Mr. OWEN. Mr. President and gentlemen of the Senate, I introduced this bill proposing to establish a gold and commodity secured currency for use with a view to stabilizing the industrial activities of Europe and with a view to protecting the foreign commerce of the United States. I particularly desire to have the serious attention of the Senate, because while I do not intend to press the bill, I do offer it to the majority party as a means of helping to overcome the present industrial depression in the United States, with a view to rehabeilitating our foreign commerce, and with a view, as a means to that end, of restoring industrial activities in Europe.

I believe the suggestions I am about to submit will be of great value to the United States and to the world if it shall meet your approval and support.

I am encouraged to hope that Senators will be disposed to give attention to the proposals which I submit, because I have had unusual opportunity to study the principles of banking. Thirty-two years ago I established the first national bank organized in Indian Territory, now Oklahoma, and was president of it for 10 years. On the 20th of February, 1908, immediately after I entered the Senate, I outlined and advocated before the Senate every principle of importance that afterwards was written into the Federal reserve act, and had the honor of representing the Senate as its chairman of the Committee on Banking and Currency at the time the Federal reserve act was written.

Our foreign export trade has been ruined and has fallen off during this past year to the extent of over three billions of dollars, for the very simple reason that Europe cannot adequately buy and has so little to sell. I do not consent that any part of the money due us shall be remitted to Europe. Our charities to Europe I gladly commend, but their covenanted debts to the people of the United States must be paid. They are not bankrupt.

The hills of Europe are still covered with vineyards and orchards and the fertile fields are as productive as ever. The natural resources of Europe, the mines, the woodlands, the water powers, the transportation facilities, remain, and the facilities for manufacturing have been greatly increased since 1914 through the gigantic energies of five years of war which created more machinery than it destroyed. The man power and the woman power of Europe are capable of as great an output now as before the war. Before the war the people of Europe had loaned to us many billions of dollars, a large part of which
we have repaid with interest, and we have extended credits to Europe during this World War through our Government ten billions of dollars, and since the war through our citizens more than five billions in addition. The European people as people are not bankrupt and they are not dishonorable. They are able to pay the United States and they will pay the United States in due time, principal and interest, but they can not at the present time pay either principal or interest because their industrial life has been disorganized through the demoralization following the war. They have neither gold nor sufficient commodities with which to make payment to the United States.

The one great outstanding factor breaking down confidence and destroying the validity and desirability of contracts in Europe is the violent inflation of currency through the printing press. In some of the countries of Europe people have been compelled to abandon the making of contracts in terms of currency and have resorted to the hopelessly clumsy system of barter—so many bushels of potatoes for so many bushels of corn or coal.

Neither the buyer nor the seller can afford to make a contract in a currency which, like the German mark, may shrink or expand 33 per cent within a month.

In Russia the ruble which sold two for a dollar before the war is now selling 50,000 rubles for a dollar. In Poland and Austria it is almost as bad, and in Germany the mark, formerly worth 23.8 cents, is now worth one-half a cent and a few weeks ago was worth one-third of a cent. The Italian lire, worth 19.3 cents before the war, is now worth less than 5 cents, and the French franc is now worth only 8 cents, and even the pound sterling, worth before the war $4.86, is now worth only $4.20, for the simple reason that even the pound sterling is not redeemable in gold and its exchange value is worth almost precisely what the pound sterling will buy in terms of gold bullion in the London market. The same thing is true, of course, as to the French franc, the German mark, and the Italian lire. If you buy bullion gold with these currencies in their own country you will find that what we call the exchange value of the franc, lire, or mark is measured by the purchasing power in gold of these currencies in their own country. And this, of course, is a necessary truism for the reason that the shipping of gold from these countries would immediately balance any exchange transaction and establish exchange at gold par. But they have little gold to spare and can not ship gold. They must sell their paper currency for gold or its equivalent in dollar exchange when paying us.

England in putting out the John Bradbury notes, which are English treasury notes used as currency, did so with a small gold reserve of between 12 and 13 per cent to maintain the credit of the Bradbury notes; but neither the Bradbury notes nor the Bank of England notes are subject to actual redemption in gold, and therefore they are at a discount measured in terms of gold.

In the same way the French franc under an issue of 38,000,000,000 francs, issued by the Bank of France (a private corporation but under Government control), has been diluted to a point where the Bank of France dared not redeem it in gold, and therefore the French franc has undergone a depreciation of 60 per cent. It is still worse with the Italian lira,
and in the case of the German mark the mark went down to about 2 per cent of its original value.

How can manufacturers contract goods for future delivery in terms of marks when the mark at the time of future payment threatens a very high percentage of loss? How can merchants buy and sell with safety in terms of marks when the mark stretches from one value to another without notice?

In spite of this handicap the German people under the stimulation of their Government are nevertheless busily engaged in manufacturing, but under this very great disadvantage.

The one gigantic outstanding fact which retards rapid restoration of European industry and commerce is the lack of a stable gold-secured currency measurable in terms of gold. Even gold fluctuates in value, but at last it has been found by the nations of the world to be the most stable and acceptable measure of value ever established for monetary purposes.

The United States is able to provide a means for furnishing currency secured by gold and redeemable in gold and secured at the same time by staple merchantable commodities and underwritten by sound bankers' credits. I have submitted this bill which contains these fundamental principles, and which, if adopted, would establish a Federal reserve foreign bank owned by the Federal reserve banks of America, to function as their servant. Such a bank, with a primary capital of five hundred millions of gold taken from the Federal reserve banks, would not weaken the banking system of the United States for the reason that we have far in excess of the amount of gold required to keep our Federal reserve notes at par.

We have set apart 35 per cent