you should have in here, from the lender's angle, protection against appraisal error, which is involved in a certain



percentage of the loans. That is the chief consideration, I think, from the standpoint of the lender. And this means you should retain the 50-percent basis of the present law.

Now, about the length of mortgages—3 years is either too long or too short. A man can see ahead a year, sometimes 2 years, with reasonable accuracy; but a loan made in 1929, maturing in 1932, was a 3-year loan. It could have been refinanced in 1930 or possibly in 1931. You could, if you had made it in 1929, have gotten new money in 1930 or 1931, some way or other, possibly at a high premium, but you could have refinanced it. Three years is a term that you can not reasonably foresee. My own feeling is that a mortgage should be made of only two types. A straight mortgage should not run over 2 years without renewal requirement, because that far ahead a man can reasonably foresee and have a reasonable chance to refinance it if it is called for payment. If it is for a time longer than that, it ought to be on an amortization basis, and a high amortization basis.

I said to the Pennsylvania State Bankers Association 2 years ago that, in my judgment, no commercial bank ought to make a straight loan, unless to a business enterprise, with the understanding that that mortgage was to be paid at maturity, without renewal, and only when the money was needed for new capital. But generally mortgages, if they are to be held at all by commercial banks, should be on an amortization basis for two reasons: First, for the borrower, because, if he is on an amortization basis, his fixed charges are brought down annually, and his ability to recast the loan, in case of necessity, is simplified.

Second, from the standpoint of the lender, because neighborhoods change in cities with almost lightning rapidity. A loan that is good as a 60-percent loan today may be bad as a 50-percent loan in 2 years. In the country, for instance, out in Kansas lately, with dust storms or something of that sort, what was an excellent loan a year or two ago may not be worth anything today. The lender must have the security of justifying his original appraisal that is brought about by a definite and substantial reduction of the loan.

I have a theory, personally, that mortgage loans should be amortized contrary to the usual practice. The usual practice is to amortize mortgage loans at a fixed annual rate, the same rate every year from the inception of the loan. I think that mortgage loans should be more heavily amortized in the earlier years and then allowed to tail off in amortization to a moderate annual charge.

Certainly, if they are to be as heavy as 60-percent loans, in the first instance, they should be brought down to a maximum of 50 percent within the first 2 years, which the borrower can reasonably foresee. Thereafter the amortization might be slower, after the loan has been rendered secure for the lender and rendered recastable for the borrower, by early substantial reductions. Once reduced to the point of absolute safety there is no objection to slow amortization from the borrower. I would see no objection on a conservative 50-percent loan to reducing the annual amortization thereafter, so that it ran 25 years—2 percent of the property value a year on the balance. But I do see serious objection to starting at 60 percent and then applying 2 percent or 3 percent a year as amortization, because the mortgage is still above the danger mark for 4 or 5 years, if it starts on that basis.



Now, one other thing on the mortgage provisions of this act which I feel very strongly on is this: I believe it is a serious mistake to make it possible to borrow a mortgage at the Federal Reserve bank. In setting up the Federal home-loan-bank system, the first board deliberately—and so stated publicly—fixed the situs of the 12 Federal home-loan banks in different cities from the Federal Reserve cities, for this reason: We believed that the administration of long-term credit, which real-estate credit is, was a distinct and separate thing from the administration of short-term credit. There are lots of times when short-term credits should be tightened and long-term credits eased; and the reverse is also true.

If you are putting the rediscounting of mortgages into the Federal Reserve System, you are merging in the one institution control both of long- and short-term credit, and the policies, under the language of this act, will have to be identical, because the same rediscount rate will cover both types of rediscount.

I believe that, having the Federal home-loan-bank system, you should make mortgages rediscountable only with it, if the commercial banks are to carry them at all.

The present provisions extend membership in the Federal home-loan-bank system to building and loan associations, savings banks, and insurance companies, which are the chief mortgage holders. The rediscount privileges of the home-loan-bank system should be extended to cover mortgage loans of commercial banks, both in order that the handling of long-term credit might be kept separate and apart from the handling and control of short-term credit, and in order that the policies of credit administration on mortgage loans should not differ between the two institutions. If you have two institutions loaning on or rediscounting mortgages, you will have no uniformity of mortgage policy.

Now, a large part of the real-estate difficulties of this depression came from too great extension of mortgage credit, due to easy money.

In the long-range working of the home-loan-bank system its most useful public service, in my judgment, will come from a sound administration of the problem of real-estate credit, the prevention of booms in real estate, the prevention of too great an extension of building operations, and of speculative operations; the prevention of those extensions of credit which lead chiefly to the eventual collapse of real estate and which did lead to the collapse of real estate in this depression. But it can happen often—as it has often happened—that at the very time that there should be a tightening of credit on real estate, there should be an extension and loosening and relaxation of credit to the ordinary commercial banks against commercial transactions. But if you put the two functions into one institution, you render impossible the separation of credit control, which, I think the depression has taught us, is essential.

The psychology of the short-term lender is not the psychology of the long-term lender, and should not be. The view is not the same; the controlling background is not the same.

Now, you have a home-loan-bank system—and may I say, parenthetically, that while I believe it is being run splendidly by a very fine board of men—you should not give them control of any other problem or divide their authority over their problem.



Someone asked me how I would finance it. That is perfectly simple. Any study of the Home Loan Banking Act will convince anyone who is familiar with financing that the debenture provisions of that act will enable that system to expand as its financial requirements necessitate it. For all these reasons, gentlemen, the idea of putting the rediscounting of mortgages into the Federal Reserve System is a very serious mistake in this proposed legislation.

While we are talking of mortgages, it is my opinion that there should be one change in the banking act, whether you are going to pass this bill to expand the mortgage-lending powers of the banks or not. The banking act prohibits any bank from holding real estate, acquired as a result of foreclosure, or in any other way, except for its banking house, for longer than 5 years. Under existing conditions, that promises a slaughtering of the real-estate market sometime in the next 5 years. The banks have had to acquire enormous holdings of real estate. They should not have them, of course, but I think you should put in the law the same provision that is in the insurance laws of most States. Insurance companies—in which I also happen to be interested—are prohibited, in my State, for instance, and in New York State, from holding real estate longer than 5 years, but there is a saving clause, "except with the consent of the superintendent of insurance." There is no such saving clause in the National Banking Act.

I can give you a specific example of the way this works out. We have been compelled, in my bank, to take over a piece of vacant real estate in satisfaction of a debt. The only thing we can do with that property today is to make a long-term lease, and we cannot do that, because, under the law, we cannot hold it more than 5 years, and we have already had it for a year. We could lease it for an oil station if we could make a 5-year lease. Consequently, we have either got to slaughter the value of that asset, hold it without income, or write, as we did, to the Comptroller and get a noncommittal answer that the law says we can hold it but 5 years, but maybe we will not go to jail if we do.

Mr. BROWN of Michigan. I think that is an excellent suggestion. Is there anything in the bill, at all, to cover that?

Mr. FORT. No, sir. Now, there are two or three other minor things that I want to speak briefly upon, and then one major question.

Under the provisions in here, gentlemen—

Mr. HOLLISTER. Just a moment. Before we leave the mortgages, would you care to comment—or if you believe in more strictness in the taking of mortgages, would you care to comment on the existing mortgages which the banks already hold, where there might be some more liberal provision, so they will not be forced to liquidate, because of the fact that the margin has been reached?

Mr. FORT. I think you can perfectly properly put in a provision that any mortgage may be renewed, provided, at its original inception, it was within the statutory limit. I think that is an essential provision, if you are going to avoid foreclosures.

Mr. FORD. Did not Mr. Eccles suggest they be given authority to handle that by regulation, in his talks to us?

Mr. FORT. If the statute is going to be on the mandatory basis, I do not think you ought to leave that to the regulations—if Congress' policy is going to be that there shall be a certain percent as the



maximum; but as I said earlier, the recasting of loans to prevent foreclosure should be permitted and also the renewal of mortgages ought to be permitted, without regard to the present-day appraised values unless the mortgage is hopelessly bad. There is no reason for forcing the banks into foreclosure, if you can avoid it. I think you should permit renewals, providing the loan was proper in its inception.

The CHAIRMAN. Of course, there are two things about that, Mr. Fort, that were contemplated. One, of course, being to afford an opportunity for State nonmember banks, who enjoy more liberal privileges as to loans on real estate, to join the Federal Reserve System; and at the same time, to prevent foreclosure in the case of member banks where the loans have run up beyond the present limitation.

Mr. FORT. Well, of course, I have not studied this act as you gentlemen have, but, unless I am very much mistaken, you have a provision in here which provides that any State nonmember bank, joining the System, can carry the assets that were legal under its State law, under regulations to be prescribed by the Federal Reserve Board and the Comptroller. There is such a provision in here, I am quite sure, because I noticed it, as I had some difficulty with the Comptroller, myself, as to marking off some assets we took over when we took over a State bank. I noticed it and wished it had applied before.

But I think it is in here. I think there is in here some provision that covers your nonmember banks exactly. If there is not there should be. There should be a provision that gives banks coming into the System, or those that merge with national banks, to have a sufficient time in which to meet the normal requirements as to assets.

Mr. FORD. On three different occasions, when Mr. Eccles was talking, he suggested he would supply an amendment that would give the Board wide latitude in letting those banks in.

Mr. FORT. I think you have got to do that, gentlemen. You have got to do a lot of things today, that we would not have done when we were investigating chain, group, and branch banking here 5 years ago, Mr. Chairman.

Mr. GIFFORD. Mr. Fort, might I ask you about your home-loan bank, because you were interested in it, and its inception. Shall we put into this act the denial of the home-loan people of deficient mortgages?

Mr. FORT. I do not know what you mean, Mr. Gifford.

Mr. GIFFORD. The Government will now own a great many properties; we have given them \$8,000,000,000 to buy in loans and—

Mr. FORT. You mean waive the deficiency judgment provision?

Mr. GIFFORD. Yes.

Mr. FORT. I think that should be done universally. I think mortgage lending should be put on the basis of the mortgage and not on the bond or note. I do not believe in deficiency judgments anywhere, at any time.

Mr. REILLY. What about second mortgages?

Mr. FORT. I think we would be better off if we had none. I mean this: A lender makes a mistake, from his own angle, if he has only a shoestring in the property. Second mortgages are chiefly, in our



section, the device of speculators and not of the permanent owner of the property.

Mr. FORD. Is it not a device of the speculator in all cases?

Mr. FORT. No; there are cases where second mortgages are taken by home owners who want to acquire a house and cannot get a mortgage for the full amount they need, except often largely on a second mortgage.

Mr. CAVICCHIA. That has been the cause of a great deal of trouble, has it not?

Mr. FORT. Yes, sir.

Mr. REILLY. You ought to outlaw them.

Mr. FORT. Well, I hardly think you can outlaw them, because there are cases of utility. For example, a man has a moderate first mortgage, say, reduced by amortization down to 35 or 40 percent. He needs a little additional money, and he has a real equity there. He prefers to take a second mortgage to pay off, not as a permanent addition to his original mortgage. Things of that sort I think are legitimate; and we all know we bankers occasionally need a second mortgage as security for some bad loan we have gotten caught with.

Mr. DIRKSEN. To abolish the deficiency judgments will mean that they will exercise a little more caution in their appraisals?

Mr. FORT. Yes, absolutely; the deficiency judgment certainly should be impossible after the property has changed hands. I have developed a theory that I have not followed out completely, that there should be in every mortgage a provision eliminating the obligation on the bond after the first change of ownership, but giving the mortgagee the privilege of calling the bond at the time of the change of ownership. In other words, when a man makes a loan to you, because he thinks you would keep up your payments, he might make a little more liberal loan than he would make to somebody else, but if he did, he should have the option of calling the loan, if you sell the property to somebody else that he does not like so well. But a provision that permits a deficiency judgment against the man who may have sold that property 20 years ago, when it has passed through 15 hands since is a vicious practice—

Mr. DIRKSEN. That would make it a personal mortgage, rather than a mortgage against definite security?

Mr. FORT. No; I say if you are going to have a deficiency judgment, at all, that is the way it should be limited.

Mr. DRISCOLL. If you foreclose the first mortgage, that wipes out the second mortgage, does it not?

Mr. FORT. Yes.

Mr. GIFFORD. I want to say this to this committee, and to you, Mr. Fort, that, seemingly, at present, the volume of foreclosures where there are deficiency judgments has assumed very great and important proportions.

I had a letter from a prominent lawyer last week, and I have written him several letters, in which he stated to me that they really loan on character of the person, and simply take mortgages as security, and he was representing a cooperative institution, a cooperative bank; and your viewpoint is extremely different, extremely important, and I want to say to you that it would absolutely frighten you to think that, in the county where you summer, I have two



cases of properties of \$7,000 mortgages, valued at \$12,000 to \$15,000, and assessed for \$10,000 or \$12,000, sold and bid in at \$2,000.

Mr. FORT. Yes; we have had that everywhere.

Mr. GIFFORD. And they are being sued for the balance.

Mr. FORT. That is all wrong. That is legal under the old forms, but I think it should be abolished.

Mr. REILLY. Why should not the law provide that it should be discretionary—

Mr. FORT. That is true under the old bond. We passed a statute—I speak of New Jersey—but our courts held it was unconstitutional as to the old bonds; but as to the new mortgages, I think the deficiency judgment should disappear.

I think they are anachronisms from the old days, when real estate was not so often transferred from hand to hand. I do not think they belong in the law any more.

Gentlemen, I am going to have to try to get away on the 12 o'clock train, and if you will permit me, there are 2 or 3 minor matters I would like to speak of—1 major and 1 minor.

You have a provision in here on page 59, which requires the directors to carry one-tenth of the bank's net profits to surplus before paying dividends. I thoroughly approve of the purpose of that, but I say it is not going to work out in its present language. As drawn, a big bank, we will say, will have a surplus of \$10,000,000 1 year and the next year it will have \$10,000,750.42. I think you should revamp that section so that there will be a round sum contributable to surplus; and also so that a bank may, if it desires, anticipate the contributions to surplus in round sums.

If my bank wants to throw \$50,000 over into surplus this year out of undivided profits, we should be able to continue to pay dividends until we have exhausted that \$50,000 surplus contribution. I think a section can be drawn rather easily, so that we can have a definite figure, a round figure, in practically every bank in the United States.

Mr. BROWN of Michigan. You cannot put less than that amount you fix into surplus?

Mr. FORT. Yes; then you have to remember the other provision of law under which each bank must buy Federal Reserve bank stock to the extent of 6 percent of each accretion to surplus, under the new provision of the law. Then a bank's lending limit is 10 percent to any one borrower of its capital and surplus. I think the round-sum contribution to surplus would be a sounder thing, as an accounting practice.

Mr. RUSSELL. Have you made any comments that a bank could take it beyond that?

Mr. FORT. There are going to be a lot of banks whose one-tenth is going to be about 50 cents for some years to come.

The second minor thing—

Mr. GOLDSBOROUGH. What do you recommend, then, Mr. Fort?

Mr. FORT. That some language—if you like, I will prepare it in the form of a suggested amendment—some form of round sum, or some language that makes a round-sum contribution easier to handle.

Mr. HOLLISTER. Nearest a thousand dollars?

Mr. FORT. The nearest thousand dollars, or something of that kind.

Another minor thing, gentlemen, you have in here a provision for



one-twelfth of 1 percent contribution for the Federal Deposit Insurance Corporation on all deposits. Postal Savings deposits have been largely turned back by commercial banks to the Government because they are unwilling to pay  $2\frac{1}{2}$  percent, under existing conditions as to the possibility of investment, with the result that the Postal Savings System is now chiefly backed by Government bonds. I am going to speak on that feature in a moment.

But if you put an additional one-twelfth of 1 percent a year charge on top of that  $2\frac{1}{2}$  percent, you are going to have almost all the rest of those Postal Savings handed back to you. The margin in them is very, very slim now to the bank that has them.

Mr. CAVICCHIA. Was it not the purpose of the Banking Act, the past year or two ago, to practically eliminate the Postal Savings?

Mr. FORT. I do not know. It has not worked that way. The purposes of Congress are beyond an ex-Member.

The CHAIRMAN. What we attempted to do was terminate the checking accounts in the Postal Savings, as you say it has not worked out. I hesitate to say why, but I think it should be made to work.

Mr. FORT. My thought on that is that the Postal Savings accounts ought not to pay one-twelfth of 1 percent, when they are secured by Government, State, or municipal bonds, in the first instance, deposited with the Treasury, since they are not on the same basis as other deposits and are not subject to guarantee, because they are usually away in excess of the \$5,000 insurance provision.

The CHAIRMAN. Let me ask you a question there, Mr. Fort. Do you think, if we are going to have anything approaching an adequate system of bank-deposit insurance, we should differentiate between the classes of deposits, and permit one depositor to enjoy full protection, independent of the insurance system, and thereby have discrimination between the classes?

Mr. FORT. In the long run, Mr. Chairman, I think it will work out to accomplish what you have in mind, because I think the tendency will be to split the deposits. In the long run, if trouble begins to develop in banking in the United States again, particularly if it happens to hit a large institution, from then on, the large depositors would not keep all of their money in one bank. They would spread their deposits down to small units, so as to get the benefits of the guarantee. I do not think there is any doubt about that.

Mr. WOLCOTT. It cannot be applied to municipal deposits and—

Mr. FORT. No.

Mr. WOLCOTT. How do you take care of municipals that a bank buys, when it is compelled to hold Government bonds? Would you exempt that altogether?

Mr. FORT. No; I do not think I would. I do not think you can go beyond secured deposits.

Mr. WOLCOTT. That is what I mean.

Mr. FORT. If you specify the type of investment that a bank must buy and put up to secure its deposits, it is a low-yield security, necessarily. The limitation on the type of security you may give is such that it becomes a low-yield security. Now, to put on top of the fact that you must invest funds in that low-yield security, the addi-



tional charge of one-twelfth of 1 percent for those deposits is going to mean the turning back of a lot of them.

I am told, and I do not know whether this is correct or not, that \$600,000,000 of Postal Savings were turned back to the Postal Savings fund by the banks in the United States last year, because they were unwilling to pay the 2½ percent.

Mr. GOLDSBOROUGH. As long as we send them Government bonds, they are going ahead on it without one bit of risk in the world, after we have made a present to them to the extent of \$13,000,000,000, as we have done, and that is going to continue.

Mr. FORT. That is a matter of opinion, Mr. Goldsborough, that I have not the time to go into in detail, but I just mentioned that, since I think it is minor—

Mr. GOLDSBOROUGH. I do not think it is minor, at all.

Mr. FORT. What I have said about one-twelfth of 1 percent is relatively minor. I am coming to the major question of the Government bonds now. Of course, everybody recognizes that Government bonds are the premier security, but it still is a fact that realization on Government bonds for cash has to be accomplished in the market, and it certainly is a fact that, twice in less than 15 years, Government bonds have sold at 80, or below, in the market.

The possibility of the policy that this act contemplates—I speak now of the declarations of policy in regard to it made by the Governor of the Federal Reserve Board, and the general understanding of it—namely, that its fundamental design, in part, is to increase the amount of holdings of Government bonds by commercial banks and the Federal Reserve Bank System. Today, gentlemen, Postal Savings funds are chiefly in Government bonds. Federal Deposit Insurance Corporation assets are almost entirely in Government bonds. Forty percent of the bank assets, or more, are in Government bonds. You now propose in this bill to still further increase the holdings of Government bonds by the Federal Reserve System. In other words, the first line of deposit protection, namely, the Postal Savings fund, and the commercial banks, after the exhaustion of the present surplus reserves, which are temporarily the first protection of deposits, has got to be financed by selling Government bonds. Now you are planning here to put the entire Reserve System into Government bonds. The Federal Deposit Insurance Corporation already is.

The net result is that if any kind of serious trouble develops any of these intangible, unreachable waves of public sentiment which result in the withdrawal of a substantial volume of bank deposits for any reason—war, further disturbance of financial conditions, the collapse of foreign central banks, as happened to us when the Bank of England went in 1931, the disturbance of confidence through some crookedness on the part of some individual bankers, the fear of inflation on the part of conservative holders of large deposits, and whatnot—anything that happens to produce a substantial withdrawal of deposited money from the banks of the United States or the Postal Savings Fund System, must be followed by the immediate liquidation in large volume of United States Government bonds.

Mr. GOLDSBOROUGH. All that means, Mr. Fort, is this: That whenever, from time to time, the public finds out that there is only a very small amount of real money in existence—and as a matter of fact,



this whole money process has been created by the banks—they are going to the banks after their money.

Mr. FORT. Well, that may be the thing that will do it, Mr. Goldsborough. I am not going to say. I have said that of a number of things, and there is any number of things that may produce it; but I say that what you are doing in this type of legislation, particularly when you put your Federal Deposit Insurance Corporation into Government bonds, on top of the Reserve banks, as long as you have your present banking system and your present monetary system, Mr. Goldsborough—I am not going to argue that phase of it with you—you are making it absolutely certain that at the moment the demand comes for money, for any reason, from the depositors of the United States, you are going to force liquidation in Government securities with no buyers.

Mr. GOLDSBOROUGH. And no ability on the part of the Government to issue its own money on the faith and credit of the whole people, and all of their assets to absorb Government bonds?

Mr. FORT. What you are doing here, gentlemen, really is making a forced levy on the thrift of America, as represented by the bank deposits, to buy Government bonds.

Mr. WOLCOTT. Of course, we have the potential stabilization fund of \$6,000,000,000.

Mr. FORT. Well, \$6,000,000,000 sounds like a lot of money, but if Government bonds once start being liquidated you will need it.

Mr. FORD. What other type of security would you have them put their reserves in?

Mr. FORT. The Federal Reserve banks' should be in more liquid securities, not dependent on the bond market.

Mr. FORD. Where are you going to get them?

Mr. FORT. I am not talking, gentlemen, a partisan proposition, but this business of putting the Federal Reserve banks in Government bonds has been going on too long.

Mr. FORD. But you are going on the assumption that this bill is being enacted for the specific purpose of putting it in form, are you not?

Mr. FORT. Yes.

Mr. FORD. What warrant have you for that assumption?

Mr. FORT. The statements of the Governor of the Federal Reserve Board.

Mr. FORD. I have heard nothing in any statement he made—

Mr. FORT. The statement was reported in the newspapers.

Mr. FORD. There was nothing he said here before this committee—

Mr. FORT. He is reported in the newspapers as saying that if the banks would not buy Government bonds, then this would compel it.

Mr. GOLDSBOROUGH. No, no; what he said was this: He very clearly indicated, although he did not want to say so outright, that he had no more sympathy with this largess we are handing over to the banks in the shape of Government bonds than some of the rest of us have; and he indicated that if the banks should take the position that they would not take the bonds, the Government could exercise its sovereign powers and relieve the banks of the necessity of issuing money by issuing it itself.



Mr. WOLCOTT. The act provides specifically that the policy adopted by the Open-Market Committee should be followed by the banks; and I remember very distinctly I asked Mr. Eccles the purpose of that, and the answer that I got from him, as I gathered it—as I gathered from him, his answer was this: That the purpose of it was to compel the banks to take the Government securities, just as Mr. Fort said.

Mr. HOLLISTER. He said if the time came when the Government felt that bonds should be acquired, and the banks thought otherwise, either the banks would have to take them or the Government would take over the banks.

Mr. FORT. Something of that sort is what I have reference to having seen.

Mr. GOLDSBOROUGH. I understood what he meant was that, if the banks were to cease to absorb these Government bonds, then the Government was not dependent upon the banks for its financing; it could issue its own money instead of having these banks do it, instead of having this money created by the necromancy of a bank clerk. That is what he said.

Mr. FORT. Well, you have stopped any issue of currency by banks through the call of the circulation bonds; that is, the Government has.

The point I want to make is this: My own bank, like most others, has 40 percent of its assets in Government bonds, and that is too much.

Mr. GOLDSBOROUGH. It is too much, but you are going to hold onto them, until you get better investments, and that is what you ought to do, of course.

Mr. FORT. It is too much facing the fact that you may have to liquidate them some day, presumably, either for the purpose of loaning for other purposes or for the purpose of meeting your deposit liability.

Mr. FORD. Is there not sufficient reserve at the present, so that the banks could actually lend up to 20 billion?

Mr. FORT. They can loan, but they cannot meet the deposits out of that 20 billion.

Mr. FORD. I understand that. Therefore, you would gradually get your assets into other kinds of loans?

Mr. REILLY. Mr. Fort, if the insurance-deposit loans work, there will be no more scares or withdrawals of money from the banks, will there?

Mr. FORT. Up to \$5,000, you are right, but your big trouble is in the big withdrawals that come in through the exchanges, rather than the small withdrawals.

Mr. REILLY. What do they do with that money? Is it not a fact that runs on the banks have already been started by 96 percent or 98 percent of the depositors, who are now protected?

Mr. FORT. The runs at the windows, yes; but the 96 percent relates to the number of depositors, not to the amount of deposits.

Mr. REILLY. Those are the people who start the runs on the banks.

Mr. FORT. It is also true that the bank holidays in many States were forced largely by large deposits that were drawn through the exchanges and not the withdrawal of small deposits at the window.



Mr. GIFFORD. Mr. Fort, I have made this expression once or twice, and it seems to have very little value, but a very prominent member from New England said once "The more money you loan to the Government the less you have to loan to people."

Mr. FORT. That is true; but it is also true that the public is not borrowing today. I want to say, in defense of the banking fraternity, that despite the fact that we advertised in 1932 our readiness to loan money in our bank, when everyone said it was impossible to borrow, and cut our rate of interest by public announcement in 1934, we have found that there is no demand from business for money and there has been none for 3 years.

Mr. GIFFORD. Do you realize how out of date you are when the Governor of the Federal Reserve Board does not worry about \$40,000,000 today or 5 years' balancing of the Budget. Why do you come here and try to argue with us?

Mr. FORT. I am not arguing with you, but I might argue with him.

Mr. CROSS. Mr. Fort, I noticed the other day in the bank clearings in New York, in 19 banking institutions, the demand deposits were in excess of \$7,500,000,000.

Mr. FORT. Yes.

Mr. CROSS. They have had to do a lot of loaning in order to give that much credit. Of course, that is more money than we have, literally, because that is in excess of \$2,000,000,000 that there is in the entire country. So that money is bound to be simply bank credit, check money.

Mr. FORT. It is on Government bonds, chiefly.

Mr. CROSS. So there must have been loans or must have been a lot of loans, in order to have that much deposit money, and that is demand deposits.

Mr. FORT. We have increased our Government debt \$14,000,000,000 in 5 years, that is what has produced most of it.

Mr. CROSS. Do you count those deposits by the Government in that?

Mr. FORT. Yes; and the expenditure of Government funds.

Mr. CROSS. I notice the deposits are in excess of \$500,000,000 and some odd—

Mr. FORT (interposing). Where, in New York commercial banks?

Mr. CROSS. In the banks that belong to the Clearing House Association.

Mr. FORT. I want to bring to your attention another suggestion. You have a provision in here on page 6, section 4, for no-par stock for the Federal Deposit Insurance Corporation. I have had a theory for 3 or 4 years that we should establish no-par capital stock for the banks, and I will tell you why. It is no secret in this room, of course, that there are a great many banks in the United States whose only existing capital today is preferred stock from the R. F. C. There is no secret about the fact that there is a vast number of banks which have still to take heavy write-offs. It would make a far straighter and simpler capital structure if those banks were allowed to restate their capital structure, transfer to surplus, and use for their write-offs a large part of what they now carry in their capital accounts, with the permission, of course, of the Comptroller of the Currency and the Federal Reserve Board.



I happened to have a hand in opening or keeping open some 32 banks since 1932, and, therefore, have seen the intimate, inside figures of a good many small and medium-sized banks. Mergers are the only salvation of a large number of these banks.

Now, to work under the existing statute with a minimum par value per share, you have got to have stockholder meetings on notice, and you will have to tell the stockholders in a weak bank what they are going to get; and when you tell some of them what they are going to get in terms of dollars they are going to close the bank by withdrawals before you can hold your meeting. If you had the ability to issue no-par stock, you could offer the stockholders of a weak institution some shares of stock of no-par value without too great a public disclosure of the whole picture, and thus eliminate by merger a whole lot of these weak institutions which are going to be a source of trouble in the future if they are not eliminated.

But no strong bank could afford to take over some of those banks and give them the stock which they would have to give if they had to adopt a definite capital value in dollars. To do so would make a demand on the surplus of the strong bank and weaken it.

But it seems to me, gentlemen, that while you are at it in reconstruction of banks you should insert a no-par provision in the law.

Mr. FORT. There is a picture in American banks, gentlemen, where something of that sort is going to be necessary. Now, the original objection of the Comptroller's Office to it 2 or 3 years ago was the disturbance to the assessment-liability feature on national-bank stock. But, of course, if this is necessary to be taken care of it could be done through using the same assessment liability, if you please, fixing it at whatever was the old par value. But unless you do something of this sort, a lot of these weak banks are going to be laboring and struggling along as individual units that can never make a dollar.

Not only that, but they are not going to be able to take the write-offs that would enable them to make an honest statement for 5 to 10 or more years.

If you let them restate their capital—if, for instance, they have \$300,000 capital and have only \$100,000 capital assets—the bank can send a letter to their stockholders saying, "We want to change our stock from 12,000 shares of \$25 par to 12,000 shares no par." It can then restate its capital at \$100,000, and take \$100,000 into surplus and \$100,000 into undivided profits, and use it for write-offs. If you will let it do that you will get their capital structure straight.

The important part of that is that the thing that has closed more banks, in my judgment, than anything else, has been the loss of nerve by the banker, as he saw his surplus vanishing and his capital getting a deep cut, and realized that he never was going to be able to pay dividends to his stockholders again for many years.

Mr. HOLLISTER. Did you not have a great deal to do with the preferred-stock idea in banks?

Mr. FORT. I believe so. I advanced that suggestion back in 1931 or early 1932. I now think that a really complete recapitalization proposal is what many banks need. Of course, there are a lot of banks that do not need it, but there is a mass of them—particularly among the small banks, gentlemen, in the small communities in this



country—there is a mass of those banks that cannot begin to pay a dividend to their shareholders for 20 years, under the provisions of the existing law—10 years, anyhow.

Mr. FORD. What brought that condition about, Mr. Fort?

Mr. FORT. What brought it about is this: I would say a combination of different causes: Bad faith and dishonor in the management of a good many institutions, of course, but not in nearly as many as the loss of confidence in honestly run banks, due to the stories of dishonesty in others.

I think the story was something like this: There were in the country, in the State nonmember-banking system, entirely too many States which allowed banks to start with very low capital. I recall one State in which something like 68 banks closed in one day, where the total capital of the 68 banks, if my memory is correct, was under \$1,000,000. They had in that State, I think, a \$5,000 minimum capital limit. Now, that story of 68 banks closing got into the newspapers and the average person, in the average town, thought of those banks as he thought of the banks around his neighborhood; a bank was a bank; and they were not aware of the fact that these so-called "banks" that had gone under in large blocks really had been insolvent as soon as they paid the janitor his first month's wages—their capital was so small and they had no surplus. That kind of story scared the average bank depositor elsewhere and caused the spreading of those small-bank failures, particularly in the country districts, and may I say parenthetically, largely because of frozen-mortgage loans.

The continuance of stories of banks of this type closing produced a psychology in the country that the banks were insolvent as a group, and that produced hoarding, and that produced fear in the minds of the bankers.

There is no way in the world to make it more certain that people are going to be afraid of you, that they are going to distrust you, than to show that you are afraid of your own position. And the bankers got afraid to make loans for fear of withdrawals; and the moment they were afraid to make loans everybody in the community got suspicious of them, because they thought they must be tied up.

If you add on to that the requirement of publicity of the loans from the R. F. C., that just finished the picture, because the people began to think that any bank who borrowed money from the R. F. C. was busted.

Mr. DRISCOLL. Was that not pretty good proof—a bank borrowing money from the Reconstruction Finance Corporation was pretty good proof that the bank was in pretty good shape, because my banker friends tell me it was hard to get money from the R. F. C.

Mr. FORT. The trouble with that was that the R. F. C. took the best assets. There were some banks that were closed with all of the good assets in the R. F. C., and there were \$3,000,000 or \$4,000,000 or \$5,000,000 of deposits left unsecured, or secured only with the bad assets, or slow assets, such as the banking house and things of that kind. But, of course, there are all kinds of excuses.

I have always thought that one psychological thing, along with the failure of the small banks, that at least in the East did a great deal of harm was the suspension of gold payments by the Bank of England. The old phrase "As safe as the Bank of England" had



been a byword for strength for a hundred years, and when the Bank of England had to quit gold, I think that produced a psychological effect throughout the eastern half of the country, at least. I do not know what it did elsewhere. From all these things, it finally became like a snowball, and there was no stopping it.

But nothing hurt worse than lost nerve by bankers.

When a banker lost his nerve about making new loans, when a man came in to borrow money and the banker said he could not loan him, that man went out at once convinced that the bank was in trouble; and I think that contributed in a very large degree to the trouble, myself.

Mr. DIRKSEN. You said a moment ago there was no demand for loans; would you care to make the distinction that there was no attempt to secure loans by people who had sufficient collateral to satisfy the bank examiners?

Mr. FORT. Well, when you say "bank examiners", yes; it is impossible to satisfy the bank examiners.

Mr. DIRKSEN. Well, satisfy the bankers, then?

Mr. FORT. I can say this: We advertised in 1932 for 3 months—big ads—our readiness to loan money, and we did not have two applications from business men. And we cut our maximum interest rate in December and announced it publicly, and since then our loans have gone down rapidly. The repayment of the old loans have exceeded our new applications, although we have made it known that we cut the rate on mortgage loans and on everything else.

The only demand there has been for money has been on real estate in our community, things like building and loan associations and mortgage money.

The business men are in one of two classes: They either have all of the liquid capital they need for their present operations and are unwilling to start any more operations, because of some feeling of uncertainty on their minds of one thing or another—the N. R. A. in one man's case, inflation in another man's case, the A. A. A., or what not—some one thing, some another—something that strikes a man's mind as a reason why he is not ready to go ahead and do something—or if they are not in that shape, if they haven't all the money they need, they are in shape where their business is in such shape that you cannot loan them anything.

You do not get any applications from men who are merchants that you could do business with, or manufacturers. We are in a big manufacturing community, the city of Newark, and we just had one new manufacturer's loan this year in my bank, and we made it, and it was one the R. F. C. had turned down.

Mr. BROWN of Michigan. Governor Fort, I would like to interrupt. Do I understand, Mr. Chairman, that you are going on this afternoon?

The CHAIRMAN. Gentlemen, I guess Mr. Fort has finished as far as he desires to proceed without interruption.

Mr. FORT. I have only one other thing, gentlemen. I do not know whether you want to touch on this in the bill or not, but you have a reference in here about offsets, somewhere—

The CHAIRMAN. Just a moment, Mr. Fort. What did you start to say, Mr. Brown?



Mr. BROWN of Michigan. If we are going to decide this question of the location of the committee, I would like to be here, and I would like to see it laid over until 3 o'clock, when we meet again.

The CHAIRMAN. Will that suit all of you, gentlemen? Suppose we say we will come back at a quarter of 3? Well, say, 3 o'clock.

Mr. FORT. It will only take me a very short time, gentlemen, to finish.

The only other thing I have to say is this, gentlemen: It occurred to me in reading the bill that you have a reference in here that the insurance on deposits means that the guaranty applies to such part of the money due to any depositor for deposits in insured banks, "after deducting the offsets."

If you are going into a general reformation of banks, I have never seen any justification for allowing a borrower an offset against his deposits as a preference over a nonborrower in a bank. A depositor in a bank puts his money in and gets nothing but service. The borrower gets the use of the other man's money on the payment of interest.

The present system throughout the United States, State and National, results in the condition where, when a bank closes through bad loans or for other reasons, any borrower who has a deposit in a bank gets 100 percent of that deposit credited against what he owes, before the nonborrowing depositor gets any credit, and thereby reduces the net assets, so the borrower gets a larger dividend on his deposit than the nonborrower gets, because he gets full credit for his loan and then gets the same percentage of what is left that the nonborrowing depositor gets on his deposit.

Now, that is a survival of the old idea that, when you have cross transactions, you can offset one against the other, but I do not think that idea should properly be applied to modern banking, because a bank is dealing chiefly with other people's money when it loans. The deposits are other people's money, and not the bank's money; and the whole theory that permits a borrower preference in his dividend from the bank seems to be unfair and an improper custom.

In addition to that, it has worked out very badly in depressions, for this reason: It has been ruled that if a bank has rediscounted my note with the Federal Reserve Bank or the R. F. C., or whatnot, then the offset feature does not work; it can only work if the loan is still in the possession of the bank.

The result is that one borrower gets the credit of his deposits and another borrower does not get the credit of his deposits. That caused the failure of some banks during this depression, because borrowers who were wise to that situation went to the banks and demanded to see their note, to make sure they had not been borrowed against, so the bankers did not dare to borrow.

In some cases, wise men who did not want to draw their deposits out because they wanted to maintain their credit with the bank for the future, if the bank lasted through the depression, went in and borrowed money on collateral, or otherwise, equal to their entire deposit, and took it and put it in some other bank, with the result that when the bank closed they got 100 percent of their deposits as an offset to the notes, yet they had actually drawn their deposits out.

The whole system of offsets is a survival of the days of private banking, when, to a large extent, credit was an interlocking thing—



that is, the banker was loaning his own money—but today a banker is loaning 10 times, usually, of his depositor's money to what he is loaning of his own; and no borrower should get a complete offset, in my judgment, for the amount of his deposit.

Mr. GIFFORD. Mr. Fort, cannot banks force you to keep a deposit, if you get your loan there?

Mr. FORT. There may be a proper exception, Congressman Gifford, such as to say that any deposit which is contractually maintained should be offset. But, generally speaking, the practice is not a fair practice to all depositors and results only in the reduction of dividends to depositors.

Mr. REILLY. In giving those fellows a preference?

Mr. FORT. Yes, sir; a borrower is a preferred depositor in that bank.

Mr. WOLCOTT. Is not that largely a matter of State jurisdiction, the theory being that the bank could sue, in the State courts, the borrower on any paper he has in the bank?

Mr. FORT. Yes, sir.

Mr. WOLCOTT. And the State law allows him to offset the liability to the bank?

Mr. FORT. It is largely a matter of State law, but I have always taken the view that you can do about what you please—Congress can do what it pleases with the State banking system, if it wants to use its power, and you are pretty nearly doing that in this bill.

Mr. WOLCOTT. I agree with you there.

Mr. FORT. Now, you are deliberately here perpetuating the offset, however, in the F. D. I. C. provision; you are deliberately enacting that into a Federal statute.

Mr. WOLCOTT. If we assume jurisdiction for that purpose, we can also assume jurisdiction for other things.

Mr. FORT. Yes; and it has never seemed to me sound, under modern banking practices, where you are loaning other people's money and not your own to differentiate between two depositors.

The CHAIRMAN. Well, Mr. Fort, we thank you very much.

Mr. FORD. May I make one observation?

The CHAIRMAN. Yes.

Mr. FORD. Mr. Fort, you said that real estate is good security, if the loan is conservatively made. Real estate is a good security if conservatively made, but it is a bad risk, under all circumstances, for the borrower; is not that your psychology?

Mr. FORT. No; if it is too high a loan, it is a bad risk for the borrower.

Mr. FORD. Well, as a matter of fact, since a man has to pay taxes on real estate and keep it up and pay insurance, and all of the rest of it, and pay interest on the loan, it would always be a very heavy charge for the real estate as used as security for a loan?

Mr. FORT. Yes; but it may not be, if you hold the principal of your loan down to the point where the combined fixed charges and proper amortization do not exceed the fair rental value of the property—whether you are renting it or living in it—if it does not exceed what you would have to pay elsewhere for rent, or substantially exceed it, it may be a very wise investment for a man's savings. Then it is undoubtedly desirable, socially, to induce people to own their own homes; but it is unwise, sociologically, to induce them to buy



their own homes on terms they cannot maintain with absolute assurance.

Mr. FORD. Then there is another phase: A man has a piece of business property in a very good part of a city, that is inadequately improved, but by reason of the tremendous value of the lot he is able to make a loan; is that kind of loan justified, at any time by a bank?

Mr. FORD. Rarely ever.

Mr. REILLY. It would depend on the rent, would it not?

Mr. FORD. It would depend on that somewhat. For example, if a man had a store business—a man who was a bank's customer had a store, and his business had expanded to the point where he needed a bigger store, and rather than use his working capital that he needed in his business to swing the building of the bigger store—

Mr. FORD. That is different.

Mr. FORD. The bank might very properly go in there to improve that property and develop that property as a business enterprise.

Mr. FORD. Assuming he was going to develop the property, but just take the value of a piece of property as consideration for the loan—that is not justifiable, is it?

Mr. FORD. You mean take the land alone?

Mr. FORD. Yes.

Mr. FORD. No; I do not think banks ought to make land loans.

Mr. FORD. There is no building on it, and therefore—

Mr. FORD. When I say "land loans", I mean where the big value is in the land.

Mr. REILLY. What do you think about the adequacy of one-twelfth of 1 percent for the insurance fund.

Mr. FORD. Assuming that the Government bond market should hold for 3 years, if you are going to put all of the money in Government bonds, that should be adequate. If Government bonds break in 3 years and all of the assets of your bank system and the Federal Deposit Insurance Corporation are in Government bonds, you cannot make it adequate.

Mr. HOLLISTER. And that figure would not be adequate?

Mr. FORD. No.

The CHAIRMAN. We will meet tomorrow morning at 10:30, and everybody be here.

(Thereupon, the hearing was recessed until 10:30 a. m., Wednesday, Apr. 3, 1935.)



**BANKING ACT OF 1935****MONDAY, APRIL 8, 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. Frank A. Vanderlip.

Gentlemen, I am sure it is unnecessary to introduce Mr. Vanderlip to this committee. You all know who he is, and I am sure we will be delighted to have him discuss this bill which we are considering, H. R. 5357.

I assume Mr. Vanderlip desires to address himself to title II of the bill. Mr. Vanderlip, you may be governed by your own pleasure as to whether you will proceed first without interruption, indicate when you would like to submit to inquiries.

You may proceed.

**STATEMENT OF FRANK A. VANDERLIP, NEW YORK, N. Y.**

Mr. VANDERLIP. Mr. Chairman, I do not mind being interrupted, if anything I say is not clear, or if you want to challenge it.

I am profoundly impressed with the importance of what is before you. You are going to give a mandate for the management of the currency of the country.

Mr. CROSS. Mr. Chairman, I do not know whether the new members of the committee know Mr. Vanderlip's background, and I think it would be desirable for him to give that to us.

The CHAIRMAN. Will you state that for the record, Mr. Vanderlip? Of course, some of us know what it is, but some of the new members may not know.

Mr. VANDERLIP. I do not want to give you an autobiography. I was Assistant Secretary of the Treasury under McKinley. I had a good deal to do with the formulation of the Federal Reserve Act.

After leaving the Treasury I went into the National City Bank of New York, and in a short time became president of that bank. I was president down to 1919. I have since retired from active banking, but have been extremely active in contemplating banking from a public aspect.

As I was saying, Mr. Chairman and gentlemen, you are, in my opinion, dealing with one of the most fundamentally important matters that has ever come before Congress. The Constitution



lays on you an obligation; it says the Congress "shall" coin money and regulate the value thereof, and you are now proceeding, really for the first time in our history, to regulate the value of money.

For a century and a half, in common with a fallacy held by all the world, we thought we were regulating the value of money by attaching it to a given weight of gold. We supposed that an ounce of gold was a stable measure of value. We have found in recent years that it is not a stable measure of value at all. It is about as stable as it would be to use an accordion for a yardstick. The yardstick has to change when an ounce of gold brought three times as much in 1900 as it did in 1920. In the 4 years, from 1930 to 1933, inclusive, gold so changed in value that it bought twice as much as it did in the beginning.

It is like having a yardstick that is 3 feet long sometimes and 1 foot long at another time. It is not a measure of value to set up a weight of gold as your standard.

Now you are proposing a managed currency, because that is really the essence of this bill, and I believe it is a most proper objective step. But the bill does not really state the objective.

You give great powers, and properly, to a committee to manage the currency, but you do not state what their objectives shall be in its management.

Now, I understand that in the testimony of Mr. Eccles he has proposed a statement of the mandate. I only have it from a letter which I have, which he wrote. You are all familiar with it, I suppose.

Mr. GOLDSBOROUGH. If you have it there you might read it.

Mr. VANDERLIP. It says that "it shall be the duty of the Federal Reserve Board to exercise such powers as it possesses in such manner as to promote conditions conducive to business stability, and to mitigate by its influence unstabilizing fluctuations in the general level of production, trade, prices, and employment, so far as may be possible within the scope of monetary action and credit administration."

I do not think that that is a clear enough statement under which Congress should transfer its obligation to regulate the currency. Whatever action that board took could be fitted to some interpretation of this statement, it seems to me.

I was told last evening that the statement had been lifted bodily, but with a slight change, from the Canadian banking act. Well, Canadian banking has obviously been better than American banking, but still I do not agree that that is a proper form of the mandate which you should give to the managers of our currency system. There is the very heart and essence of your action.

To what purpose is the currency to be regulated?

Mr. GOLDSBOROUGH. Do you not think it is clearly the duty of the Congress, under the Constitution, to declare a mandate?

Mr. VANDERLIP. Absolutely; it has the obligation under the Constitution. The Constitution says so.

Mr. CROSS. May I ask for your reaction on this amendment, which I propose to offer in that connection: It shall be the duty of the Federal Reserve Board, with the use of the powers herein granted, continually to maintain, as near as possible, the wholesale commodity price level comparable with the wholesale commodity price level cov-



ering the period from January 1, 1921, to December 31, 1929, thereby stabilizing the purchasing power of the dollar and make it an honest dollar by making it dependable as a measure of value.

Mr. VANDERLIP. I should agree with that whole-heartedly.

Mr. GIFFORD. Would you withdraw all credit for those who produce and stop overproduction?

Mr. VANDERLIP. I would limit the total volume of bank credit. You have a section in this bill in reference to the cash reserves that must be held back of deposits, which gives you control of the total volume of bank credit. I believe that is necessary to a managed currency in a country where bank credit forms such a large proportion of the purchasing medium, as with us.

For example, if you set up such an objective as you mention there, a price index, and prices were raised to that level, there might then come a wave of optimism both on the part of borrowers and the bankers, and with the huge surplus reserves that there are, you could have an expansion of bank credit which would carry prices to some enormous height, in spite of almost anything you could do with the currency itself.

I would object most deeply to Government functionaries having to do with individual bank credits what some call the "nationalization" or "socialization" of the banks. But I do believe that in the management of the currency the managers should have a control over the total volume of bank credit and should be able to put a brake upon too rapid an expansion, so that prices could not be inflated and carried away beyond their currency control.

Mr. GIFFORD. Pressing my question further, overproduction causes an immediate crash in prices. Can you carry your money control so far as to control production to that degree?

Mr. VANDERLIP. Certainly you could control production if you controlled the total volume of bank credit.

Mr. GIFFORD. Could you carry that to that particular commodity that is overproduced?

Mr. VANDERLIP. No; a particular commodity might be overproduced.

Mr. GIFFORD. And it may be done in such large proportions as to affect many other commodities of a similar kind?

Mr. VANDERLIP. That is conceivable. But people look for some one thing of great significance that might go wrong under such a system to prove that everything goes wrong under such a system as we have had. To come to a currency that was managed, to use the language of the President, "so as to give the same purchasing and debt-paying power throughout a generation", would be one of the most beneficent acts Congress ever passed. We could afford to have incurred all the indebtedness—the billions of indebtedness—we have in this depression to get such an act.

There is an objection raised to setting up a price index as an objective. I was talking with a very distinguished member of the Government last night. His objection was this: "How do you know if you got back to the price level which you would have named, that you would have full employment—or perhaps we ought not to go that high—that we would have full employment then? You want to leave that to the discretion of the managers."



A stable currency which I want to see, a currency that will have, throughout a generation, the same command over goods, the same purchasing power and debt-paying power, is not a cure-all for every evil. Our currency difficulty has been the root evil, but a sound currency bill will not make hair grow on a bare head; it will not prevent technological unemployment; it will not completely cure the agricultural situation, although it will profoundly help it. If you do not ask too much of a currency bill nor expect a vast amount, you will get it if your bill is sound.

The CHAIRMAN. If I understand you correctly, the objective outlined in the amendments proposed by the Governor of the Federal Reserve Board are all desirable?

Mr. VANDERLIP. Yes, sir; that is, at least, those that apply to the management are desirable.

The CHAIRMAN. And the ends set forth to be sought by those amendments you regard as to be desired, do you not?

Mr. VANDERLIP. In the statement of objectives?

The CHAIRMAN. Yes.

Mr. VANDERLIP. They are too obscure to me to be able to analyze.

The CHAIRMAN. He says, "conducive to business stability." That is desirable, is it not?

Mr. GOLDSBOROUGH. That is a generalization.

Mr. VANDERLIP. That is a generalization.

The CHAIRMAN. To overcome, if it is necessary, unstabilizing fluctuations in the general level of production.

Mr. VANDERLIP. What are unstabilizing fluctuations in the general level of production?

The CHAIRMAN. I think you pretty well outlined that briefly already. That is what we want to get away from. If I understand you, you agree that that is desirable, but you think those ends can best be accomplished by reaching a desired price level and trust that to accomplish other desirable results and let that be our guide.

Mr. VANDERLIP. If Congress chooses a price level and it becomes obviously a wrong standard, Congress has the power to change it; but it ought not to delegate that power to the wisdom of a small group of men.

You have the obligation to state the objective of a managed currency when you are adopting a managed currency.

The CHAIRMAN. Let me ask you this question in that connection. If I understood you correctly a moment ago, you said that conditions might develop which would cause a rise in price levels far beyond that laid down as a guide, and that that was to be desired?

Mr. VANDERLIP. Oh, no.

The CHAIRMAN. Then perhaps I misunderstood you.

Mr. VANDERLIP. I said that with the management of currency alone you might get a rise in the price level above your stated objective.

The CHAIRMAN. That is what I understood you to say.

Mr. VANDERLIP. Let me go on. Because price is a function of the total purchasing medium, and the total purchasing medium is made up of the currency and bank deposits, therefore the control is both by currency and the total volume of bank deposits. You must have that power. You have it in the bill, perfectly stated.

There is much of this bill that I approve.



The CHAIRMAN. If I understand you, you approve the machinery established and you approve the powers granted, but you do think that there should be a specific direction rather than a declaration of general policies.

Mr. VANDERLIP. Above all else, I believe that there should be a general and specific direction. I do not want to give quite as sweeping approval as you made me give in your question.

Mr. REILLY. In other words, you think because Congress has this power it should tell this authority just what to do?

Mr. VANDERLIP. Yes, sir.

The CHAIRMAN. Let me ask you one other question. I think now I understand that, as you view the matter, it might be possible that, although we outline a specific price level as a guide, conditions might develop that would lift us beyond the level desired.

Mr. VANDERLIP. No; they would not lift you beyond that desired level with the control of the ratio of reserves to deposits which the bill gives you. You can prevent that.

The CHAIRMAN. You think that with that power, properly exercised, that cannot happen?

Mr. VANDERLIP. Absolutely.

The CHAIRMAN. Then I want to ask you this question: How far, in your judgment, do the activities of other governments, and conditions throughout the world, enter into our efforts, and the results?

Mr. VANDERLIP. There is no reason whatever why we should not do this independently. England is doing it independently, and most successfully, today. England is managing her currency, detached from gold, against a price level, holding her domestic price level within narrow fluctuations.

The CHAIRMAN. How long has she done that?

Mr. VANDERLIP. Since she went off gold, since the Ottawa Conference.

The CHAIRMAN. That was only a few months ago.

Mr. VANDERLIP. No; it was since she went off gold.

The CHAIRMAN. The Ottawa conference was last year, was it not?

Mr. VANDERLIP. No; the Ottawa conference was in the summer of 1932, I believe. But they did it back of that.

The CHAIRMAN. What I was going to ask you was this. Our trouble seems to arise only upon occasion. Some of our friends say it comes in cycles, and all that sort of thing, which I do not believe. But that has been periodic.

But I will ask you to address yourself to this inquiry, whether or not the practices that have been employed in Great Britain have been tested out long enough to assure us that they will protect against periodic developments such as we have experienced under the old order.

Mr. VANDERLIP. They have been tested out only for 3 years; nevertheless, in that time, in days of great depression with us, they have given England a measure of prosperity almost equal to what she had in the peak days of 1928 and 1929.

Mr. GIFFORD. Right there, let me ask you this question: You do not think for a minute that this country would stand for those harsh measures that England has adopted, do you? Suppose labor had even an inkling of what might happen to it if our currency was



managed in the way that England managed hers in the last 3 years, what do you think would happen?

You have read, have you not, about the criticism they made of us for allowing labor to get the prices that they get in this country, when they have said they would never have allowed any such condition over there?

Do you think for a moment that such harsh treatment, in connection with what we are trying to do in raising prices, as compared with what they are trying to do in holding them down there, would be endured in this country for a moment?

Mr. VANDERLIP. I have observed with my own eyes a comparison of labor conditions there and labor conditions here. Take, for instance, the building industry over there. England, in the last 3 years, has constructed more houses than all the other countries on the continent of Europe together, and, I guess, plus what America has done. Compare that with our own situation, where 80 percent of the building-trade industry is idle.

Mr. GIFFORD. But compare the prices paid there, the wages of labor in building operations, with the prices paid here; do you think for 1 minute that our people would stand for that?

Mr. VANDERLIP. I have read their criticisms of the payments we make to our labor here.

Mr. GIFFORD. Do you agree with me that the wages paid to their labor in building operations are extremely small, as compared to the wages we pay to our men, organized into unions?

Mr. VANDERLIP. I think this takes us off the point.

I think one of the causes of our depression has been that labor has not received enough of the fruits of industry to enable them to purchase the products of industry.

Mr. GIFFORD. When they band themselves together and will not work for less than \$12 or \$15 a day, will managed currency cure that as it has cured it in England?

Mr. VANDERLIP. I do not think it was that that cured it in England. Of course, managed currency will not do a lot of things.

Mr. GIFFORD. Do not let us boast about what England has done by her managed currency, with the harsh treatment she has accorded her people, and then ask us to endure that for a minute.

Mr. HOLLISTER. As I understand it, Mr. Vanderlip, you are speaking particularly with respect to title II. You said that there are a great many things in title II that you are very much in favor of, but chiefly you thought it did not state specifically enough the object to be attained.

Is there any other provision in title II that you do not like? Take, for instance, the make-up of the controlling Board itself; is not that highly important?

Mr. VANDERLIP. It is highly important. I think there should be no ex-officio members of that Board. They are appointed by the President, and capable of being, perhaps, not removed, but diplomatically put out of the picture as members of a Board on which the Secretary of the Treasury is known to voice the President's opinion, as must always be the case; and you will find that the Secretary of the Treasury can outvote a majority of the Board; that is, the Board will conform. I think it is wrong to have ex-officio members of the executive family on this Board.



Mr. HOLLISTER. How do you feel about having a governor who could be removed at the will of the President as the chief man on the board, as he always has been?

Mr. VANDERLIP. I would not choose to do it that way, but I would like to do it in a different way. To my mind, if Congress will specifically state this mandate, the character of the people who are carrying it out becomes far less important. If you will specifically set up a mandate as to the price level, and make it mandatory when current prices are below that level to raise it, then they must inflate; then they must use one of the half-dozen levers, or all of them, to raise prices.

The CHAIRMAN. You desire a control of law as far as we can, and leave as little to varying judgment of men as we can?

Mr. VANDERLIP. Yes, sir.

Mr. HOLLISTER. You visualize the board as a body with little discretion, but merely following the distinct purposes set up in the law, and the provisions here, which are so easy to be handled that the discretion of the individual is rather unimportant?

Mr. VANDERLIP. I would compare it to the Supreme Court of the United States. A judge of the Supreme Court does not say whether he thinks the law is good or bad law; he says, "Does it come within the meaning of the provisions of the Constitution?" I want this governing body not to say, "Well, I think personally we ought to inflate," or "I think personally we ought to deflate." Their job is cut out for them. You said this price level must be attained, and they must inflate or deflate when current prices are above or below that level. They have a large measure of judgment, and it should be a body of trained men, because you put into their hands six different levers to work.

Mr. GOLDSBOROUGH. You might state what those levers are.

Mr. HOLLISTER. Let me follow my point for a moment. You believe that as far as it is possible they should be removed from political control, and that to that extent it would be better.

Mr. VANDERLIP. That would be better.

Mr. HOLLISTER. And probably they could be removed.

Mr. VANDERLIP. Yes. I am not afraid to have that amount of political control over a board as the Federal Reserve Board now stands, appointed for 12 years. They are long appointments. But I would rather have a board insulated from both business and political pressure.

Mr. HOLLISTER. Or banking pressure?

Mr. VANDERLIP. That is business pressure.

The CHAIRMAN. Let me ask you this question in that connection: Suppose we should adopt your view and undertake to lay down a specific guide for the Federal Reserve Board, and we set up that Board with a tenure of 12 years, and release them with those powers. They do not have to run for election—

Mr. VANDERLIP. No.

The CHAIRMAN. Like the Representatives, who make the law. They are responsible to nobody after this power has been placed in their hands unless they recognize the right of removal, about which there may be some question.



What would you do in such a situation if the Board, in such a situation, was unsympathetic, and for reasons satisfactory to themselves but no satisfactory to the country, said they could not do it and that the ends desired could not be attained?

Mr. VANDERLIP. I know how easy it would be to do that under this mandate that is proposed, which is not clear to anybody. It is not specific. Make your mandate specific.

The CHAIRMAN. I am assuming that our mandate would be such as you consider desirable. What would we do, if under such a mandate, they gave some reason that they found satisfactory to themselves for not carrying out the mandate of Congress, and they were in office for 12 years, and had those powers, without the right to recall them?

Mr. VANDERLIP. You could impeach them, of course. If you set up a price level, they will have to inflate or deflate if the prices are above or below. The price level will be known; your stated price level would be known, and their action would be direct.

The CHAIRMAN. If I understand you correctly, you would give those broad powers to the Board and recognize it as a body analagous to the Supreme Court?

Mr. VANDERLIP. Yes, sir.

The CHAIRMAN. And the Supreme Court judges could not be impeached for an unwise exercise of judicial discretion by the Supreme Court, could they?

Mr. VANDERLIP. I am not a lawyer, and I do not know.

Mr. CROSS. I do not think there is any discretion here. You have a wholesale commodity price level that is a fixed thing.

The CHAIRMAN. I am wondering about this. We can find in the case of the Federal Reserve Board itself where the law specifically set up definite machinery, but we did not create the office of Chairman of the Federal Reserve Board. They did that without provision of law.

Mr. HANCOCK. Will you not tell us what you would do today to accomplish the maintenance of the price level if you were a member of the Board and had the powers or levers at your command?

Mr. VANDERLIP. I would have to know what the mandate was.

Mr. GOLDSBOROUGH. Raising the price level to that of 1926.

Mr. VANDERLIP. If that is the mandate, there is one thing more. There should be no attachment of this currency to gold. That may shock some of you.

Mr. GOLDSBOROUGH. There are a lot of us whose feelings it does not hurt.

Mr. VANDERLIP. You should have a broad, proper gold market in which anybody can trade, as in the wheat or cotton market, and do what they would with the gold.

There is one thing that Congress has not the power to do, and that is to stabilize the foreign exchanges and at the same time stabilize prices. You cannot do those two things; you have to choose which you are going to do.

The CHAIRMAN. Right there you have reached the discussion that I sought to invite your attention to a little while ago.

You say they cannot do both.

Mr. VANDERLIP. No, sir.



The CHAIRMAN. Can they do one permanently without the other?

Mr. VANDERLIP. Yes, sir.

The CHAIRMAN. I will be glad to have you discuss that.

Mr. VANDERLIP. They did it permanently. They established the stability of foreign exchanges. The whole world has always been ready to take gold as a final payment in making money settlement of trade balances.

When Congress attached our dollar to a given weight of gold they gave to the whole world a put-and-call option to either sell gold at a fixed price or to buy gold at a fixed price. Anybody with gold anywhere in the world could bring it here and demand its value at 23.22 grains to the dollar. Anybody with free credit anywhere in the world, with free capital, could, through the stabilized exchanges, buy a New York bank account and draw against that in currency and demand gold, and get it, up to the time we went off the gold standard.

The whole theory of the gold standard was that if a country exported less than it imported, that balance had to be settled in gold, and then it was a beautiful regulator of foreign trade.

The gold went up and interest rates were raised as a result, because it affected your currency about 10 times, that withdrawing of gold. That made interest rates higher, it restricted credit, and it lowered prices. The very heart of the theory was that if the stabilized foreign exchange fluctuated your prices you could then go out and have a good market to buy it and a bad market to sell in, and you could correct your unbalanced foreign trade.

That answers your question, can you do one without the other. You have done one, and you can do the other. You can have a stable price level, but you will have a fluctuating foreign exchange.

Our domestic business is 95 percent and our foreign business is 5 percent of our business. It seems to me, however, that you should begin to stabilize domestic prices and not foreign exchange.

The evil of the gold standard was that it led to a breaking down of foreign trade, in this way: Every nation needed to protect its gold stock. Therefore, they set up embargoes and quotas, every obstacle to importing goods into a country because that importation might take gold out of the country. Happily, now all but three nations are off the gold standard, and I think we will get an improvement when they are all off, that is, an improvement in our foreign trade, because I think some of these obstacles to foreign trade which were erected to protect gold stocks will be removed.

Mr. GOLDSBOROUGH. If it is agreeable to you at this time, Mr. Vanderlip, I think it would be illuminating to the committee if you would state those six levers you referred to.

Mr. VANDERLIP. I would have all currency issued by this body, call it a monetary authority, if you choose, as we have. But let us drop that and call it the Federal Reserve Board. That currency should be the exclusive currency of the country. I do not want the Federal Reserve banks to issue it. It must be done by the Government.

Mr. GOLDSBOROUGH. It must be society itself.

Mr. VANDERLIP. It should be done by the Government of the United States, as far as the Treasury is the Government, or have some entity, we will call it the Federal Reserve Board if that is more



agreeable. But have an entity that is absolutely and wholly an arm of the Government.

They would take over all the gold that the Government has and all the silver, paying for the gold, presumably at the present price of \$35 per ounce, and they would issue their circulating notes against that.

I would have taken away the currency privilege from the Federal Reserve banks. I do not believe that the issuing of currency is a proper banking function; it is a function of the Government, and all profit which lies in it should go to the Government.

But having taken that away, and wanting to maintain the Federal Reserve System for what it was organized to do—to be a central reservoir of reserves, a place where banks could rediscount—we would have to give them a certain outlet so they could rediscount.

So I would have it mandatory upon this body that they would always rediscount the rediscounts of the Federal Reserve regional banks, and any Federal Reserve bank, in turn, could come to this body with its rediscounts, and this body would be under obligation to rediscount them. So the Federal Reserve regional banks could always get currency, just as they can get it now. But it would only be the one kind of currency.

Then I would permit this body to buy and sell short-term Government obligations. I should prefer that they had not over a year to run. It should also be permitted to buy foreign exchange and bankers' acceptances. The balance sheet of this body you could write on a visiting card.

On the liability side there could never be but one item, circulating notes outstanding. This is not a bank. It never receives deposits, and it never could owe anything except its circulating notes outstanding.

It could not get out a note except for these items on the other side, which would consist of gold and silver, rediscounts of the Federal Reserve banks, United States short-term obligations, foreign exchange, and bankers' acceptances. There is your whole story.

They will control the interest rate in a measure by being able to name the rate at which they will rediscount the rediscounts of the Federal Reserve banks.

They can vary the amount of gold that there is under a dollar, because they will buy and sell gold in a free gold market, just as the Bank of England does it itself at the direction of the British Government.

Under the old compensated-dollar plan, people thought of changing the gold content of the dollar from day to day. That would have been a very difficult thing, and was not far-reaching enough to control the price level. But here you change the price of gold in dollars—or the gold equivalent of the dollar—every day, if necessary, only you do it in an open market for gold.

The gold value of the pound sterling is changed daily as the open market for gold fluctuates, but nobody has any objection to that. The fact that the pound buys the same amount of goods all the time is the satisfactory feature.

The CHAIRMAN. The important thing in this country is to get a dollar that will pay debts.

Mr. GOLDSBOROUGH. Will you please complete your statement?



Mr. VANDERLIP. What kind of a dollar will the debts of the United States be paid in if we do not look out? You are going to the poor people today with a baby bond and saying to them, "Give us \$75 and we will pay you \$100 in 10 years." Have you the slightest idea what the value of the dollar they get back will be? Will they have earned interest on their money or will they have lost some of their principal when the bond is paid? Unless you stabilize your dollar to a purchasing value—

Mr. GOLDSBOROUGH. Will you proceed and tell us about your levers, if you do not object?

Mr. VANDERLIP. The thing is so simple—I have given them all to you.

Mr. GOLDSBOROUGH. All right.

Mr. VANDERLIP. This body would have the choice of using some of those levers or throwing on all of them. They play the piano, but you set the tune. They must inflate if current prices are below your stated price level. But what is so much more important, they must deflate if prices get above the price level, and we are saved from a runaway inflation. We will know that in a generation the dollar will have the same purchasing and paying power. We will know that when we buy an insurance policy or an annuity, or when we borrow some money, we will be paid or we can pay back with the same kind of a dollar that we started with.

Mr. GOLDSBOROUGH. Mr. Hancock asked you what you would do at this time in a period of deflation. I would like to supplement that by suggesting that it is probably more difficult to cure deflation than to restrict inflation.

Mr. VANDERLIP. You can pull on a string, but you cannot push a string.

Mr. WOLCOTT. How would you inflate to get the price level back?

Mr. VANDERLIP. It is perfectly simple. Probably the important thing would be the purchase of short-term Government obligations, and the putting out of currency.

Mr. WOLCOTT. It is a very important matter, but this committee is in somewhat of a quandary as to what the economists believe in that respect.

Mr. VANDERLIP. Do not believe any of them.

Mr. WOLCOTT. Last year we had hearings on the bill providing for a Federal monetary authority, and you came down and gave us your advice. As I recall, many of the economists were of the opinion that the volume of money had little relation to the commodity price index.

Mr. VANDERLIP. I am not an economist, but I think that is a perfectly silly proposition, with the experience that the world has had with inflation.

Mr. WOLCOTT. Of course, we are taught to believe that the volume of currency has a decided influence on the commodity price index, and I recall very distinctly that there were about as many opinions on that question as there were economists who appeared before us, all the way from Pearson up to Fisher, or vice versa. So I will say very frankly I have not decided; I have kept my mind open in the hope that the economists would eventually get together and decide for us whether the volume of the currency had a relationship



to the commodity price index that we have always been given to believe it did.

They tell us that the volume has little or no relationship to it, but that velocity controls it. In the Federal monetary authority bill, you suggest the only brake which we have on the velocity of cash currency and deposit currency and on bank credit is the open market operations of the Federal Reserve open market committee, or whatever body is set up for this purpose.

If it should develop that the theory of these economists who claim that velocity controls and volume does not control is correct, then have we provided anything in any of these bills for the control of inflation, or, the reverse, for the control of deflation?

Mr. GOLDSBOROUGH. Let me say this right there. These economists who claim that the volume of money does not control the price level undertook to base their statements, on what they said was a fact, and it is a fact, that the banks now have tremendous reserves which they are not using.

Mr. WOLCOTT. I may say that the theory under which the administration is proceeding today, in following the advice of Professor Warren, who spoke to us through Professor Pearson last year, is—and he believes, honestly and sincerely believes—that velocity has no connection with the price level, and that volume has no connection with the price level, but that the price level is tied to the value of gold, and he would control the commodity price level by fluctuations in the price of gold. That is the theory the administration is following today, and I do not know, and I do not believe the majority of the members of the committee know, which theory to follow. That is what causes the confusion.

Mr. VANDERLIP. Under the power conferred in this bill to fluctuate the ratio of reserves to bank deposits you would have the power to go up to a hundred percent, if you wanted to. You can absolutely control, with that power.

Price is a function of the total purchasing medium, and that is why you have to take in this control the total volume of bank deposits, because bank deposits as well as currency are purchasing media.

Mr. WOLCOTT. My point was simply this. Assuming I have a deposit of \$500 to my account. The checks I issue against that, to all intents and purposes, are currency, and the number of times I turn that account over, they tell us, controls the commodity price index, and it is the turn-over of these things that the control or authority has no jurisdiction over, that might control the commodity price index.

Can this authority tell me how many checks I will draw against the \$500? I might draw 1 check, or I might draw 200 checks.

Mr. GOLDSBOROUGH. I might overdraw my account.

Mr. WOLCOTT. Those 200 checks go through that many hands, and the velocity increases in proportion. I am asking for information.

What curb have we, or what regulation have we, governing the number of checks that a person shall issue, which are the same as currency issued from the Treasury through the Federal Reserve banks?



Mr. VANDERLIP. It is perfectly true that velocity has an effect on prices, as well as the volume of currency, and that by controlling the volume you can compensate for a change in the velocity. If your velocity increases you can decrease your volume, and you can keep your price level.

Mr. WOLCOTT. We have been told that the velocity of bank currency or credit currency depends largely upon the ability of the people to borrow from the banks, and I assume that could be regulated somewhat by regulation by the authority of loans made by the banks.

But is there not the danger that when this authority starts to tell the banks that they shall not make loans—and they have tried to regulate it, of course, heretofore by raising the rediscount rates—is there not a danger of people beginning to fear that the same thing will happen that happened in 1929, and then proceed to draw out their deposits, thinking that the banks are unsafe?

Mr. VANDERLIP. I think there is none of that danger.

Mr. CROSS. Would it not have a different psychological effect when you put the price level as a standard, that business and everyone else practically would feel that it would go there, and people would buy and have faith in prices going to that point?

Mr. VANDERLIP. It would be a breath of confidence which we so terribly lack now.

Mr. GIFFORD. I am rather new on this committee, Mr. Vanderlip, and I must be taught a good deal.

In connection with this wholesale price level, you seem to take it for granted that it is determined by a large number of commodities, and you have it in your mind all the time, I presume, that the dollar shall be stable, so far as concerns the man who is trying to live in this country and pay his debts.

But you do not have in mind the farmer, whose wheat or cotton may go way down in price, and who may look at you and say, "My wheat and corn are way down, but this other fellow has held the dollar up to just the same value." You do not care about the wheat farmer or the corn farmer or anybody who produces.

Mr. VANDERLIP. I care profoundly about him.

Mr. GIFFORD. It does not look that way.

Mr. VANDERLIP. Let us analyze that.

Mr. GIFFORD. There is an army of all sorts of productive interests in this country, but you pay no attention to them. Their products are all down, but the dollar is up.

Mr. VANDERLIP. I am paying the most acute attention to them.

Mr. GIFFORD. I am interested in them, and I want to be shown.

Mr. VANDERLIP. The price of cotton and the price of wheat are world prices, are they not? We cannot maintain our cotton values by storing it or burning it.

Mr. GIFFORD. Your remarks a while ago would indicate that we were going to pay no attention to world prices, but that we were going to take care of the 95 percent of our own market.

Mr. VANDERLIP. The world price of cotton, with every country off the gold basis, will be translatable from one currency to another by their respective prices of gold. There will really be a price for cotton in terms of gold that can be translated into each currency at whatever that currency's relation is to gold, or by naming the price of cotton in the currency of that country.



Mr. GIFFORD. Not when there is an embargo on cotton going to another country.

Mr. VANDERLIP. If the price of gold advances, the dollar price of the commodity will advance. We saw that to be so, and saw it to be so with rather remarkable accuracy in the repeated deflation of the dollar in gold.

This act, instead of being harmful to the farmer, will be a strong influence to bring about an equalization and to get over this disequilibrium between agricultural prices and other prices.

Mr. GIFFORD. Granting that, what are we going to do in the case of Japan, when she prefers to and will buy cotton of India? How will that help us in any way to keep up the price of cotton insofar as Japan is concerned?

Mr. VANDERLIP. We have lost our predominant place in the world's cotton market.

Mr. GIFFORD. How does that apply to that cotton?

Mr. VANDERLIP. We are not going to keep Japan and Russia out of war with a currency bill.

Mr. GIFFORD. Then your currency scheme cannot cure that, and your credit scheme would not cure that at all.

Mr. VANDERLIP. All right.

Mr. GOLDSBOROUGH. Following Mr. Gifford's questions, you do not mean to say that a sound currency scheme in this country which would obviously be reflected in the currency plans of other countries would not tend to create an economic condition which would tend to prevent war, do you?

Mr. VANDERLIP. Well, I do not want to prescribe a currency bill for all of the patent-medicine addicts!

Mr. GOLDSBOROUGH. I understand that; but is it not a fact that wars are largely the creation of disjointed economic conditions, and would not proper currency measures tend to help economic conditions, which, in turn, would tend to prevent war; is not that true?

Mr. VANDERLIP. I should hope so, but I would not feel insured against future wars by having even the most perfect currency.

Mr. GOLDSBOROUGH. I have not made such a suggestion.

I would like to have your opinion, because I think one of the things which a proper currency system would do would be to very strongly tend to disestablish national animosities.

Mr. VANDERLIP. I quite agree with that.

Mr. CROSS. The point I would like to discuss with you for a moment is this. I will take cotton, because I produce a good deal of cotton. Mexico is not so far below me.

When you buy cotton in this country, that is to say, when England, for instance, buys cotton in this country there has got to be first a translation of the pound into the dollar in order to pay me my 11 cents a pound for cotton.

When you translate the pound into American dollars, instead of getting par, the pound, with the new dollar, is worth \$8.24. I am looking at the exchange table.

Mr. VANDERLIP. I do not understand that figure.

Mr. CROSS. Just listen to me for a moment. The exchange value of the pound now is \$4.80.

Mr. VANDERLIP. Yes.



Mr. CROSS. So, when they buy my American cotton they have got to buy American dollars to pay me, and the exchange value of the pound is only \$4.80 instead of \$8.24.

Mr. VANDERLIP. When did they ever get \$8.24?

Mr. CROSS. That is the sterling par value of the pound, with the new dollar, \$8.24. The demand value is \$4.80.

If they translate that into American dollars they pay me 22 cents for my cotton in English money, but they go to Mexico—and they are doing this in Mexico paying 34 cents a pound for Mexican cotton, in pesos. And the peso is way below par, too.

So they pay the Mexicans 34 cents a pound for their cotton, and that peso pays as much debts down there, and just as much taxes, and helps those people just as much in paying their domestic debts and taxes, and when they pay it in English money they only pay 17 cents, because the English penny or cent will buy 2 cents worth down there. But when you come here it will buy half as much worth.

So when they pay me 11 cents a pound for my cotton in English money they are paying 22 cents. So they go to Mexico and pay 34 cents.

In India their money is attached to sterling and they swap it penny for penny. If you pay 17 cents in Indian money, which is the rupee, they pay the same thing in English money; that is, 17 cents. They pay the cotton producers there 17 cents. So it would be foolish to come to America and pay me 22 cents when the English money can be translated into the same number of units in India.

Mr. VANDERLIP. All those things refer back to what each currency will exchange for in gold dollars, and the gold price in each currency will come out just about the same. The net prices are the same when they are referred back to a common point.

Mr. WOLCOTT. Is not that all dependent upon all of the gold nations, establishing the same value for an ounce of gold?

Mr. VANDERLIP. The same value in what, in their currencies?

Mr. WOLCOTT. The same as the exchange value at the present time, whether it is in their currency or not, as long as there is a stabilization of the gold value that is recognized by all of the countries.

We pay \$35 an ounce for gold, and England, in the equivalent of their money, pays perhaps \$30. France might pay \$28 or \$37.

Mr. VANDERLIP. But England does not pay dollars; it pays pounds.

Mr. WOLCOTT. I mean in terms of dollars; reduced to dollars.

Mr. VANDERLIP. Wait a minute. If you do that, you have to assume stabilization between the dollar and the pound.

Mr. WOLCOTT. Yes.

Mr. VANDERLIP. There is no such stabilization.

Mr. WOLCOTT. Do you not tie this dollar to the value of an ounce of gold?

Mr. VANDERLIP. I tie the dollar to the 1926 value for an ounce of gold in each currency.

Mr. WOLCOTT. If the value of an ounce of gold is the same in England, in India, in the United States, and in Mexico, following the illustration used by Mr. Cross, then when you reduce these other moneys into terms of dollars we are all on an equality, and



I predicated my question upon that. Does not this scheme depend largely on all nations, establishing an international value of gold?

Mr. VANDERLIP. Not in the slightest. You just said that the price of gold is the same in England, Mexico, India, and the United States. What do you mean by that; the price of gold measured in what?

Mr. WOLCOTT. In that example we are talking in terms of a bale of cotton.

Mr. VANDERLIP. The value of gold—its purchasing power—will be the same in India, Mexico, and the United States. If you translate the relative differences of their currencies, you are measuring in the currencies of those countries. You could take Mexican money to buy gold, or you could take Mexican money to buy United States money, and then buy gold, and the result would be the same. That is, the value of gold is the same in the three places. But you are obscure as to how you measure the value of the gold dollar. You measure it by different measuring sticks.

Mr. WOLCOTT. I think that is the whole point. Assuming, for instance, that you take 70 pesos to buy an ounce of gold, the relation between the peso and the dollar would be 2 to 1, and the value of the peso would be 50 cents.

So, if a pound of cotton sold in America at 22 cents, it would sell in Mexico for 44 cents, and in England, in reducing its pound to pesos or dollars, it would have the same relative value.

Is not that all dependent, is not the value of the peso and the purchasing power of the peso and the dollar, dependent upon the world value of gold?

(Thereupon the committee took a recess until 2:30 p. m.)

#### AFTERNOON SESSION

The committee reconvened at 2 p. m., at the expiration of the recess.

Mr. REILLY. Gentlemen, please come to order.

Mr. WOLCOTT. I think that I had a question that I asked Mr. Vanderlip that he wanted to answer before we go any further.

Mr. REILLY. All right, Mr. Vanderlip.

Mr. WOLCOTT. The proposition was that Mr. Cross had raised a question that we remove the disparity between the currencies of the different countries of the world so that the price of cotton would be the same in England and Mexico and the United States, and so on. We were discussing the reason for that, and it was asserted that it was all tied up to the international value of gold. I think that was the line on which we were progressing.

Mr. VANDERLIP. That is the case. Cotton sells substantially in every market of the world for the same number of grains of gold. The prices differ in the currencies of those countries in just the same proportion that those currencies bear to gold.

But if you would raise the price of gold in this country, you would raise the price of cotton in dollars, because the price of cotton would remain the same, reckoned in gold, and the dollar has a new relation to gold—not so valuable.

In thinking of values, you have got to think in terms of relativity. The value is the exchangeable quality of the commodity for other



commodities of commerce, and a definite weight of gold is not a measure of value, because its exchangeability for other commodities fluctuates.

Mr. WOLCOTT. That was my point that, because of the relative value of an ounce of gold fluctuates, it causes a fluctuation on international exchange which is not overcome by the stability of the currency of one particular country, without agreement among the countries that an ounce of gold would have a stable value for all international purposes.

Mr. VANDERLIP. The point of reference of all of these currencies is to an ounce of gold, and currencies will—it will take as much currency to buy, in one country, an international product as it will take in another, if you translate those currencies into their exchangeability for gold.

Mr. FORD. May I ask one question?

Mr. REILLY. Proceed.

Mr. FORD. Mr. Vanderlip, there is one thing I would like to ask you, and that is this: You say that we are speaking of deflation and inflation, if we put a direction in this bill that says to the Federal Reserve Board they should bring on a stabilization of our dollar on the basis of the 1920 to 1929 average price level, which is supposed to be some place around the price level of 1926; and if, in the course of 6 months, we will say, there was a tendency for prices to rise beyond that level, could the Federal Reserve Board, by utilizing its existing levers—for instance, it could raise the reserve rate, it could order the open-market operations, or it could fix a new rediscount rate—would that, in your judgment, operate to keep things stable?

Mr. VANDERLIP. You say they could change the exchange rate? They cannot change the exchange rate; they can change the price of gold. If you detach yourself from gold, with the other powers—and all of them that are now in the bill—you can absolutely stop the inflation above the stated level that you authorize.

Mr. FORD. That is your reasoned judgment?

Mr. VANDERLIP. Yes.

Mr. WILLIAMS. Now, Mr. Vanderlip, I understood you to say this morning—and I did not understand that you had finished the argument you had with someone who represented the Government with reference to your objective, or the objective that you think should be put in this bill, and that is the commodity price level, the general commodity level of 1926, or from 1921 to 1929—if that was raised, or if you should stabilize that price level, and if there is still left a large army of unemployed, what would be the result of that? Or would the fact that the price level was raised to that point necessarily carry with it business revival and revival of employment?

Mr. VANDERLIP. Not to full employment, necessarily. During that period in which we had that price level, we did not have full employment. The question of technological unemployment is a very serious question, and I believe we have to have social legislation to cope with that problem; you cannot insure complete employment by a currency bill. I do not pretend it would do that.

Mr. FORD. Is not there an element of unemployables in the country?

Mr. VANDERLIP. Certainly, probably 2,000,000, or more.



Mr. WILLIAMS. Would there not also be an army of 12,000,000 or 13,000,000 unemployed?

Mr. VANDERLIP. There will not be if you reestablish the price level of 1921 to 1929.

Mr. WILLIAMS. Well, now, what assurance have we that we will get back employment? It seems to me that it would not be desirable to stabilize this price level, unless it brought with it a full measure—I will not say a complete measure—of employment; but if we still had a large army of unemployed, it seems to me we have not gone anywhere.

Mr. VANDERLIP. You have not got your price level high enough, or the change of the price level does not do any good. Which alternative is there?

Mr. WILLIAMS. Well, it is just a question of whether one will produce the other or not; whether an increase of your price level, say, to the 1926 level, will bring back into employment this large army of men.

Mr. VANDERLIP. That must be a matter of opinion. My opinion is, it will bring back into employment a great proportion of the unemployed.

Mr. WILLIAMS. As I remember the chart that was submitted to us by the Federal Reserve authorities when they appeared before this committee, it showed that England, during the last 5 years, had been able to stabilize the price level—

Mr. VANDERLIP. Fairly well.

Mr. WILLIAMS. Fairly well?

Mr. VANDERLIP. Yes.

Mr. WILLIAMS. But that it had not had any appreciable effect over the unemployment question, because that is a question that had varied very, very greatly.

Mr. CAVICCHIA. May I correct you there, Congressman?

Mr. WILLIAMS. Yes.

Mr. CAVICCHIA. I remember studying that chart, and it shows that the peak was at 3,000,000 unemployed, and in the past year and a half, or in less than 2 years, that had gradually gone down and stopped at 2,000,000 unemployed, but the price level during that time had remained absolutely constant.

Mr. WILLIAMS. Yes; there was a variation of four times as much, relatively so, in the unemployment as there was in the price level.

Mr. CAVICCHIA. Yes; and I remember asking Governor Eccles this question: That the price level necessarily has no relation to unemployment, according to the English chart? And he said that was true.

Excuse me for interrupting.

Mr. WILLIAMS. If that is true, then you get back to a question that is bothering me considerably; that by raising and stabilizing this price level, the question in my mind is, have we not made conditions worse, instead of better, to the large army of unemployed?

Mr. VANDERLIP. No; in my opinion, it is the reverse.

Mr. CROSS. May I ask a question there?

Mr. WILLIAMS. Yes.

Mr. CROSS. Mr. Vanderlip, profits depend upon prices, do they not—adequate prices?



Mr. VANDERLIP. Not necessarily.

Mr. CROSS. I mean adequate prices. You have got to have adequate prices before you can have profits. With adequate profits resulting in employment—I mean with adequate prices resulting in profits, and profits mean employment and expanding and putting on labor, does it not?

Mr. VANDERLIP. It depends somewhat on where the profits go. If a fair share of the profits go to wages, so that goods are consumed, it does.

Mr. CROSS. So that as your prices go up, profits come into existence, employment develops; and as employment is increased, the purchasing power, as the result of labor and people getting money—the purchasing power develops and increases.

Now, does it not all hinge right back on having a price level that is adequate and that will bring about—and we do know we did have profits and lots of activities when we had such a price level, whether in 1926 or from 1921 to 1929.

Mr. VANDERLIP. There are many situations that hinge on the necessity of having a higher price level, or going into bankruptcy. When you have debts incurred on the higher price level, and people cannot pay them on the present price level, there is insolvency.

Mr. CAVICCHIA. Mr. Chairman, may I ask through you whether Mr. Vanderlip has finished expressing to this committee his views on the monetary question; because there are some other parts of this bill that some of us would like to ask a question or two about.

Mr. VANDERLIP. I have been handed, during the recess, the recommendations of the American Bankers' Association; and in the main, they are favorable to the bill. As you know, they want some alterations of it.

Mr. WOLCOTT. Are they favorable to title II of the bill?

Mr. VANDERLIP. Title II, in the main; yes. They want some changes in the bill, but in the main they are favorable to title II.

Now, in my opinion, they do not go far enough. They say something about the mandate that you are going to give as the objective in managing the currency. I regard that as of the most vital importance. In fact, I doubt—I am not a lawyer and so my doubt is of little consequence, but I doubt the constitutionality of the bill as it is drawn here without any mandate, at all. You are delegating the policy you are advocating, and I do not believe you have got the constitutional authority to do that.

The CHAIRMAN. Let me ask you this question: Are we not in reality finding a different way for the exercise of the authority that has already been conferred upon the Federal Reserve System?

Mr. VANDERLIP. Yes; I think you are, in some measure, and in a large measure, but—

The CHAIRMAN. I do not know whether the question you are asked has ever been passed upon, or not—

Mr. CROSS. It has never been attacked before the Supreme Court.

Mr. SPENCE. They are pretty close to it in the "hot oil" case.

Mr. CAVICCHIA. Mr. Vanderlip, had you finished?

Mr. VANDERLIP. Just a moment. That, I think, is an essential thing, that you define the mandate and set up the objective of regulating the currency. I do not believe you can delegate that.

Then I feel very deeply that you should do another thing:



You say we are on the gold basis now. Well, we are attached to it by the most tenuous thread. You are on the gold basis now, to this extent, only—that gold can be obtained for shipment to another country that is on the gold basis when the trade balance demands a remittance and the remittance cannot be obtained through exchanges except at a cost above \$35 an ounce. You cannot ship gold to England, for example; you have got to do it surreptitiously by shipping it to France. There is no redemption of money. You are simply not on a gold basis at all; and if the gold bloc further fades, as I believe it will, you will not be on the gold basis at all, under the law as it is now written.

I think you should detach your currency from gold. You should not have a call upon the Government for dollars by anybody who has the gold to deposit, nor should you have a call on the Government for gold by anybody who has dollars and offers them for redemption.

Mr. WOLCOTT. Mr. Vanderlip, in that connection, what would you suggest that we substitute for gold as a measure of value in our international exchange?

Mr. VANDERLIP. I do not recommend any substitution. Gold is the final means of settling balances, because gold is acceptable to all countries.

Mr. WOLCOTT. We will assume that France goes off the gold standard, and all of the major nations of the world are off of the gold standard, and the only demand for gold is for the fine arts—

Mr. VANDERLIP. No; no.

Mr. WOLCOTT. Where is the other demand for gold? Then if it is not used for a monetary base, all the currencies will be—

Mr. VANDERLIP. All the currencies will be offered back for the international settlement and—

Mr. WOLCOTT. They are predicated upon the demand for gold in that country which makes a market for gold, and they would rather take gold than any other commodity because of its rarity and worth; but if we create a situation where this gold is of no value whatsoever as a monetary base, then the only purpose that people use gold for is in the fine arts, except in one or two instances. Then how can we settle our trade balances if there is no demand on the part of France, which has an advantage because of the trade balance in her favor? Then surely, if there is no demand for gold in any country, either as a monetary base or for any other reason, they will not want gold, will they?

Mr. VANDERLIP. Oh, yes; they will want it quite as certainly as they have always wanted it, because it is a means of settling trade balances.

Mr. WOLCOTT. It is now; but assuming that all of the nations go off of the gold standard and we get above our 80 percent of gold, and the other nations say, "All right, you have got all of the gold—you have got all of what we use for our currency; therefore, we will go on a commodity basis; we will average the prices of commodities as we have here in some instances"—taking 784 commodities in the Bureau of Labor Statistics—and we will create a commodity dollar. We don't want your gold, except as it may be a commodity, one of the 784 commodities behind our dollar." There is no demand for



that gold, and we will then be unable to settle our trade balances with gold. That is my fear.

Mr. VANDERLIP. I can imagine your fearing that, but I cannot imagine that occurring in a thousand years, because from the dawn of civilization it has been ingrained in the human mind that gold is the most desirable of all things.

Mr. WOLCOTT. Is not that because of its rarity, that it has been used as the base for the currencies of the world?

Mr. VANDERLIP. Yes; and the world is accustomed to it and will continue to use gold to pay international balances.

Mr. WOLCOTT. We are assuming a condition where there is no further demand for gold among the nations of the world as a monetary base.

Mr. VANDERLIP. That will be a long time before it comes, so long that none of us will ever see it.

Now, there is objection raised to fixing the price level under a mandate, on the theory that we could not raise the price of gold, under such an arrangement as I propose; that the only way you could raise the price of gold would be by buying more, and we have already got too much. You remove the embargo on holding gold, so that it is no longer a criminal offense to hold gold, so you can hold it as freely as you could hold cotton or wheat, and you will find that there will be such a demand for gold that the price of gold would rise markedly, without any operations of the Federal Reserve Board.

Mr. CAVICCHIA. Would that have any adverse effect upon our commerce, if we pay for all of our goods with gold?

Mr. VANDERLIP. Well, if you speak of our domestic demand they cannot take all of our gold without giving us something in the place of it.

Mr. CAVICCHIA. And that would be gold?

Mr. WOLCOTT. Wait a minute. It might be goods or—

Mr. VANDERLIP. We will not take the goods.

Mr. WOLCOTT. Or perfumes or other commodities, but you see we cannot use perfumes as a commodity behind our monetary unit. We can exchange our gold for wheat, and so on.

Mr. VANDERLIP. No; we have been taking gold in enormous quantities, because we sold goods and would take no goods in return. We will eventually drain the world of gold, if we go on in this way.

Mr. FORD. Our trade balance this year is \$421,000,000.

Mr. CROSS. A country that has a trade balance constantly—if gold is used to settle the international balances only, and if a country constantly has a trade balance in their favor, does that not, of necessity, draw the gold into that country?

Mr. VANDERLIP. Certainly; so long as there is any gold to draw. If you take goods and you cannot sell goods, what else is there left? But foreign trade must, in the end, be the exchange of goods for goods. That is how you have got to balance the foreign trade in the end. If we do not want to take any goods, we must not want to sell goods.

Mr. CROSS. Suppose our exports amounted to \$3,500,000,000 and our imports amounted to \$3,000,000,000; we have purchased \$3,000,000,000 worth of foreign goods, and we have sold \$3,500,000,000 of foreign goods, which leaves us a trade balance of \$500,000,000. Now,



how are you going then to settle that \$500,000,000 unless you settle it in gold?

Mr. VANDERLIP. There is no other way, except credit. There are only three ways you can settle a trade balance—that is, with goods, with credit, or with gold—and if we have exhausted, in the end, all of the gold there is, we will not sell more goods than we buy.

Mr. HOLLISTER. And credit or debit them?

Mr. VANDERLIP. That is all.

Mr. CROSS. In credit we simply, for instance, buy their bonds?

Mr. VANDERLIP. Yes.

Mr. REILLY. Now, if all of the nations of the world abandoned the gold standard, would gold go up in price?

Mr. VANDERLIP. In my opinion.

Mr. REILLY. Why should it?

Mr. VANDERLIP. When you say "go up in price"—

Mr. REILLY. Right on that point, let me make this statement: The silver advocates argue that way, because silver has gone down in price; and by demonetizing it, why should it go down?

Mr. VANDERLIP. Let us see what that means. Gold goes up in price—in what price? In the price made in dollars. Another way of putting it is this: Would the dollar depreciate? Yes; measured in gold. It is just like the ends of the teeter; if gold goes up in this country, then the value of any particular thing depreciates as against gold.

Mr. REILLY. Why has it not worked with silver?

Mr. VANDERLIP. Because silver is not a commodity of international universal acceptance.

Mr. REILLY. It is the money of the greater part of the world.

Mr. VANDERLIP. In population, perhaps. If you want to count China—well, I doubt it; but I am not a silver expert.

Mr. REILLY. As I see it, it is rather inconsistent; I do not know. It may be true. The argument has always been that we should have more money, because so many nations are using gold for money that there is not enough to go around. Your argument is, then, that when all of the nations abandon gold, it becomes more valuable?

Mr. VANDERLIP. It will become more valuable—in their currencies. You can put it the other way, that the currencies of all of the world will depreciate.

Mr. REILLY. If you controlled our currency to the right level, our dollars would have the same purchasing power?

Mr. VANDERLIP. Not in gold.

Mr. REILLY. If gold is not used, what good is it? It is simply like iron, or copper, or any other commodity.

Mr. VANDERLIP. It is universally acceptable.

Mr. REILLY. But it would be of no use for exchange—international exchange—would it?

Mr. VANDERLIP. There is use for it now.

Mr. REILLY. We use it as a backing for money. France uses it as a backing for their circulation. It has been used in three nations, at least.

There is another question, Mr. Vanderlip. What you wanted us to write into this bill is the specific direction to this monetary authority to proceed immediately to raise the price level to 1926, and keep it there?



Mr. VANDERLIP. If that is what you want to do; yes.

Mr. REILLY. Is not that what you want?

Mr. VANDERLIP. I want you to state specifically what is the objective of managing the currency.

Mr. REILLY. That is your objective—the 1926 price level?

Mr. VANDERLIP. My advice is a price level. The 1926 level is not sacrosanct in my mind, at all. I am inclined to think it is of justice to the creditor, but you are not putting the 1926 price level into effect. In respect to the debtor, it would be a disastrous thing to the debtor to stabilize at the present price level; but the point at which you put the price level has nothing to do with the philosophy of managing the currency.

Mr. REILLY. Well, I put 1926 because that seems to be the price level that people who claim we have not enough money, want.

Mr. WILLIAMS. Do you think that would be any advantage to the Government, itself, or the Federal Reserve System?

Mr. VANDERLIP. I think the Federal Reserve System should be the bankers' banks—that it should be run by bankers—but I think it should have taken away from it the currency-issuing privilege. The currency-issuing privilege should not be given to banks that are operated for profit, but it should be in the hands of the Government itself.

I would also take away from the Federal Reserve System open-market operations. They should be conducted by the Federal Reserve Board, if you are putting this authority into the hands of the Federal Reserve Board. I would clothe that Board with all of the powers for the management of the currency, but I would not have it exercise powers over individual credits, which should not get into socialized banking.

I should leave the Federal Reserve Board to be the bank of bankers, and run by bankers, but I would take these privileges away. I would take these privileges away from them that I do not believe they should have.

Mr. WILLIAMS. Do you not think the System could be run just as economically and efficiently under Government ownership as it could under private ownership?

Mr. VANDERLIP. No, sir.

Mr. WILLIAMS. You do not think that could be done?

Mr. VANDERLIP. No, sir.

Mr. WILLIAMS. There would be a saving to the Government if that could be done.

Mr. VANDERLIP. Why?

Mr. WILLIAMS. In the interest that is paid to the member banks.

Mr. VANDERLIP. They would get all of that profit in the operation of the Federal Reserve Board in their currency management.

Mr. CAVICCHIA. As I understood you this morning, Mr. Vanderlip, you did say that the profit that heretofore has gone to the Federal Reserve Board, or the Federal Reserve banks, would go to the Government?

Mr. VANDERLIP. Certainly. The Government, through this body, would put out notes and would take over the gold and silver, which would not pay any income. But it would have the Federal Reserve regional banks' rediscounts, and the interest from short-term Government obligations, and bankers' acceptances, and all of those pay



profits. There would be huge profits, very considerable profits to the Government from this authority that would manage the currency.

Mr. WILLIAMS. I do not understand you to mean that the member banks should retain their stock in the System, and still not receive anything in the way of dividends?

Mr. VANDERLIP. No, no; the member banks should retain their stock in the System, and should receive 6 percent, possibly, with the present level of interest, which is pretty liberal.

But the note issuing would be by the Government, and the Government would hold the assets back of the note issues, the interest-bearing obligations, the earnings of the Federal Reserve Board, as reconstituted, the rediscounts and bankers' acceptances—all that profit would go to the Government.

Mr. WILLIAMS. They would not pay the banks any interest on their own securities?

Mr. VANDERLIP. No, sir.

Mr. CAVICCHIA. They would be receiving the interest, as I understand, on the stock; but at the same time, if the banks got their 6-percent interest, what, after all, would be the difference, as far as the money difference, to the Government is concerned?

Mr. VANDERLIP. The money difference would be in the profits of not more than 6 percent.

Mr. CAVICCHIA. The banks do not get that, anyway, do they?

Mr. VANDERLIP. No, sir; it is not paid over to them, but it is accumulated as surplus.

Mr. CAVICCHIA. They never have received any of that, have they?

Mr. VANDERLIP. No, sir.

The CHAIRMAN. Excepting 6 percent.

Mr. FORD. The balance went to surplus?

Mr. VANDERLIP. Yes.

Mr. WILLIAMS. Who got it?

Mr. VANDERLIP. It is there.

Mr. CROSS. Up until 1933 it was to go into the Treasury?

Mr. VANDERLIP. Yes.

Mr. CROSS. In 1933 we passed an act that it was, after that, to go into surplus; and then if, at any time, the Federal Reserve Banking System was dissolved, all that would come into the Treasury?

Mr. VANDERLIP. That is correct.

Mr. WILLIAMS. After all, it will not go to the banks?

Mr. VANDERLIP. Nor does it now come into the Government, but it would on the dissolution of the banks.

The CHAIRMAN. In other words, all of the profits of the Federal Reserve System have been coming to the Government of the United States, or the Government can take it any time it wants to and dissolve the system?

Mr. CROSS. That is why I am saying I do not see very much difference in it.

Mr. WOLCOTT. It has gone into subscriptions to the shares of stock of the Federal Deposit Insurance Corporation.

Mr. CAVICCHIA. And the Home Owners' Loan Bank.

Mr. VANDERLIP. And to buy Government bonds.

Mr. FORD. Let me see if I understand what I think Mr. Vanderlip is advocating, which is this: That the present Federal Reserve banks still do remain bankers' banks; is that right?



Mr. VANDERLIP. Yes.

Mr. FORD. But that the Federal Reserve Board would be the bank of discount for the Federal Reserve banks, with the Board reserving to itself the right of currency issue?

Mr. VANDERLIP. Yes.

Mr. FORD. Does that express your idea?

Mr. VANDERLIP. Yes; the Government would issue the currency just as it now issues the Federal Reserve currency, but it would go to the Board and not to the Federal Reserve banks.

Mr. FORD. But the Federal Reserve Board would be the only authority in the United States to issue currency?

Mr. VANDERLIP. Absolutely.

Mr. FORD. Then it would be the bank of final discount—not the Federal Reserve bank—for the member banks, the 12 banks, in the event that they wanted to rediscount any of their paper?

Mr. VANDERLIP. Yes.

Mr. FORD. In other words, you would set up a genuine monetary authority in the Federal Reserve Board, with all right of currency issue in their hands?

Mr. VANDERLIP. Yes.

Mr. FORD. Independent of any Federal Reserve bank or Federal Reserve member bank?

Mr. VANDERLIP. Yes, sir.

Mr. HOLLISTER. And also independent of administrative control?

Mr. VANDERLIP. Certainly. As to that—

Mr. HOLLISTER. Let me emphasize that. I want to make that perfectly clear. Mr. Vanderlip, as I understand it, wants the issuing power just as far from administrative control as he does even from the bankers' control.

Mr. VANDERLIP. Yes.

Mr. FORD. In that connection, let me make this observation: Since the Federal Reserve Board would be appointed by the President, as it is now, how could it be absolutely independent?

Mr. VANDERLIP. I do not think it can be absolutely independent. But may I just enlarge on that a little bit? As a council of perfection, it ought to be absolutely independent. However, if you will set up your mandate and say that the price level is the objective, it does not make any difference, but the Federal Reserve Board must expand the currency when your current prices are below that level, and they must contract the currency when the prices are above it, so you have safety against runaway inflation.

Mr. WOLCOTT. Would this enable the Federal Reserve Board, under the domination of the Executive, to use the issuing of currency for the purpose of stabilizing Government bonds, or the Government bond market?

Mr. VANDERLIP. No, sir; that is exactly what they would not do, and that is exactly what the bill you have before you does do.

Mr. WOLCOTT. My point in bringing that up is the criticism which we hear, to the effect that the authority which is set up, due to the fact that history tells us that, when we affiliate our currency with our national credit, there is chaos and destruction of the national credit and the country, itself.

Mr. VANDERLIP. You have got that written in the present bill.



Mr. CAVICCHIA. Is that why this bill has been labeled by some as the "political backed" bill, that particular provision?

Mr. VANDERLIP. Well, I never labeled it that, and so I do not know why it has been labeled that.

Mr. CAVICCHIA. Let me put it another way: If that were eliminated and what you advocate were written into the bill, there would not be able to be any charge made against this bill as being a politically backed bill?

Mr. VANDERLIP. No, sir.

Mr. FORD. Is it not true that in 1912 or 1913, when this act was written—is not true that, at that time, the charge was made that the Federal Reserve Board would be a political board?

Mr. VANDERLIP. Yes.

Mr. FORD. The bankers that oppose it made that charge at that time, did they not?

Mr. VANDERLIP. Yes; and now it is proposed to give it the power to compel the member Federal Reserve banks to follow the dictates of the Board in respect to their open-market operations, and that means that they can be compelled to buy Government bonds.

Mr. CAVICCHIA. Mr. Vanderlip, would you care to tell this committee what your ideas are concerning that part of the bill which goes to the real-estate loans? As it was written originally, it called for lending on real-estate mortgages up to 75 percent of the appraised value, and the suggestion has been made, or will be made, by Governor Eccles to cut it down to 60 percent. Do you think that commercial banks ought to engage in the private mortgage field, whether on short-term mortgages or amortize mortgages?

Mr. CROSS. Let us get that correct. They were not to be rediscounted, but they could put them up as collateral and borrow on them from the Federal Reserve bank.

Mr. CAVICCHIA. Yes.

Mr. VANDERLIP. It gives permission to banks to take real-estate mortgages and, in turn, to rediscount them; and, in turn, to put them under note issues as collateral by the Federal Reserve.

If I know anything about banking at all, I know that neither demand deposits nor short-term deposits—and all term deposits are short-term deposits—should be frozen up in long-time capital uses.

Now, it is highly desirable that you should do something for the real-estate mortgage situation. That is frozen, I suspect, beyond your conception. But you cannot relieve the mortgage situation and keep the money that goes into it perfectly liquid. That is not in the nature of the thing.

Mr. Eccles has testified that there is no more objection to real-estate mortgages than to corporation bonds and foreign bonds. I would debate that a little.

A real-estate mortgage has a very narrow limit. Very few people can know what the value of it is; and therefore there can be but a narrow market for it; whereas a bond issue has the wider acquaintance of financial people, of investors, and therefore a wider market.

But neither of them should be in a bank against demand or short-term deposits. We have tried to give liquidity altogether too much and that is not in that range, and you cannot do it.



We need, the worst way, a proper mortgage bank or banking system, but the money that goes into it would not be liquid, it cannot be liquid, in the very nature of things. But we need it.

Of course, this takes me into the banking question. I believe the banks of this country have tried to do a department-store business, do everything, and they have tied up their deposits in capital purposes that are not liquid, and that was very largely the cause of our trouble.

This is getting into the banking situation, and again it is a council of perfection, but I would segregate the banks by functions.

There should be commercial banks that receive demand deposits, that pay no interest on them, and that make only self-liquidating commercial loans.

There should be investment banks, that receive deposits, upon which generous interest is paid, and their deposits are not absolutely liquid—that can be no more liquid than the purpose to which those deposits are put.

If you put them into bonds, or if you put them into stocks and bonds, the only liquidity is in finding another investor for those stocks and bonds. There is no self-liquidation quality in that loan. So the money that goes into it ought to be paid for at an interest rate that is higher, or the interest rate of the people who borrow on them ought to be higher. Loans on stocks and bonds have been at the lowest rate of all, but it is the commercial loans that ought to be at the lowest; and the loan for capital purposes, which is being loaned on stocks or bonds or the thing that has no self-liquidating quality—that loan ought to carry a higher rate of interest than a commercial loan.

Mr. Cross. Mr. Vanderlip, as I understand you, you believe in the separation of commercial and investment banking business. What disturbs me most is this: What are we going to do with what I conceive to be thousands of communities in this country, as a practical proposition, where it seems that they cannot maintain two banking systems of any kind, in the small communities?

Mr. VANDERLIP. If you do this, you are going to do something that you are objecting to: You are going to permit branch banking within a restricted territory—not a Nation-wide branch banking. I never would think of that. But branch banks can run more cheaply and, on the whole, probably be better run than the small bank, that is, the banks of \$10,000 and \$25,000 capital. They cannot be properly run.

Mr. Cross. You mean, then, that you think the time has come when they will have to get out of business entirely?

Mr. VANDERLIP. Yes.

Mr. Cross. For instance, there are 8,500—they are not all of the little kind—but there are 8,500 of them now out of the Federal Reserve System; and their day is past?

Mr. VANDERLIP. In the decade following 1920, in a period of great prosperity, thousands of banks failed regularly.

Mr. Cross. Yes; and there are half as many now as there were in 1921.

Mr. VANDERLIP. That was because we had a bad banking system. In some measure it was because of bad bank management, but on the whole it was the system and not the bankers.



Mr. CROSS. Do you not think we have corrected that now?

Mr. VANDERLIP. No, sir.

Mr. CROSS. You still think the system is wrong?

Mr. VANDERLIP. It will be wrong until we segregate those functions of banking and do not tie up the demand deposits in long-term capital purposes.

Mr. CROSS. What disturbs me the most is the fact that we have thousands of communities in this country that, in my judgment—that is, where that cannot possibly be done now, in my opinion.

Mr. CAVICCHIA. One more question on that line, Mr. Chairman, if you do not mind, and I will be finished. Would you say it would be feasible if we took away the right from the commercial banks to make mortgage loans and put it in some other agency, say, the Federal Home Loan Banks?

Mr. VANDERLIP. I have not given study to the mortgage-banking structure so that I am prepared to offer you a suggestion of what should be done along that line. I know in Europe there are mortgage banks that have gone through all of this depression perfectly solvent, operating and offering loans right along.

One difficulty with the mortgage situation at the present moment is that I know of no way of appraising a piece of real estate. What is appraisal value? Is it what you can sell it for? If it is, the price you sell those things for today has no relation to their worth. How can we appraise a piece of real estate with any degree of dependence is beyond me.

Mr. CAVICCHIA. One more question, and this will interest Mr. Williams, I think. In going back to that English chart as to unemployment and the price level. Is it not a fact that during this depression the price level in England has not dropped appreciably compared to the drop that we have had in this country? They cannot explain why that chart shows there was a diminution of unemployment in England with not much rise in market value. I would like to get your views and see whether I am right in that respect or not.

Mr. VANDERLIP. I think you are right.

Mr. REILLY. Mr. Vanderlip, assuming that our law insuring bank deposits should work, would not that permit passage from solvency—from liquidity to solvency—as to the condition of the bank?

Mr. VANDERLIP. Just what do you mean?

Mr. REILLY. Now, the Comptroller or the bank examiner comes into the bank and he looks at it from the liquidity standpoint. Assuming now, if the banking insurance law works, there will be no more runs on banks. Now, we are not going to have any more runs on banks and people are going to be assured as 98 percent of them now are assured, that their deposits are secured, why cannot the bank examiner use the solvency test and not the liquidity test?

Mr. VANDERLIP. He should, and never has—

Mr. REILLY. Well, they are coming to that. They are doing more of that now, and if we had had this insurance proposition at the time of the panic, if we had accomplished what we should have from the time the Federal Reserve Bank Law was written, we would not have had those bank failures and there would not have been that scare and a shrinkage of values.

The CHAIRMAN. This act recognizes that principle, fundamentally, that solvency is the thing about which we are chiefly concerned.



Mr. VANDERLIP. Yes.

The CHAIRMAN. And that we should not have such a run on a bank that is solvent and such a thing as a state of fear in the public's mind toward the institutions that are solvent simply because the machinery is not properly geared up to enable them to function.

Mr. VANDERLIP. How is an examiner, however, going to say whether a bank is solvent or insolvent when a considerable portion of that bank's assets are invested in real estate, which may have no market at all but have great worth?

Mr. Cross. May I interject right there, Mr. Vanderlip, if we drew this bill as you have suggested, that we put the price level when the commodities were much higher than they are now, that would, of course, mean that the real-estate values would be much higher, and they would function in a satisfactory way, would that not then be the way to determine the value of real estate?

Mr. VANDERLIP. That would undoubtedly improve the value of real estate and improve the solvency of the banks that are not too solvent now.

Mr. SPENCE. Mr. Vanderlip, how valuable a privilege is the note-issuing privilege to banks? It has been said that many of the banks that had the right to issue currency did not issue it, did not avail themselves of that privilege.

Mr. VANDERLIP. That is true, because the national banks that had the right to issue currency had to take the chance of losing on Government bonds. The national-bank currency issue operated in just the wrong way. When there was little demand for more currency was the time it was more profitable to issue it, because they could invest in Government bonds and get a good return on Government bonds, and if they could keep their currency out, they would get interest on it, too. They do not get as much currency as they had to put into Government bonds, however. When there was more demand for currency it was unprofitable to do that. The national-bank currency operated in exactly the opposite way from what it should.

Mr. REILLY. It gave us too much money when we did not want it and not enough when we needed it?

Mr. VANDERLIP. Yes.

Mr. FORD. In discussing the mortgage situation, do you not think that the amortization principle applied to long-term mortgages somewhat alters the situation for this reason: That as long as a man is paying his interest and his amortization on that loan no bank examiner or anybody else can say that that loan is other than a solvent, sound loan, can they?

Mr. VANDERLIP. It does not mean that. I will tell you so you can see why it is not a satisfactory loan. If a depositor wants his money, it has got to come out of that kind of asset. It may be sound, but it is slow.

Mr. REILLY. They can take it down and rediscount it at the Federal Reserve bank; they could get the money for it.

Mr. FORD. If there is an emergency, it is privileged to take a group of these mortgages to the Federal Reserve Bank and discount them for 30, 60, or 90 days, or some other term, to meet the emergency, and the bank can get money on them.

Mr. VANDERLIP. Yes.



Mr. FORD. And at the end of 90 days things might go on just the same. Do you not think that adds a feature of safety to it?

Mr. VANDERLIP. I am certainly willing to testify that amortization, began the right way, adds strength to a mortgage.

Mr. FORD. Well, now, when you are figuring on a bank's capacity to pay—assuming that here is a bank with \$1,000,000 in deposits, and it has got \$200,000 or \$300,000 or \$400,000 in that kind of mortgages, and it is coming in at a rate, we will say, of 5 percent a month, plus interest, does not that put the bank in a fairly good cash position at all times with reference to those so-called "slow" loans?

Mr. VANDERLIP. Of course, it is nothing like as bad as it would have been in the past, and was in the past, for them to take such mortgages.

Mr. FORD. Do you not think this: That if in 1932, when the demand for withdrawals was in effect, if the banks had been able to take those mortgages to the Federal Reserve bank and get a reasonable amount of money on them, they could have met their demands promptly; would not the payment of cash stop the demand for money and have given the people confidence in their banking institutions that they otherwise would not have?

Mr. VANDERLIP. It undoubtedly would have tended to do that and would have saved some of those destructive things that did happen.

Mr. FORD. Then this feature that we have in there, this amortization feature, by and large you could not say it was destructive or dangerous, could you?

Mr. VANDERLIP. It is nothing compared to what I have been talking about and—

Mr. FORD. What do you think about the 100-percent reserve attitude? We have had a great many people advocate 100-percent reserve for demand deposits; what is your view of that?

Mr. VANDERLIP. I think it is silly. How is a bank going to expand its loans? It cannot do it.

Mr. REILLY. How is it going to stay in business?

Mr. VANDERLIP. Yes; it is just silly.

Mr. FORD. If I had \$500,000, would it not be beter for me to go out and loan it without putting myself under the banking laws rather than to take the money and put it in a bank, and have to put up—

Mr. VANDERLIP. Yes.

Mr. FORD. \$1 for every \$1 I have got?

Mr. VANDERLIP. I think it would. We have got many people who are completely under the misapprehension that we could give complete liquidity to anything on earth, and you cannot do it.

Mr. FORD. We do not demand 100-percent reserves on our insurance policies, do we?

Mr. VANDERLIP. No; nor get it.

Mr. FORD. Just one more question on that reserve matter: You said that, assuming that a wild period of expansion started, you would feel, however, that the Federal Reserve Board would be justified in using the reserve principle to check a thing of that kind, would you not?

Mr. VANDERLIP. That is not just my language. If you would set up the proper mandate, that moment that the current prices



went above that price level, then the Reserve Board, political or not, must begin to deflate.

Mr. FORD. And one of the ways of deflating is to demand increased reserves on the part of the banks?

Mr. VANDERLIP. That would be one of the ways, but the first way would be to sell the Government bonds they had, and to sell bankers' acceptances.

Mr. FORD. Assuming that that would not do the trick, then—

Mr. VANDERLIP. Raise the rediscount rate.

Mr. FORD. That would be true, and then, as a final resort, they could raise the reserve rate?

Mr. VANDERLIP. Yes.

Mr. FORD. The reserve requirements?

Mr. VANDERLIP. Yes; and that is an essential thing, and you have written it in this bill exactly right. I would like you to keep it there, but I would like to keep it in the proper hands.

Mr. WILLIAMS. You seem to have criticized the open-market policy set out here; in what respect would you change that, Mr. Vanderlip?

Mr. VANDERLIP. I do not criticize the open-market policy. It is a perfectly proper policy to give to the body that should have exclusive power of regulating the currency.

Mr. WILLIAMS. Is it all right as written in here, this policy?

Mr. VANDERLIP. It is perfectly all right as a power, but you are not setting up any objective for the use of it.

Mr. WILLIAMS. I understand that.

Mr. VANDERLIP. It is like starting a chauffeur off with an automobile and—

Mr. WILLIAMS. I understand that. Outside of the objective which you would put in their power, so far as this open market committee is concerned, and their powers are given in there, in your judgment, is that all right?

Mr. VANDERLIP. Perfectly all right. But now, wait a minute. This measure compels the Federal Reserve banks to carry out this open-market operation, and I want the Board, itself, to carry out the open-market operations.

Mr. WILLIAMS. I understood you, a while ago, to criticize that provision which requires them to buy Government bonds?

Mr. VANDERLIP. Yes. I want an independent board to buy Government bonds, if your price level is too low and they want to increase the currency. I want that board to be compelled to sell Government bonds, or somehow reduce your currency, if the price level is too high.

Mr. FORD. Independent of the banks themselves?

Mr. VANDERLIP. Yes; and I do not want to interfere with the banks. I do not want to compel the banks to buy something they do not want.

Mr. WILLIAMS. That is in the bill as it is written?

Mr. VANDERLIP. Yes; but the power is in the wrong hands and applies to the wrong body.

Mr. WILLIAMS. That is what I had reference to, and I understood you did not approve of that part of it?

Mr. VANDERLIP. No, sir.

Mr. WILLIAMS. How would you change it? You say you would place the power in the hands of the board to buy and sell bonds?



Mr. VANDERLIP. Yes; and when they bought, they would issue currency; and when they sold, that currency would come back and be retired. That would not be compelling the Federal Reserve banks to buy and sell; the Board would be doing that, themselves, in their regulation of the value of money.

The CHAIRMAN. What you mean by that, of course, is that you would have that function discharged by the Government in its own right, separate and apart from any private banking interests?

Mr. VANDERLIP. Yes. Now, I am calling it the Federal Reserve Board, but I would really rather separate that from the Federal Reserve System, and it would be the Government.

Mr. HOLLISTER. When you say "Government", you mean a board which is really disassociated from the rest of the Government?

Mr. VANDERLIP. Disassociated from the politics of government, but it is just as much a part of the Government as the Treasury of the United States is.

Mr. HOLLISTER. But it would be operated entirely separate?

Mr. VANDERLIP. Yes.

Mr. HOLLISTER. For the good of the country at large, rather than in cooperation with the temporary policy which the rest of the Government might have?

Mr. VANDERLIP. Yes, sir; to carry out your mandate to keep the dollar stabilized in its purchasing power.

Mr. CROSS. Now, Mr. Vanderlip, I want to get down to a practical question, in view of what we can do in Congress, in the House and in the Senate. I realize that we cannot, in this Congress, separate the Federal Reserve Board, so that there would be such a body, for instance, as a monetary authority, that we talked about last year.

Now, taking this bill as it is, with the political angles in it as it is, the members or the governor of the Federal Reserve Board being appointed and really removable by the President—and that can be manipulated under this bill—with those evil features, but with a wholesale-commodity-price level set-up, do you think this bill is a big advance over what we have got now, under the law as it now stands?

Mr. VANDERLIP. If you will set up your mandate of a price level, if you will permit the Board to manage the currency, you can still call it the Federal Reserve Board; it is all right. And you can still have it somewhat subject to political influences. I do not worry about that so much, if you will set up the mandate, because then anybody who can read can see whether it is necessary to inflate or deflate, and they will know whether the Board is following out your mandate or not; and politically appointed means politically removed, and will not make much difference.

Mr. REILLY. Suppose you had had a complete monetary authority in a financial decade of this country, say about 1930, and you noticed the price index going down, do you believe that you could have pumped enough money into circulation in this country to prevent the fall of prices, and thereby cushion, to a large extent, the trials that come to the country?

Mr. VANDERLIP. Yes.

Mr. REILLY. That is your theory?

Mr. VANDERLIP. Yes.



Mr. REILLY. Then if the present Congress had at that time shot the money out and kept prices from going down, do you not think it is a different problem when you try to raise prices, after they have had a terrific crash, by the same method?

Mr. VANDERLIP. Yes; it is pretty difficult.

Mr. REILLY. And is it not a fact that nobody can tell today what effect on prices we really might have by going through that same process?

Mr. VANDERLIP. I do not believe so. I think you can tell with a great deal of accuracy and have back of your opinion the experience of England and of all of the English colonies.

The CHAIRMAN. Let me ask you this: Under the powers conferred in the bill before us, could we not achieve the result that you think is desirable, if those powers are wisely and constructively administered, and thus accomplish those results?

Mr. VANDERLIP. Well, those powers could be used in just the same way that they would have to be used if you set up a price index.

The CHAIRMAN. That is what I am talking about. Let me ask you this question: Suppose you were the Governor of the Federal Reserve Board, and we passed this law and gave you the power, you could do the job?

Mr. VANDERLIP. No; I would want to cut loose from gold. I would want a free gold market that I could operate in.

The CHAIRMAN. That is the question I meant to ask.

Mr. VANDERLIP. You do not have to make a mandate, if you can be assured that the Board is always going to operate. But wait a minute. You may feel that you could be sure under this administration, but I could imagine an administration in the future that you could not be sure of. You are leaving the thing without a tail, without telling them what it is you mean, when you say to manage the currency. You are proposing that the currency be managed, but you are not setting up the way it should be managed.

The CHAIRMAN. I think there is lots of support for this view, Mr. Vanderlip: That, after all, we are going to be left, to a large extent, to depend upon the wise administration of the law, and to accomplish that, we need a certain amount of political control or political responsibility, in order that the people of the country may know what is going on, and hold their public servants responsible for their action and for the results.

Mr. VANDERLIP. Very good. But you do want to know what direction you are driving in, whether it is north or south or east or west. Now, if you are driving towards a stabilized currency that shall have the same purchasing power throughout a generation, you want to say so, and not leave it to future Presidents and future boards.

The CHAIRMAN. I think that the people of the country, the average voters, the laymen, who know not so much about the technicalities of the law and the intricacies of finance and administration and banking, will judge results, and when the country begins to go to the bad they will vote to turn out those in control. That is what they did in 1932.

Mr. VANDERLIP. We had already gone into the ditch then. I want to keep on the road.

Mr. HOLLISTER. Is it not better to see, if we can, that we get a wise law, always with the understanding that it may not be wisely admin-



istered—and we have seen plenty of that in the past year, too—is it not better to get wise laws than to have unwise laws and hope they will be wisely administered?

Mr. VANDERLIP. What is Congress here for?

Mr. REILLY. Is it not a fact that there is much difference of opinion and disagreement between financiers and students of commercial banking, as to the soundness of your views?

Mr. VANDERLIP. Yes; there is a marked difference of opinion and a high degree of ignorance. And I will tell you another thing: The bankers are not speaking their minds. The bankers are very low in their minds. They have got an inferiority complex at the present. More than 6,000 of them have sold preferred stock to the Government, and they are not shouting opposition. They are in somewhat of a reign of terror and they are keeping quiet.

The CHAIRMAN. We cannot do a much worse job than they did.

Mr. REILLY. I asked that question, because if the men who know something about banking and finance would come here, and talk to us about it, we could do something. But they are just as opposite as two poles and—

Mr. VANDERLIP. I would like to argue the case with some of them.

Mr. HOLLISTER. Is that not a large indication of the fact that we ought to study this measure, without going off half-cocked?

(Here followed discussion off the record.)

The CHAIRMAN. If the lessons we have had and the experience that we have had together in these recent years, and the study that has been given by Congress to this legislation, is not sufficient to enable us to act intelligently, the picture is not very encouraging.

Mr. VANDERLIP. It seems to me that the President himself has named the objective. He wants a currency that will have the same purchasing and debt-paying powers throughout. If he felt that, and I must believe he did, because I heard him say it over the radio and he convinced me that he meant it; why do you not enact that into the law?

Mr. REILLY. This is supposed to be his bill, an administration bill.

(Here followed discussion off the record.)

Mr. FORD. Would you give us a definition of asset currency? We have heard a great deal about it.

Mr. VANDERLIP. I do not know what it is.

Mr. FORD. Here is something I worked out in my mind: I take \$1,000 to the bank and put it in there, and they loan that \$1,000 to somebody on a mortgage or note or bond or something, and then it is an asset and—

Mr. VANDERLIP. Then it is asset currency; and if you want your money back, where are you going to get it?

Mr. FORD. If they take that note to the Federal Reserve bank and get it discounted, when I want my money, and give me the money, is not that asset currency?

Mr. VANDERLIP. No; that would be bad currency, and I used "asset currency"—

Mr. SPENCE. You say that the present machinery in this bill, the open-market operations and the regulation of the discount rates, and the regulation of the reserves, would not be sufficient to establish a price level, unless we cut away from gold?

Mr. VANDERLIP. No, sir.



Mr. SPENCE. How would you practically do that?

Mr. VANDERLIP. You have practically done that. You call yourself on the gold standard, but you are not remotely on the gold standard. Nobody can retain their money in gold. It is a crime to hold gold, and you cannot ship gold unless, under certain circumstances, you can ship it to one of these very few gold-standard countries. That is not on gold. That is not a step, it is just edging a little to get completely off.

Mr. SPENCE. What further step would you take to cut away from gold? You said, in addition to this, we would have to get away from gold, and I want to know what steps we should take.

Mr. VANDERLIP. It would take legislation. You have authorized the President to cut the gold content of the dollar still further, but you have not authorized him to go off of gold altogether, to have no attachment of the currency to gold.

Mr. SPENCE. Well, if we pass this bill and authorize the Federal Reserve Board to issue currency—

Mr. VANDERLIP. You can say that that currency is not redeemable in gold. A single line will do it all.

Mr. CROSS. I am going to ask you the question that we have had mentioned here, Mr. Vanderlip, by the men who have been before us, who have studied the question, and it is this: That the amount of pocket money, plus the check money, multiplied by three, will equal the national income. In other words, suppose you—

Mr. VANDERLIP. Well, it would much more than equal it, I should think.

Mr. CROSS. They claim it will stay at that ratio. Suppose you take the check money and your pocketbook money, or currency, and it amounts to \$25,000,000,000, then the national income would be \$75,000,000,000, would it not?

Mr. VANDERLIP. It is about \$44,000,000,000.

Mr. CROSS. But the check money has dropped down tremendously. I do not know what it is now, but they claim that, through the years, if you will take the amount of currency, plus the check money, and multiply it by three, it will give you for each year the national income.

Mr. WILLIAMS. That is, there is always a definite ratio between the amount of money and the national income?

Mr. VANDERLIP. If that is true, I do not know anything about it, and it is not true today.

Mr. HOLLISTER. And they argue the other way, too.

The CHAIRMAN. All right, gentlemen, if there are no more questions for Mr. Vanderlip.

We thank you, Mr. Vanderlip. Your statement is certainly able, instructive, and helpful to the committee and we thank you.

Mr. VANDERLIP. I thank you for your courtesy and your time.

The CHAIRMAN. Gentlemen, we have with us Mr. J. H. Rand, Jr., of Remington-Rand, and chairman of the Committee for the Nation, whom we shall be glad to hear.

#### STATEMENT OF J. H. RAND, JR.

Mr. RAND. My name is J. H. Rand, Jr., chairman of the board of Remington-Rand, Inc., 205 East Forty-second Street, New York City.



Mr. Chairman and gentlemen, I would like to give you the impressions and reactions of manufacturers, as I see them, to this bill.

In the main, I subscribe to the changes that were suggested by the American Bankers Association's special committee, and I think that the direction which this legislation is taking is very ominous as to the future course of events in this country, as to reemployment.

When I say "direction" I have reference to certain suggestions that were also made by the Governor of the Federal Reserve Board, Governor Eccles.

Now, the manufacturers are looking to you Members of Congress, as they are the ones to reemploy the 8,000,000 employable unemployed, and naturally you will be interested in knowing what the reactions of the manufacturers are to this legislation.

The most important thing that undermined the ability of the manufacturers to continue employment in the last 4 years was the vicious drop in the price level. I can tell you, authoritatively, that there is one thing, and the only one thing that I know of, in which two Presidents of the United States agree, and that is, that the vicious, unprecedented drop in the values of everything, and in the commodity price level, undermined the solvency of individuals and banks and caused wide-spread distress throughout the country. It is that drop in commodity prices that has made it impossible for a great many manufacturers and merchants to operate at a respectable profit. In fact, it has caused corporations like my own to go on and lose millions and millions of dollars in attempting to keep people employed, who really are deserving of continued employment.

In addition, the drop in commodity prices also removed a lot of buyers from the market, removed the buying power of a large class of buyers. President Roosevelt referred to that in one of his public addresses, when he stated that the 50,000,000 people who are basic producers, either on the farm, or in rural communities and directly dependent upon the farms, have had their buying power curtailed by the drop in prices which the basic producers receive for their products, and that it is necessary for us to correct this disparity.

I can tell you the way that I figure, as a manufacturer, right now: If the price level of the basic commodities, largely farm products—products of the farm, the forest and the mine—were raised to the point that would enable the men who do the work on the farms to buy as many shoes and stockings, radios, gasoline, tires, and automobiles as before; if they could again buy as much, or exchange their products for as many manufactured commodities as in the period of 1921 to 1929, or say 1926—and certainly the basic producers are entitled to a square deal—then you would have today, with that relationship reestablished, purchasing power or income of the basic producers of \$6,000,000,000 per year more than they have today, or had last year. And it happens that the \$6,000,000,000 which the basic producers could spend with the manufacturers of shoes and stockings and gasoline and radios and whatnot would amount to a sum sufficient to pay to the 6,000,000 at present unemployed the average wage of \$20 per week that is now paid in industry.

And you are never going to get those unemployed back to work until you give back to us manufacturers the buying power of the 50,000,000 people who are the basic producers, and who have been denied their normal income during the past 4 or 5 years.



Mr. REILLY. What are you going to do with the 20,000,000 people who now live on the borderline of existence, under present prices? I am getting hundreds of letters every single month from my constituents, protesting as to what they claim are outrageous and unjustifiable increases in the cost of living.

Mr. RAND. You will get those objections to increases in the cost of living whenever there is a movement of as much as 2 percent in the cost of living. But bear in mind that for every one of those that object there are a hundred who realize that they are so much better off, in proportion to what they were, that they would not go back to the lower prices and unemployment they used to have.

We can have everything reduced in this country so nothing could cost over \$1, yet nobody would be employed.

The CHAIRMAN. In my section of the country conditions are much better because of the rise in the price of farm products.

Mr. RAND. That is the reaction of the manufacturers. Here is another reaction: Manufacturers pick up the Constitution and read it occasionally, and in it they find that Congress, among other things, shall coin money and regulate the value of money. How can you regulate the value of anything except by regulating its purchasing power or its exchange value?

In order for the Congress to follow the mandate of the Constitution, the Congress must regulate the price of the basic commodity or the price of goods, the average price of goods, because therein is expressed the value of money and by nothing else. It is not expressed in air, or anything else but goods.

A manufacturer has a right to know, in these disturbed times, when currency is gyrating and when the air is full of rumors and uncertainty; they have a right to ask, "Where do we go from here and what is our dollar going to be worth 6 months from now or a year from now?"

For instance, I may want to build a plant and put in some modern machinery and stock up on goods, in order to take care of what I think is going to happen, if the administration goes through with a constructive recovery program. Do I do it? The average man says, "No; I will not do it, because I don't know what the value of the dollar is going to be 6 months from today, or a year from today." Yet the Constitution says that the Congress shall fix that value. Therefore, the manufacturers look to you to fix the objective toward which he can operate, if you want him to reemploy people and want him to take the gamble. He is the one who is going to lose his shirt, if he does not make the right decision. You have a right and it is a constitutional mandate, to tell what you are going to do with the value of the money. In other words, fix it. And I take that to mean it is perfectly legitimate for Congress to fix it for at least a year; they can always change their minds.

I submit that one of the underlying causes of trouble today is that uncertainty about what the dollar is going to be worth.

Another thing is this: Banks will not loan money unless they have adequate security. In a period where we have been going through deflation, we have deflated not only bank assets but we have also deflated the unused collateral assets of the country. In other words, the asset value of this country today is as far below the asset value that existed in 1926 as the price level is below the price level of 1926.



When you restore the asset value of collateral of the United States, you will also restore the loaning power and loaning activities of the banks.

I happen to sit on the directorate of a couple of banks, and I know there is a scarcity of eligible, satisfactory collateral today; a scarcity of it. But you raise the price level and see how much of it you will make eligible and make desirable collateral.

Mr. CROSS. The idea is that we should set out in this bill a price level to go to, as a goal to which the Board should drive; is that your idea?

Mr. RAND. Absolutely. I have three or four recommendations. I subscribe 100 percent to what I heard Mr. Vanderlip testify to. I did not know what he was going to say before he testified, but I can go a long way on exactly what he testified to; and I will reiterate, if you will permit me, one or two things. I believe that Congress is making no mistake in drawing the line between the Federal Reserve Board and the regional banks.

And let no one raise that line so far as to permit interference by the Federal Reserve Board with the function of extending private credit, which can best be handled without any political interference of any kind.

Take over and place on the Federal Reserve Board's side of the fence the power of note issue. It will have, under the provisions of this bill, the power of regulating the rediscount rate, conducting the open-market operations, and fixing the ratio of reserves which the banks must carry. If you are going to give it a free hand, why divide up the functions of control and leave some in the Treasury and some in the Federal Reserve Board and some in the regional banks?

If you are going to have a body that is charged with the responsibility of carrying out your mandate, you should concentrate that responsibility in the hands of a definite board; and I suggest that the best way to do that is to give these six functions to the Federal Reserve Board, including those three that they do not have today, which are the currency-issuing privilege, and control over the price of gold, and control over the price of silver.

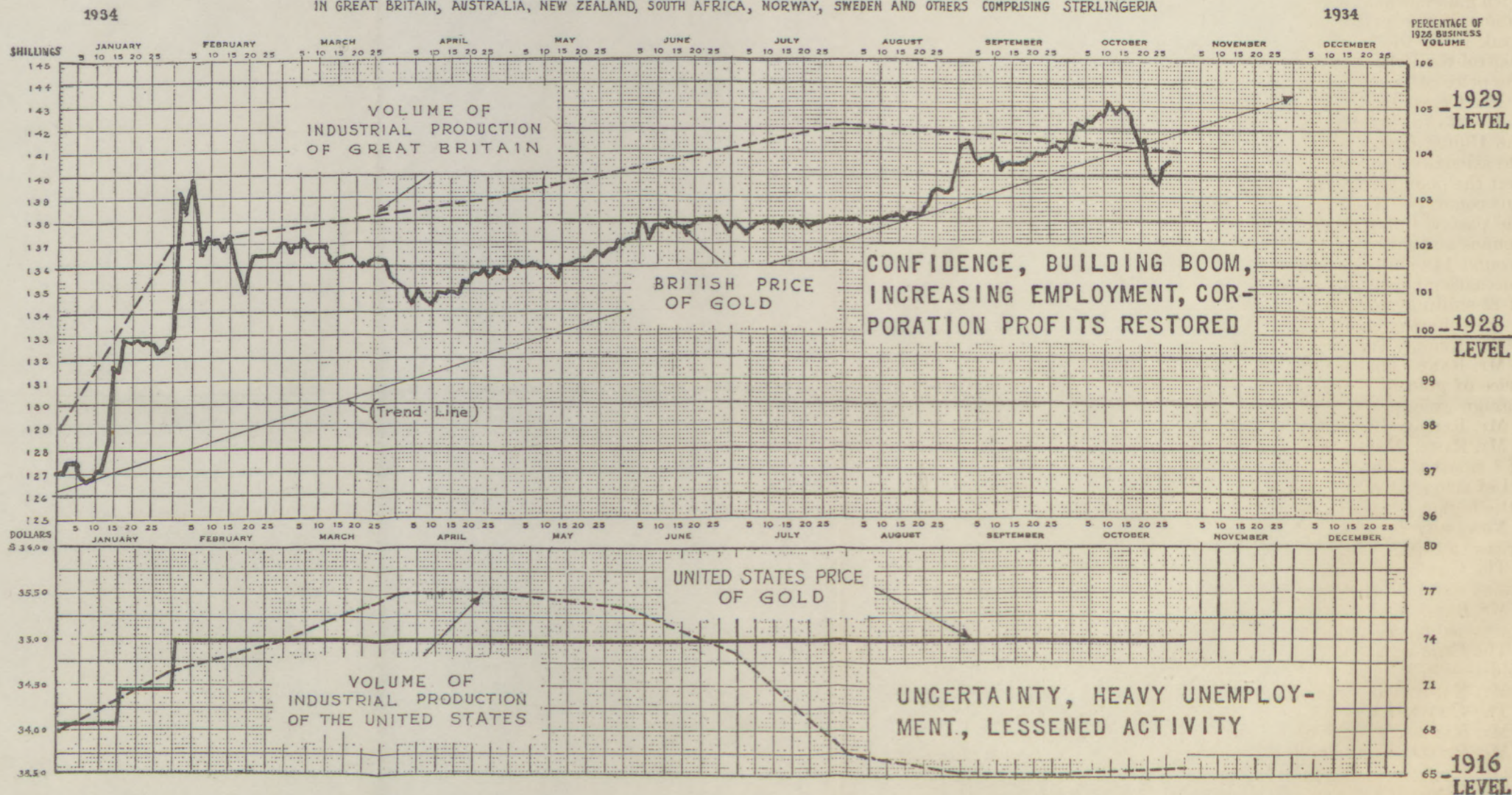
I differ with Mr. Vanderlip that the administration does not, as here stated, have the authority to go off the gold standard today. The Treasury does, in my opinion, have the authority to go off of gold tomorrow, and should go off tomorrow, in order to permit the proper execution of the program for carrying out your mandate, or the mandate which should be fixed in this bill. All that is necessary is for the Treasury to say, beginning tomorrow, we do not choose to buy any further gold at \$35 an ounce except from domestic producers, and that is newly mined gold, the same as they are doing with silver.

We have no fixed price today at which we will sell anything except gold, or at which we will buy anything, except gold. Let us do the same with gold, and say we do not wish to hoard gold and thereby increase the abnormal demand for gold. We should discontinue buying gold at \$35 an ounce from all comers; and if the people of the United States have gold to sell, they should be allowed to sell it in an open market in New York or Washington, or any other market. as is done in London.



# (America Must Choose)

WHAT GREAT BRITAIN HAS DONE TO THE PRICE OF GOLD DURING THE PAST 9½ MONTHS  
 A PERIOD OF GREAT PROSPERITY, APPROXIMATING THAT OF 1929  
 IN GREAT BRITAIN, AUSTRALIA, NEW ZEALAND, SOUTH AFRICA, NORWAY, SWEDEN AND OTHERS COMPRISING STERLINGERIA



WHAT THE UNITED STATES HAS DONE TO ITS PRICE OF GOLD DURING THE PAST 9½ MONTHS  
 A PERIOD OF LESSENERD BUSINESS ACTIVITY, BELOW 1933

COMMITTEE FOR THE NATION  
 205 EAST 42ND STREET N. Y. C.



This revised Federal Reserve Board could be used in operating an open gold market much as the Bank of England is, through its treasury committee, which is in constant contact, not by law but in actual practice, with Neville Chamberlain, the Chancellor of the Exchequer, in London. Every morning this committee will meet, consult the Chancellor of the Exchequer, determine at what price it will buy gold or whether it will sell gold. The Bank of England operates in the open gold market under the control of three men, and those three men announce the price the Bank of England will pay for gold. The bank being the largest factor in the open market, naturally it can control the British price of gold about as easily as you could control the price of any commodity.

Mr. CROSS. Do they vary their price much?

Mr. RAND. Let me surprise you. Nearly all of the quotations in the United States in our daily newspapers are in terms of dollars. Occasionally you will see it in terms of pounds, but when they convert the pounds into dollars, you get about the same price we have in this country of \$34.96 or \$35 per ounce. What has happened during the past year has been that the price of gold, in terms of English pounds and shillings, has gone from 127 shillings in January 1934, to around 149 shillings per ounce within the last 3 weeks. It is now fluctuating between 143 and 145 shillings, against the old parity price of 85 shillings per ounce.

(See chart offered by Mr. Rand for the record.)

Mr. REILLY. What does that mean?

Mr. RAND. That means that Great Britain is using the fluctuating price of gold to control the price level and to endeavor to influence foreign exchange.

Mr. REILLY. But it is always going up?

Mr. RAND. No; they have had a drop of as much as 10 percent inside of 3 months. The general trend is upward, and I believe the general belief among British statesmen is that Great Britain must have now a little higher level of commodity prices for their own welfare.

Now, why do we recommend the stable price level or restoring our prices to 1926?

The CHAIRMAN. Let me ask you right here, has Great Britain obtained a stable price level during the time of this operation?

Mr. RAND. Absolutely. The wholesale prices in Great Britain have not varied more than 7 percent in the past 3 years.

The CHAIRMAN. And variations have been between the pound and gold—

Mr. RAND (interposing). The dollar.

The CHAIRMAN (continuing). And gold?

Mr. RAND. Yes.

Mr. REILLY. In the last 2 years, our price level has gone up, has it not?

Mr. RAND. It certainly has.

Mr. REILLY. Is not that advisable under your theory?

Mr. RAND. Absolutely. The only mistake we made, from my standpoint, is that we returned to the gold standard too soon. In other words, we returned to a hard-and-fast fixed price of gold before we should have. The United States cannot tie to anything in protecting the interests of its people and a productive program, cannot tie to anything as unstable as gold.



The great instability of gold is strikingly shown in a tabulation of the maximum variations in the value of principle basic commodities in relation to each other and in their relation to gold. It is one of the research studies carried out in the Committee for the Nation, of which I am chairman. It shows that gold has been, since 1920, far more unstable than wheat, or cotton, or pig iron, or lead, corn, hogs, copper, etc. Exchanged for one another, such basic commodities show little variation in value; but when exchanged for gold, or money equivalent to a fixed weight of gold, they show that it was gold, not commodities, that changed most violently. I offer the table for your record.

To the dollar to a fixed weight of gold while nearly all of the rest of the world is off of the gold standard, puts our price level under the influence of those who are managing gold outside of this country.

(Table referred to is as follows:)

*Maximum percentage variation in the value of commodities in terms of each other and of gold, 1920-34*

	Wheat	Cotton	Pig iron	Lead	Corn	Hogs	Copper
	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Gold.....	395	456	327	265	530	377	278
Wheat.....		36	91	86	72	68	53
Cotton.....	163		125	106	85	138	82
Pig iron.....	93	120		108	93	163	180
Lead.....	84	104	116		134	69	62
Corn.....	74	71	200	138			75
Hogs.....	69	88	148	72	109		56
Copper.....	105	85	171	59	68	57	

Mr. CAVICCHIA. Not even the \$2,000,000,000 revolving fund we have would help the situation?

Mr. RAND. The \$2,000,000,000 revolving fund can never be used for stabilization without taking the tremendous chance which no Administration would be justified in taking. That \$2,000,000,000 of gold profit might better be used in retiring Government bonds tomorrow than to be kept sterilized in the vaults of the Treasury, while we are having to borrow money and pay good interest on it.

Mr. REILLY. Is it not a fact that, in the last few years, England's monetary policy consisted in keeping prices down?

Mr. RAND. That is a fact. That seems to be apparent from what appears on the surface that the desire of Great Britain is—

Mr. REILLY. To keep a cheap pound?

Mr. RAND. To have a cheap pound; and it is publicly stated by statesmen, such as Neville Chamberlain, that there is objection to allowing the pound to go too high; and the newspapers in London are full of printed criticism whenever the pound goes up in terms of dollars, saying it is putting Great Britain and the manufacturers of London, Lancashire, and Liverpool at a tremendous disadvantage.

Mr. REILLY. The lower the pound the more advantage they have?

Mr. RAND. Yes. Now, I do not appeal to you gentlemen from the standpoint of the export business so much as I do from the standpoint of bringing to your attention the necessity, during the next 6 months, for a plan of restoring employment in this country. I do not care what happens to the foreign exchanges so long as we are reducing our unemployment in this country even by policies that are detrimental to our export interests. I say our first duty



is to restore employment in this country and forget about those unemployed in China and South America and the rest of the world, until we have gotten our own house in order.

Mr. REILLY. Then you are not trying to help us, are you?

Mr. RAND. Then later I would give consideration to the foreign exchange policy.

Mr. CAVICCHIA. Mr. Rand, when you raise our commodity prices, will that ever be any benefit to us unless we know what the value of the dollar is going to be for the next 6 months or next year? Am I correct in that?

Mr. RAND. The raising of prices will not be beneficial, unless we know that?

Mr. CAVICCHIA. Yes.

Mr. RAND. They will be beneficial, but they will not result in as rapid reemployment as it will if you will let the people of the country in on your objective.

Mr. CAVICCHIA. I will put the question another way: There cannot be any appreciable advance in commerce, industry, or in business, unless we do know what the value of the dollar is going to be; is that correct?

Mr. RAND. I would not subscribe to that, that it would not be appreciable. There would be the tremendous advance that we had in 1933 by simply raising your price level, and on this rising price level everybody made a profit.

The history of the world proves that no consistent period of prosperity has transpired which has not been accompanied by a gradual lifting of the general level of commodity prices. When you have a constant decline of commodity prices, you have deflation and unprofitable business. The history of the Dark Ages can be written in one word, "Deflation."

Mr. FORD. A rising price level is a bad thing for an export nation, is it not?

Mr. RAND. A rising price level is bad for an export nation?

Mr. FORD. Yes.

Mr. RAND. It depends on whether your prices are rising in terms of dollars or of gold.

Mr. FORD. I realize that, but, for instance, England has kept her prices at about normal for the past 2 years, for the purpose of enabling her to export a large volume of goods, because she has to import a large volume, and she has to have something to equalize that in order to live. England is an importing nation primarily, and it seems to me that her problem would not be altogether parallel with ours.

Mr. RAND. Might I make a comment on that? I hope you will understand this, because I consider it one of the most important factors in the world situation today. Our company does business in every civilized country in this world, and I might say that all through this depression in our foreign business, which is about 25 percent of our total, we have not operated at a loss in any 6 months' period. So we had to know something about conditions in other countries. Here is something that impresses me very strongly:

In Great Britain or the British Empire you have two definite sections or regions. You have the industrial British island, known as "Great Britain", and you have the agricultural regions of Aus-



tralia, New Zealand, South Africa, to which you might say that you have added the "sterling area", including Brazil and Argentina. What has been done? If you analyze what has been done by the British—and they are smart in their international finance—they are raising the currency prices of gold in all of the agricultural countries of the "sterling area" in order that those countries might have exchange advantage over all of their competitors. The fact is that they have, and it has resulted to our disadvantage, because the United States raised its price of gold only as high as Great Britain did, namely, 69 percent.

We did not raise our price of gold to what it is in the principal agricultural countries of "sterling area." It is this differential in the price of gold which caused the agricultural West and South of this country to be at a disadvantage in the sale of their products against these higher-priced gold countries of the British Empire.

We would have a similar situation here if we could draw a borderline, let us say, along the Mason and Dixon Line and up the Mississippi River, and take the financial and industrial section of the country and say, "We are going to keep the price of gold for that part of our country, corresponding to financial and industrial England, 69 percent above, but for the West and South we are going to raise the price of gold to 103 percent above what it used to be." Then you would have prosperity in our farming and mining sections, and no disadvantage between our own agricultural and raw-material-producing sections and the corresponding portions of the British Empire.

Mr. CROSS. For instance, the pound sterling in London is \$4.80, and in Australia \$3.84; does that reflect what you said?

Mr. RAND. For years—and I do not know how many years, but for many, many years—the Australian pound exchanged pound for pound with the British pound. When Australia went off of gold and raised its price of gold, I think in two quick jumps, they immediately changed the relationship by arranging with the financial authorities in Great Britain that 4 British pounds bought 5 Australian pounds, instead of pound for pound. In other words they automatically cheapened their pound, in terms of the British pound, by 25 percent, and that gave Australia a tremendous advantage in the sale of her surplus agriculture products.

And I might say that Australia at that time was seething in political unrest, and perhaps next to Russia, was the most socialistic country in the world. As soon as they did this and agricultural prices went up, wool and wheat and what not, and business activity was resumed, all of the people who had been outspoken against the Government turned capitalistic overnight, and the last radical that they chased out of the country landed in San Francisco and started a strike out there for us!

What happened over there was they accomplished something they did not expect. All of their people turned capitalistic and were believers in private property, and as Reginald McKenna has said, Australia has led the world out of the depression.

Mr. FORD. Instead of \$35, suppose we put the price of gold at \$45, what will happen?

Mr. RAND. If you put the price to \$45 you would experience, within 3 months, a repetition of what happened in the spring and early



summer of 1933, when this country had the sharpest upturn of business activity that it ever had and the sharpest reduction in unemployment that any country ever experienced during this depression. That is my opinion of what would happen.

I believe, on top of that, that if you would tell the manufacturer that you were going to stabilize at a definite level the wholesale prices of commodities, so they would be sure that commodities after having experienced an advance were not going to go over the precipice and collapse again, you would have the greatest period of prosperity this country has ever seen.

Mr. FORD. Then you are advocating two measures: The reduction of the gold content and a stabilization of prices at whatever figure it would take to bring that?

Mr. RAND. I am advocating that the Federal Reserve Board should be given the right to operate in gold and/or silver in such open markets as may exist and—

Mr. CROSS. At whatever price they want to fix?

Mr. RAND. They could go in and buy or sell them, and let the price go up or down; and they being the largest factor in the market, could put the price up or down. The United States Treasury would not do it, but I think the Federal Reserve Board should do it.

Mr. CROSS. Do you not think we ought to tie ourselves to a fixed price?

Mr. RAND. No; the day of fixed price is over, and you will not see, in your life, another international definite fixed price of gold.

You may see it operated through an international clearing house of some kind, but I do not think you will ever see the free flow of large quantities of gold, that are capable of doing as much damage as an invading army can do to a country.

Mr. REILLY. What will happen to the country if all of the nations go off of the gold standard.

Mr. RAND. That will be the real beginning of recovery. The whole world, as such, will attain its recovery from the day the gold bloc goes off of gold; and from information coming to me, I would not be a bit surprised if that happened within the next 6 months.

Mr. WILLIAMS. You are going to make the commodity index of certain commodities. What commodities would you put in there as the basis upon which you would fix the level to which we should strive?

Mr. RAND. I would take the United States Bureau of Labor wholesale average of 784 commodities, or whatever it is.

Mr. WILLIAMS. You would take the Labor Bureau's statistics?

Mr. RAND. I would take that for the purpose of stabilization. Why? Because it has got more of the elements of the cost of living than the purely basic has, but I would operate on the basic commodities.

Mr. WILLIAMS. What do you mean by that?

Mr. RAND. What I mean is this: That I would attempt to establish prices of the staple commodities, the basic commodities, which are about 35, and the prices of which are fixed in the markets of the world, and I would raise those until the United States Bureau of Labor index reached the average of 1921 to 1929, or say the 1926 level.



Mr. WILLIAMS. After you had established your level and the general commodity price levels, could you maintain all of the commodities at that level?

Mr. RAND. Not all of the commodities. You will never be able to counteract the law of supply and demand. That may be effective temporarily, but those influences will be more or less temporary.

Mr. WILLIAMS. Could you stabilize the basic commodities?

Mr. RAND. They are what I would attempt to stabilize, but at the level where the United States Bureau's wholesale price index stood in 1926. That does not mean that the basic commodities would be where they were in 1926; they might be above or below 1926. As a matter of fact, I think they would be above 1926.

Mr. WILLIAMS. You would try to raise the basic commodity prices to the general price level of 1926?

Mr. RAND. Until the general price level reaches 1926, that is right.

Mr. REILLY. When you raise the price of cotton in Texas, the people in Texas continue to produce more cotton.

Mr. RAND. In my opinion, if we take monetary action raising the price level, and announce a definite objective, so that business—

Mr. REILLY. Suppose you announce the objective, what will happen?

Mr. RAND. You will have so much reemployment, so much increase in the consumption of cotton, that with the set-back the South has had in the curtailment of cotton and the discontinuance of production, the South will not be able to produce the cotton we will need in this country.

Mr. CROSS. He keeps on harping on one commodity, but that is the truth about a lot of these fellows and—

Mr. RAND. We have got to forget individual commodities.

Mr. CROSS. Any commodity can go away up or away down, but when you take the entire volume, it will stay on an even keel.

The CHAIRMAN. I want to say right here, about cotton and everything else, and I want to register this opinion of my own—I do not believe we ever had an overproduction.

Mr. RAND. Never.

The CHAIRMAN. The people who produce our cotton crop have cotton clothes to make them comfortable.

Mr. CROSS. For a number of years, we produced in excess of 15,000,000 bales of American cotton, but the trouble is, we cannot buy it. That is the reason you do not use cotton. The consuming power is here, but they have not got the wherewithal to buy it, but when you get people back to work, they may have.

Mr. RAND. Let me make a point about how people react to that old, well-known law of supply and demand. All orthodox economists had the feeling that the bankers of the United States should go on record against interference with the law of supply and demand; that you should not try to boost up the price of cotton and hold it there, or wheat, or other commodities, but let the law of supply and demand operate freely. That is exactly what I am recommending that you do with the price of gold in the free, open market; and if that price of gold, according to the law of supply and demand, should be higher than it is now, or lower, that is where it should be allowed to go and that is where it will go.



My personal opinion is that the demand will put the price of gold up for the time being, and probably put it up to the same extent that Brazil and the Argentine and all of these agricultural members of the British Empire and the "sterling area" have raised their price of gold, and when it does, they will have no longer an advantage over our agricultural producers, and our agricultural producers will be able to buy \$6,000,000,000 more from our American manufacturers, and the recovery problem will be solved.

The CHAIRMAN. What is the position of the manufacturers with reference to this legislation? They are against this legislation, are they not?

Mr. RAND. The manufacturers are not against this legislation.

The CHAIRMAN. The American Chamber of Commerce and the New York Chamber of Commerce are against it, are they not?

Mr. RAND. No; the New York Chamber of Commerce is made up of bankers, not manufacturers.

The CHAIRMAN. How about the American Association of Manufacturers?

Mr. RAND. I can tell you what the opinion of 3,000 manufacturers is as to the price level, but I cannot speak for the New York Chamber of Commerce.

Mr. HOLLISTER. Which legislation are we talking about?

The CHAIRMAN. All of it. They are opposed to this particular proposition as I understand it.

Mr. RAND. While Mr. Vanderlip was testifying someone asked a question as to what we would do with the Federal Reserve Board if you gave them a mandate and they failed to perform according to the mandate, and he said, "Impeach them." Somebody said, "Would you impeach the Supreme Court if they failed to issue the decrees?"

The difference between the two impressed me very forcibly, and I would like to give it to you. The Supreme Court is charged with the duty of interpreting laws. Laws are subject to various interpretations, as we have found many times before. Sometimes they are interpreted by one court one way and another court another way, but we are bound to accept the decisions of the Supreme Court when they interpret.

A price level, however, mandated by Congress, is open to only one interpretation, and that is, that level; in other words, it is not subject to ambiguous interpretation.

Mr. Cross. If the Supreme Court were to ignore the law, they could be impeached.

Mr. RAND. But you could tell whether the Federal Reserve Board had regulated the price level according to the mandate that you had laid down.

Mr. REILLY. Is it not a fact that we were in this panic largely because, in 1929, we began to produce an overabundance of manufactured goods?

Mr. RAND. No; there has never been any overproduction of any kind. I will tell you what happened in 1929: It was the absence of a clause in the law, the Federal Reserve Act, requiring the Federal Reserve Board to regulate the reserves required of banks behind their deposits. Had that clause been in the Federal Reserve Act, the Federal Reserve could have stepped in at that time and have raised the reserve requirements of the banks and stopped securities from



going to heights unknown. In other words, long before security prices had gotten any higher than they were in 1927, the Federal Reserve Board could have stopped it and avoided the collapse. That is what you are doing in this bill that you are passing on, giving Governor Eccles and the administration a clause which permits them to regulate the cash reserves required of banks behind deposits.

Mr. BROWN of Michigan. That is an afterview, is it not? You are not certain that the Federal Reserve authorities, had they had that power in 1927, would have had the good judgment and sense to have ordered that stoppage?

Mr. RAND. No; nobody can be sure. However, they did not have the authority at that time.

Mr. CROSS. If they did have the authority they could have done it?

Mr. BROWN of Michigan. We are not sure, if we give them the authority now, that they will exercise it in that way. What I am pointing out now is, your view is simply an afterview of the thing, but we know you are right, but at that time we do not know whether you would have been right or not.

Mr. RAND. The chances are that it would have been used. We are all aware of the extent of the situation.

Mr. WILLIAMS. Would you change the manner in which this Federal Reserve Board is set up, the provisions of this bill?

Mr. RAND. From the standpoint of political expediency; no.

Mr. HOLLISTER. From the standpoint of wild legislation, how about it?

Mr. RAND. Wild legislation that is never enacted is no legislation.

Mr. CROSS. It might be that, in some other Congress you could do it, but you could not do it now.

Mr. RAND. I would like to reiterate what Mr. Vanderlip pointed out, that I consider to be the most important cue that this committee, or Congress, can possibly have, comes directly from the President in the form of two things: First, on several occasions, he has stated that the price level in this country is not yet at a high enough level, a high enough point that the debtors and creditors are in balance, or that the debtors can pay the creditors without an undue burden of debts; second, that the dollar that America seeks—and I am told this is the dollar that we will have—must have substantially the same purchasing power and debt-paying power “as the dollar which we hope to attain in the near future.”

Two years have gone by, or a year and a half has gone by, and we are approaching the maturity of “the near future.” Therefore, now that we have this subject under consideration and the whole country is looking to the administration and to Congress to give it some definite information on the future of the dollar, they expect nothing else than what they have heard the President say, personally, over the radio.

Mr. REILLY. The administration has announced there will be no change in the dollar; the Secretary of the Treasury announced that.

Mr. RAND. The President's statement takes precedence over all others.

Mr. WILLIAMS. How much are we short in the price level now, in your judgment?

Mr. RAND. The basic commodities will have to go up approximately 20 percent.



The CHAIRMAN. Let me ask you a question. Suppose we keep up the advance with our move toward a high level, at the rate we are going—

Mr. RAND. Mr. Chairman, during the past year, since we anchored to a fixed price for gold at \$35 an ounce, we have not made progress.

The CHAIRMAN. We have made some progress in the last year, have we not?

Mr. RAND. Not noticeable progress; nothing to compare with the progress we made in the preceding year, either in reducing unemployment or restoring solvency.

The CHAIRMAN. Suppose we use the power further and raise the price of gold; what effect would that have?

Mr. RAND. If we raise the price of gold through the operations of the Federal Reserve Board, under a mandate from Congress, you will have an advance in the price level and will increase the purchasing power in the hands of the basic producers of this country, which includes all of the farmers, immediately and with mathematical precision.

Mr. CROSS. In other words, we ought to give the Federal Reserve the right to fix the price of gold as they see fit, and instead of fixing the statutory price like the President has, of \$35 an ounce, let that Board say what the price of gold shall be from time to time, just like they do in England now, and you were telling about how they functioned.

Mr. RAND. Absolutely the same as the English do.

Mr. CAVICCHIA. And let this country anchor to a certain value?

Mr. RAND. We want this American dollar of ours to have one certain, stable value, so one can rely on its value, and you can never get that so long as it is in terms of a piece of gum-rubber gold.

Mr. CAVICCHIA. How are you going to stabilize it there?

Mr. CROSS. You tie to a piece of gold and it stretches. Of course, you still hold \$35 an ounce, but gold goes up and down and fluctuates in value.

Mr. RAND. I would like to read to you what was said last week by the head of the largest bank in the world, Mr. Reginald McKenna, former Chancellor of the British Exchequer. It is contained in a special wireless dispatch from London to the New York Times:

The gold value of currency is now coming to be regarded as of secondary importance, and its purchasing power over goods as primary. It may be, therefore, that suppression of the gold clause in American obligations will lead to attempts to safeguard the position of both debtors and creditors by the inclusion in debt contracts of a clause establishing a relationship between money and goods. This may come to form a firmer basis not only for internal but for international obligations, through which fluctuations in the commodity value of money entail such appalling consequences as have been obvious in recent years.

If this development takes place, the world will have cause to bless the names of the five judges who found the means of breaking the shackles by which long custom has bound the dollar to gold and had threatened to prevent its playing its full part in the reestablishment and maintenance of economic health.

Mr. REILLY. Is that the advice that you are giving to us?

Mr. RAND. Reginald McKenna is a banker who differs from most of the bankers in Great Britain and is not regarded as being of the same degree of orthodoxy as is in the make-up of other bankers, and in that respect I compare him with Frank Vanderlip, who is not



bound to some of the restrictions that some of our other executives are.

Mr. WILLIAMS. Do you believe that with the power granted to the Federal Reserve Board, that they can raise the price level?

Mr. RAND. Do I believe that the Federal Reserve Board can raise the price level?

Mr. WILLIAMS. Yes; under the powers granted in this bill?

Mr. RAND. No; they could not do it under the bill, without having also the authority to control the price of gold. The Treasury could reduce it, if they did.

Mr. WILLIAMS. Then you do not think that the powers they have in there are sufficient to give them the ability to raise the price level to the desired level?

Mr. RAND. That is right. There are five leverages of control necessary to regulate the price level, and some days you have to use one, and other days something else. Great Britain is using the price of gold in the open market very successfully.

Mr. WILLIAMS. Then we would have to modify this bill in that respect, outside of simply placing the objective that you desire in this bill? We would have to amend it in other respects, in order for them to have the power that you think they ought to have?

Mr. RAND. From the standpoint today of political expediency, I see no basis for any objection on the part of any administrative official to giving this Board the power to issue currency on behalf of the United States Government.

The CHAIRMAN. What you mean to say is, it is unthinkable that there would be cross-purposes between one branch of the Government and the other in the same administration?

Mr. RAND. Yes.

Mr. WILLIAMS. If they would administer this act as it should be administered and we intend it should be administered, they could attain the desired objective?

Mr. RAND. Absolutely.

Mr. WILLIAMS. Without any other changes in it?

Mr. RAND. Except they would have to have the power to issue money and buy and sell gold in the open market, and do little things like that, which you could put in the bill.

Mr. WILLIAMS. Otherwise, it would be absolutely foolish to write in any object that they could not attain?

Mr. RAND. Yes.

Mr. WILLIAMS. There would not be any sense in that kind of legislation, to write into this bill a certain objective, a certain price level which they must attain, and still not give them the power to attain that objective?

Mr. HOLLISTER. You impeach them if they do not do something they cannot do.

Mr. RAND. Yes; and when you do that, you are going to do the greatest thing for the American people, from the standpoint of happiness and continuous occupation—which is a definition of happiness—that has ever been done in the history of this country.

Mr. WILLIAMS. In your opinion there must be two other things put into this bill that are not there at all: One of them being the power of this Board, exclusively, to issue currency; and the other is to vary the price of gold?



Mr. RAND. Yes.

Mr. WILLIAMS. Neither of which are in this bill, at all?

Mr. RAND. No.

Mr. CAVICCHIA. If I understand you, if this power is given, the power to raise or lower the price of gold, that would stabilize the price of the dollar?

Mr. RAND. If they are given the right to buy and sell gold in the open market, the same as the Bank of England does.

Mr. REILLY. That we ought to give this monetary authority the same power the Bank of England has?

Mr. RAND. Give it the same rights; yes.

Mr. REILLY. The object of the Bank of England has been to keep domestic prices down.

Mr. RAND. No, sir; to keep them stable.

Mr. REILLY. To keep them down.

Mr. RAND. I beg your pardon. I disagree with you on that. I have on good authority, an authority that says that prices are too low now and they should be advanced.

Mr. REILLY. Where?

Mr. RAND. In Great Britain.

Mr. REILLY. That is why I say they have kept them down.

Mr. RAND. They have worked to stabilize prices.

Mr. REILLY. According to all theories, if the dollar depreciates, the cost of living should go up. It has not gone up in London and they keep it there, because it gives an advantage on the export business. You want to raise prices and say this monetary authority should start out and raise prices. That has not been the record of England. The Bank of England has deliberately kept down prices. They have gone in and ruined their labor unions, so they could not get wages.

Mr. RAND. I operate in Great Britain, and I have not noticed any ruination or annihilation of labor in Great Britain. In fact, it is the most unionized country we are operating in.

Mr. REILLY. But they have got no wage scale.

Mr. RAND. The price level in Great Britain was not allowed to drop after September 1931, while our price level continued to drop down to, I think it was, 57 percent. They stopped theirs at 64 percent.

Mr. REILLY. Ours has dropped a great deal since that time.

Mr. RAND. Ours is up to approximately 80 percent now, and theirs is 68 percent, if I remember correctly. The point that I know is that, if we had gone off gold with Great Britain we could have kept our price level steady, and we would never have had the distress and suffering from coast to coast, as we have had.

Mr. CROSS. If we had been given the power to raise or lower ours, because England did—

Mr. RAND. And we would have solved our own employment problem in this country, and I do not care what happens in the other parts of the world.

Mr. REILLY. But you have got two different viewpoints—the monetary authority in London and the one you want to set up here.

Mr. RAND. They operate exactly the same.

Mr. REILLY. But they are going toward different ends.



Mr. RAND. No; Great Britain's price level has been held steady, although it is now relatively below our level, but industrial production or business activity in Great Britain stands at an index of 110 while ours is about 80 percent of its 1928 level.

Mr. REILLY. But you would have no advantage on the export trade, and that is what she is getting, and that is why they have got a different objective.

Mr. RAND. But the mechanism is identical. On a managed currency base you can have any price level that you want. I have never seen anyone dispute that fact. In other words, if you make a mistake in your price mandate, in case you include the mandate in this bill, and guess wrong at 1926 and it should have been 1928 or 1924, Congress can easily change it.

The CHAIRMAN. You have not said a word to us about the debt that is hanging over the people of the country.

Mr. RAND. I did not try to tell you something that you already know as well as I know.

The CHAIRMAN. Of course, this matter of increase in prices goes to the heart of that problem.

Mr. RAND. There is the further fact that President Roosevelt has said that prices have not risen sufficiently to restore the proper relationship between debtor and creditor, and it would be too large a burden on the debtors to establish prices at the present point, and I heartily agree with him.

The average debt that is in existence today was not incurred during the depression. The banks did not loan money during the depression, and mortgage and insurance companies did not buy mortgages during the depression. You did not contract debts during the depression. Your average debts that are in existence today were not incurred in the past 4 years, but they were incurred in the 10 years prior to that, when money was free.

The CHAIRMAN. Is it not true that so long as they are living in dread of constant foreclosure and bankruptcy, they cannot resume normal consumption?

Let me ask you, if nobody has any other questions right now, about some of the mechanics of this bill.

Do you not think that a change, or liberalization, we will say, in the rules for the eligibility of paper at Federal Reserve banks would be very desirable and helpful?

Mr. RAND. I might answer your question by saying this: The maintenance of the price level underlies the solvency of every bank and insurance company, affects individuals, and the entire country, and the Government itself. Maintenance of the price level underlies solvency, and when you let the price level down you destroy the solvency of business.

If you have this mandate in effect and the price level is going to be maintained, your bank assets are not going to depreciate, but they are going to remain intact, by and large, and they are not going to be subject to the influences they were subject to in 1931 and 1932. The bottom is not going to drop out of the value of bank collateral. Therefore, you are now justified in going further on eligibility than you were at any time up to this date; and with your bank-deposit guarantee—for which, Mr. Chairman, I wish to give you a large



measure of credit—you will further reinforce the banks against the contingencies which were ever present before.

The CHAIRMAN. Of course, we were in the position where very many solvent banks, judged by all fair rules, were unable to carry on because of the fear that existed, and because of their inability to employ their sound assets to obtain currency with which to meet the demands of depositors.

Mr. RAND. I will never forget, in 1933, testifying before the Senate Finance Committee, I then said, "Unless you enact an emergency law and provide a \$2,000,000,000 bank guaranty fund to insure bank deposits, every bank in the country will be closed by March 4."

The CHAIRMAN. We passed a bill like that in the House, setting up a fund of something like \$2,000,000,000, in 1932, but a lot of people thought we were crazy for trying to do it at that time.

Mr. RAND. The Senate failed to carry through with that plan.

The CHAIRMAN. Yes.

Mr. RAND. But they did, later. You can increase the eligibility, but the great danger is, when you extend the eligibility to longer than 1 year, the result will be for some banks to go into 5 or 6 or 10 years or perpetual obligations, that will destroy the liquidity of the banks.

The CHAIRMAN. How will we destroy the liquidity so long as they can take their credit assets and use them to obtain currency?

Mr. RAND. I mean there will come a point some day when, if you ever abolish the bank guarantee, that the banks may be plugged up with long-term, nonliquid assets.

Mr. REILLY. Suppose the bank guarantee law is going to live—

Mr. RAND. If the bank guaranty law lives, then your banks are as sound as the Federal Government.

The CHAIRMAN. Well, it should be stated, in that connection, that the guarantee of bank deposits has not been completed. We have only guaranteed about one-third of the deposits, and that job is not finished.

Mr. REILLY. We guaranteed 98 percent of the deposits.

The CHAIRMAN. We guaranteed most of the deposits. That question has not been fully solved, for the reason that you not only want to relieve the citizens of fear and prevent runs on the banks, but we should want to free bankers from fear of runs and withdrawals, so that they will employ bank resources in support of trade and commerce. I think we have done a great deal of good, but I am not sure the job is complete yet.

Mr. RAND. Any further questions you would like to ask?

Mr. CROSS. You think there are two things that ought to be done: One is the Federal Reserve Board should have control of issuing currency, and the next is the right to buy and sell gold in the open market?

Mr. RAND. Yes.

Mr. REILLY. You think that there ought to be a definite price level fixed?

Mr. RAND. Yes; and that is in addition to the mandate. If those three things are injected into this bill and recommended by this committee, my personal opinion is that it will be passed by the House and I have every confidence it will be passed by the Senate.

(Here followed discussion off the record.)



The CHAIRMAN. Of course, we have the right to interpret this legislation in the light of the declared policy and purpose of the administration, repeatedly declared by the President, as has been stated here this afternoon.

Mr. RAND. I would like to put this in as a personal opinion: That with the knowledge that President Roosevelt has demonstrated on monetary subjects and foreign exchange and the relationship of debtor and creditor, and the knowledge that he has demonstrated of conditions that exist in this country, that even without that mandate, we would have what you and I would like to have in the restoration of price level and in the stabilization of the price level; and my recommendations are based upon the belief and conviction that we owe it to the United States of America to perpetuate President Roosevelt's monetary policy in all succeeding administrations, and for generations to come.

The most important contribution that has been made to the progress of civilization is the stabilized dollar.

Mr. HOLLISTER. Has that been achieved?

Mr. CROSS. No; we want to achieve it now.

Mr. RAND. The dollar which President Roosevelt stated to the London Economic Conference we hope to attain in the near future, and which we have—

Mr. HOLLISTER. I did not know that President Roosevelt had any monetary policy; I have never been able to ascertain it.

Mr. RAND. A very definite monetary policy.

Mr. HOLLISTER. What do you conceive it to be?

Mr. RAND. To give to the country a dollar of substantially the same purchasing power and debt-paying power as the dollar which he hoped to achieve in the near future, dating from the time he made the speech.

Mr. HOLLISTER. Do you think the steps that have been taken by the administration have brought about such a result?

Mr. RAND. The steps that were taken up to February 1934, when we again returned to a fixed price of gold, which was advocated by the orthodox economists and which has since then prevented any further rise in the value of commodities and re-employment of the unemployed, and—

Mr. REILLY. The commodity price has gone up since then, has it not?

Mr. RAND. It is my belief that the evidence is so clear that the progress of 1934 is so little compared with the vast strides we made in 1933, that the logical thing for the administration to do is to go back to the policy which showed the greatest results.

Mr. HOLLISTER. You are urging that the administration should return to the policy which the administration has apparently given up?

Mr. RAND. No; only temporarily.

Mr. HOLLISTER. But the last monetary moves the administration has made have not, in your opinion, been similar to the first moves that were made?

Mr. RAND. No; moves that have been made during the past year I think have left us in status quo. We have been frozen to a fixed price of gold, and it has been demonstrated that we cannot progress



so long as about one-half of the civilized business world is off gold definitely, and has no fixed relationship to gold.

In other words, those countries that have adhered to a fixed price of gold, including the European gold bloc and the United States, have shown poor results in recovery during the past year.

Mr. HOLLISTER. Then you were not an advocate, were you, Mr. Rand, of the Warren gold-buying policy which was the administration's first attempt?

Mr. RAND. I never was an advocate of the policy of chalking up the price of gold on a blackboard, without being willing to make the price of gold in other markets.

Mr. HOLLISTER. That was the administration's first monetary attempt?

Mr. RAND. It was, as such; but the effective raising of the price of gold began when exportation of gold was embargoed in April 1933, not when the gold buying began 6 months later.

Mr. HOLLISTER. That was given up entirely?

Mr. RAND. It was.

Mr. REILLY. The administration did that to find the real value of the gold, and it fixed the dollar at that value. All that buying of gold was for that purpose, to know where to stabilize the dollar.

Mr. RAND. It always appears wise, when you are conducting a policy of restoring prices, or raising prices, to hesitate for a breathing spell in order to see what the ultimate effect is going to be of what you have already done, and in that respect I believe it was wise to hesitate for 6 months or a year; but there is no need, in my opinion, to hesitate any longer.

Mr. REILLY. But you recognize that it is a more difficult problem to raise prices than to keep them from falling?

Mr. RAND. Everyone recognizes that. You can undo in 1 day what it took generations to build up.

Mr. CROSS. Like climbing up a ladder, you go up pretty slow but come down fast.

The CHAIRMAN. Gentlemen, we will meet at 10:30 tomorrow.

Mr. Rand, I thank you on behalf of the committee. Your statement was very able and helpful, and we appreciate it very much.

(Thereupon a recess was taken until 10:30 a. m., Tuesday, April 9, 1935.)

(Inserted in record of hearings upon request.)

#### THE SIEGFRIED PLAN

(By Thorwald Siegfried, author of *The Siegfried Plan for an Honest Exchange of Values by the Issue of a Sound Money*)

#### WHEN A BANK

- (a) Permits a manufacturer to "deposit" as cash a 60-day merchandise-draft on a jobber or merchant, and
- (b) Allows the manufacturer to check against the "deposit" up to its full amount (less the discount for 60 days).
- (c) It thereby issues new credit-currency, and by repeating the process builds up the great volume of "deposits" in banks.
- (d) Inasmuch as the wholesale prices charged to jobbers and merchants by manufacturers include the manufacturers' profits, the bank process described makes available to the manufacturer, as cash, and at the point of production, his anticipated profits before these profits are justified by the verdict of the retail market.



(e) Inasmuch as the ratios of profits in merchandise transactions susceptible of discount by banks range from 0 to 100 percent, the "dollars" checked out thereby lack economic parity with one another, and, on the contrary, have disparities corresponding to the profit ratios in the prices of goods which they represent.

(f) These disparities operate to the disadvantage of the producers of goods that are least susceptible to the application of high-speed machinery, among whom farmers are the most important class.

(g) We favor legislation which will permit banks to discount commercial paper to the extent of the wages paid for the production of the goods represented, and no more, to the end that all "dollars" shall have economic parity, that all currency issued shall pass through the hands of the producing classes, that purchasing power shall be adequate to buy all goods offered, that profits on good goods shall be offset by losses on poor ones, and that the receipt of profits may be deferred until the goods shall have been sold to customers.

MARINE MIDLAND GROUP, INC.,

New York City, April 12, 1935.

LETTER FROM HON. EDMUND PLATT

DEAR HENRY: I am glad to see that the House committee has struck from the banking bill the provision in title I denying deposit insurance to nonmember banks after July 1, 1937. I don't believe in these compulsory features, and have always thought that the whole Reserve System, national as well as State banks, could, now that it is so well established, be put on a voluntary basis, allowing small national banks to withdraw if they care to do so.

I don't know whether you saw the brief I sent to John Hollister on the bill, when I found that I couldn't go down and testify. It is a much milder criticism of title II than most of the economists are making, and contains the argument against compelling State banks to join the Reserve System in order to continue deposit insurance.

Best regards.

Yours sincerely,

EDMUND PLATT.

(The brief above referred to follows:)

Having been actively engaged for more than 10 years, 1920-30, as vice governor of the Federal Reserve Board in the administration of the Federal Reserve Act, and having been a member of this committee under the chairmanship of Carter Glass when the Federal Reserve Act was passed, it is natural that I should not like to see the act radically changed unless there are convincing reasons for the changes. My interest, therefore, is chiefly in title II, which does radically change the Federal Reserve Act in several important particulars. The open-market section practically does away with the autonomy and independence of the regional Federal Reserve banks in some of their most important functions. Section 16 of the Federal Reserve Act, which has reference to the issue of Federal Reserve notes, is largely repealed and entirely rewritten, making the notes asset currency without special collateral; section 13 is so amended that Reserve banks are to be permitted to loan on any sound assets of member banks, doing away with the last vestige of the idea of self-liquidating, short-term commercial paper. The composition of the Board itself, especially with relation to the Governor is so changed as to bind the Board more closely to the political administration in power at the time instead of giving it greater independence; the organization of the Federal Reserve banks through the consolidation of the offices of governor and chairman or Federal Reserve agent and the requirement that the governor must be approved by the Federal Reserve Board is considerably altered. Section 16 relating to reserves is so amended as to remove the safeguards, the affirmative vote of five members and the approval of the President, from the grant of power given in the Emergency Act of 1933 to raise as well as lower the reserves to be maintained by member banks in certain cities, etc., and districts. Finally, in title II the authority of national banks to make loans on real estate is greatly widened.

Governor Eccles in his recent testimony before the committee ably defended these provisions and made suggestions for amendments to several sections which would be improvements, but he did not give any convincing reasons why title II should be passed at this time. In fact, if I understood him correctly, he said in answer to one of his questioners that there was not much that the Federal Reserve banks could do that has not already been done toward aiding recovery,



which is certainly true. Commercial interest rates are at unprecedentedly low levels, and long-term interest rates, held up for a good while by the uncertainty caused by devaluation of the dollar and by inflation agitation, have also begun to come down materially. If business is not borrowing, it certainly is not because the rates are not attractively low. Nothing could be accomplished by trying to make them lower and much harm might be done, as it is difficult enough at present for banks to make money. This being true, it seems to me that there is much to be said for the recommendations of the Chamber of Commerce of the State of New York and of the American Bankers Association for a postponement of consideration of this part of the bill until a thorough study can be made of the questions involved by an impartial commission. The American Bankers Association has suggested the Brookings Foundation, while the chamber of commerce apparently contemplates a commission to be appointed by Congress. There is no doubt that amendments to the Federal Reserve Act made from time to time, particularly by the Banking Act of 1933 and the emergency acts, have produced a patchwork which is somewhat confusing. A thorough study by a competent body should result in greatly simplifying and improving the whole act.

Before going into more detail with relation to title II there are some things in titles II and III to which I should like to refer, though with a few clarifying amendments it seems to me they might well be enacted into law at the present session. I do not like the provision near the end of title I, paragraph 23, which reiterates the requirements of the Banking Act of 1933 that nonmember State banks must become member banks if they are to retain Federal deposit insurance after July 1937. It has never seemed to me wise to attempt to compel State banks to join the system, and I will go even further and say that I have always doubted the wisdom of the compulsory feature even for national banks. There is nothing of this compulsion in European central banking. The system, in my opinion, would work satisfactorily if membership were made voluntary. Compulsion may have been necessary at the beginning in order to get the system started, but, in my opinion, the advantages which all the larger banks unquestionably receive from membership would make it necessary for their own interest to continue as members. The reserve requirements and the provisions that balances in Reserve banks are counted as reserve while balances in correspondent banks are not so counted, and the privilege of keeping up such reserve balances by rediscounting when necessary are of great value to the larger banks. States may, and some of them still do, allow their State-chartered banks to count balances in city-correspondent banks as reserves, but this is of advantage only to the smaller banks which are frequently dependent upon their city correspondents for service and advice. The fact that most of the small banks are outside the system and do not consider membership an advantage does not at all hinder the effective operation of the system. Several campaigns were conducted while I was a member of the Reserve Board to induce the small State banks to become members, and several investigations were carried on by the Board, by the Reserve banks, and by this committee to find out why they did not join the system.

I became convinced that at least some of the reasons the small banks gave for remaining nonmembers were good reasons. One of their chief complaints, the fact that they could obtain no interest on their balances in the reserve banks, but could and did obtain interest from their city correspondents, has been done away with by the prohibition in the Banking Act of 1933 of payment of interest on demand deposits. May I say that I think the present law and the present regulations are a little narrow in defining demand deposits as anything payable within 30 days. In other countries it is customary to pay interest on 15-day deposits and even on 7-day deposits. Therefore, I think the amendment to the first paragraph of section 19 of the Reserve Act contained in the first part of section 323 (p. 64) of title III of this bill, giving the Federal Reserve Board full power to define the terms "demand deposits", "time deposits", etc., is a good one.

This brings me to title III. I have heard some items in this title criticized as being rather obscure, and as possibly containing "jokers", or as going further than they appear to go. However, I know that most of the amendments in this title were recommended by the Federal Reserve Board or by the Comptroller to clarify the provisions of the Banking Act of 1933 and make them more workable. Some of them have been recommended by the Board and by the Comptroller in their annual reports. The amendments in this title are technical, in the main, and I prefer to leave criticism of them to the technicians.



Sections 303 and 307 may permit limited underwriting. This does not seem clear to me but under proper regulations I do not believe it would be necessarily harmful. I have never believed in too narrow restrictions upon the operation of our banks. We can develop good bankers only by giving them some reasonable latitude.

Title II, as Governor Eccles has said, is the heart of the bill and makes some vital and, to my mind, some exceedingly unwise amendments to the Federal Reserve Act. Governor Eccles has suggested several amendments which would be good but even with the improvements the powers of the Federal Reserve Board and its dependence upon political administration would be increased, and the independence of the Federal Reserve banks decreased. As it stands in the bill, section 305 creating a new open-market committee, comes pretty near creating a central bank or monetary authority. The new committee is given full power over the purchase and sale of securities "and the Federal Reserve banks shall conform their open-market operations to the provisions thereof." I wonder if it is generally understood that 90 percent of all open-market operations are carried out in the country's chief money market; that is in New York, and in the main they put money, or funds, into New York or withdraw them. Under the provisions of the bill as drawn this committee could compel the interior Federal Reserve banks, the Atlanta Reserve bank, the Dallas Reserve Bank and others to put money into New York, or in popular terms into Wall Street, without giving them any option, even if their directors were of the opinion that the funds were needed at home. I do not believe that is either wise or necessary, and I do not believe it would be approved if understood. I know the argument that there should be centralization of authority, that the system can't act promptly in case of emergency, etc., but that is theory. The system has always acted as promptly as necessary, possibly in some cases too promptly, so far as open-market operations are concerned. It has not always been so prompt about changing discount rates, particularly in the matter of increases, but the fault has not been with the reserve banks.

In my opinion, the importance of open-market operations has been greatly exaggerated. The system could be successfully operated through prompt and decisive changes in discount rates, without open-market operations except such minor purchases or sales as might be necessary or advisable to make the rates effective. Open market operations became popular in the early 1920's largely because they were not fully understood and were to a considerable extent concealed. In England such operations used to be referred to by the older economists as "the hidden hand", which put money into or took it out of the London market without any announcement and without letting anyone know what was going on except by inference from action of the money rates and the money market itself. The high discount rates, in some of the Reserve banks as high as 7 percent, put into effect by several of the Reserve banks in 1920, were believed by many people to have been the cause of the depression of 1920-21. They were the subject of much oratory in Congress and of much denunciation of the Federal Reserve Board and of its then governor, W. P. G. Harding. In my opinion they had very little to do with the depression, the chief causes of which were easily to be seen elsewhere, but if they were effective in curtailing expansion the operation was certainly justified by the results, for the depression of 1920-21 was exceptionally short and we were soon climbing out of it into an era of almost steadily increasing prosperity. However, rate increases were unpopular, and after the rates had been lowered to normal proportions when it again seemed necessary to exercise some restraint on expansion of credit "the hidden hand" was resorted to and open-market operations became more important than changes in rates in the operation of the system. Securities were sold when expansion seemed to be going too rapidly and were purchased when contraction appeared to be going too rapidly. Generally, these operations were accompanied by slight changes in the rates, usually only one-half of 1 percent at a time, but sometimes they were not accompanied by any rate changes. The net result of the policy was that the member bank reserve balances, the credit base, were generally held rather higher than they should have been until finally the whole matter got out of hand with the great expansion of 1928-29, which was manifested chiefly in the speculative markets.

While a member of the Federal Reserve Board, I was much of the time under the impression that rediscount rates were too low and frequently constituted an unnecessary and unwise inducement towards borrowing on the part of the member banks, particularly the smaller banks whose rates to customers were



generally several points above the Federal Reserve rates. However, the policy of the Reserve Board at that time was warmly praised by most of the economists of the monetary school like Maynard Keynes of England, Cassell of Sweden, and Irving Fisher of our own country. Wholesale prices during that period remained relatively steady from about 1923, reaching their highest point in 1925 and then gradually declining somewhat while the country seemed most of the time extraordinarily prosperous. The monetary economists declared that the Federal Reserve Board was stabilizing prices and sought to amend the act to require the system to be so operated as to stabilize prices. "All you have to do", they declared, "is to continue what you are now doing." The Board and the system did continue along about the same policy and the debacle of 1929 followed perhaps as a result of this policy, certainly partly as a result of failure to apply the brakes through both the rediscount rates and open-market sales soon enough, but probably also mostly from other causes which I cannot go into at this time.

In connection with the open-market policy of the Board, a good deal has been said about control of credit, and I wonder just what the people who use the word "control" so glibly understand it to mean. Certainly, if it is understood in its ordinary sense as we use it, for instance, in mechanics, "control" of credit is impossible; at least, without an amount of minute regimentation in all banks and of borrowing that would be intolerable. All that can be done by central banking is to exercise some measure of influence rather than control over the volume of credit. This can be made to be somewhat effective when credit is increasing if the central banking system has the courage to put on the brakes with sufficient vigor, but the experience of the past 4 years in this and other countries shows that not much can be done to prevent a declining volume of credit when the pyramid of debt breaks and a depression gets started. Another word which has been much misused in connection with credit is the word "create." We are told that the banks create credit and the word seems to be understood by many people as in the first chapter of Genesis, conveying the idea that the banks have absolute power to create credit out of nothing. Certainly this is not true. Dr. Walter Leaf in his excellent little book on banking, published in the late 1920s, paid his respects to this theory very effectively. "It takes two to create credit, a banker and a borrower", and the banks are powerless when business men of good credit standing are unwilling to take the risk of borrowing. Furthermore, when banks make loans they do not create anything in the nature of new wealth. They simply enable wealth already long since created and saved to be used conveniently in making exchanges. This is clear enough in the case of mortgages, or of collateral loans. A borrower on real estate, or on bonds, has the property and pledges it for a loan in order to make a purchase instead of trading or bartering it direct. The banks act as brokers making certain properties liquid for trading purposes. In the case of so-called "unsecured loans" to business the principle is the same. Such loans are made on the basis of established wealth on the credit statements of a going business built up through industry and saving. The banks act as brokers in still another sense, enabling the savings of one man or of one business, including temporary savings or current accounts, to be loaned to another man, thus facilitating a much more rapid turnover of transactions than could otherwise obtain. Nothing is created, however, excepting the new wealth which may result from the enhanced liquefaction of assets and the increase of manufacturing or business transactions.

I have no great objection to the consolidation of the offices of Governor and Chairman or Federal Reserve agent in the Federal Reserve banks referred to in section 201, but the abolition of the office of Federal Reserve agent and the repeal or rewriting of section 16 of the Federal Reserve Act, which refers to Federal Reserve notes, abolishing the special collateral now held against such notes, distinctly implies a recognition that the note issues of the Federal Reserve banks are bank notes and not United States Government notes issued to the banks. The office of Federal Reserve agent in each bank was created for the purpose of holding collateral to protect the Government which is issuing its guaranteed notes "for the purpose of making advances to Federal Reserve banks through the Federal Reserve agents." This was always fictitious in actual practice and it is well to have it repealed, but why include after the word "notes" in the second line of the new section 16 the words "which shall be obligations of the United States?" The guarantee of the United States is certainly not necessary with the provision that the notes are to be secured "by a first and paramount lien on all of the assets of such bank."



Under this provision of the bill the notes become strictly an asset bank currency which I think is not seriously objectionable, although I see no particular reason why the change should be made at this time. It goes far away from the original purpose of the Federal Reserve Act which provided that reserve notes could be issued only against deposits with the reserve agents of self-liquidating commercial paper which had been rediscounted with the banks. Taken with section 206, which repeals all the rediscount eligibility restrictions and permits Federal Reserve banks to "make advances to any such member bank on its promissory note secured by any sound assets of such member bank, the change from the original Federal Reserve Act is certainly radical. At the present time it is not only unnecessary but academic. The member banks are not rediscounting with the Federal Reserve banks and will have no occasion to rediscount so long as huge excess reserves are maintained through the ownership by the reserve banks of huge holdings of Government securities. Along with the provision allowing Federal Reserve banks to make advances on "any sound assets of member banks" is to be read section 210 which greatly relaxes the restrictions upon national banks in the matter of real-estate loans and without limiting the sections in which the loans may be made. Under this provision western banks might make loans on New York City real estate and eastern banks might make loans on western farm land. Governor Eccles has happily suggested the restoration of limits, but this attempt to encourage commercial banks to go into the real-estate field is almost certain to lead to trouble and is in strong contrast with the powers of the Canadian chartered banks which are not permitted to make loans on real estate at all. Real-estate loans in Canada are made by mortgage companies or by savings banks, and one reason I think why eastern banks have stood up better than western banks and southern banks in our own country is the fact that a very large part of the real-estate loans in the East has been made by mutual savings banks which are carefully restricted by law and by mortgage companies not so well regulated, many of which are now in trouble. That real-estate mortgages should become the basis of rediscounts in Federal Reserve banks when we have home-loan banks to take care of such matters seems a complete perversion of the principle on which the Federal Reserve Act was founded, not only extremely unwise but entirely unnecessary.

Governor Eccles has recommended an amendment to paragraph 3 of section 203 which, as it stands, requires the Governor of the Board to leave the Board "upon the termination of his designation as Governor." The second paragraph of this section providing for an increase of salary to members of the Federal Reserve Board and for their retirement on pension is in the main good, although I can see no reason why the two members who have served since the original Board was formed should be retired so long as they are able to render useful service. They do not seem to be much older today than they were when I first knew them some 15 years ago and are certainly as intellectually vigorous as ever. In amending the first paragraph of section 10 of the Reserve Act with relation to the appointment of members of the Reserve Board it is to be regretted that the number of members of the Board was left at eight, which permits a tie. The Comptroller of the Currency of the Secretary of the Treasury should be dropped from the Board.

Some consideration should be given to the fact that in rewriting section 15 the provision that "No Federal Reserve bank shall pay out notes issued through another under penalty of a tax of 10 percent" has been stricken out. When the Federal Reserve Act was passed this provision, copied I think from the Canadian law, was considered of considerable importance as insuring prompt redemption of the notes and preventing redundant circulation. I am not sure that it has been found of much service and it certainly has required considerable clerical work. The proposed new section 16 merely requires the sending in of worn out bills or notes. I may add that I hope the gold reserves which rightfully belong to the Federal Reserve banks may be restored to them in due time and that redemption of the notes in gold coin may be again resumed.

Governor Eccles made out a good case in my opinion for section 209, amending section 16 so that the Reserve Board could change reserve requirements of member banks "in order to prevent injurious credit expansion or contraction", and suggested a good amendment as to its application. Such power could be made very useful in checking inflation, but it could be used also in the direction of the so-called "100-percent" bank, and I do not believe the power should be given without limit, or without the safeguard of requiring more than a majority vote of the Board.

X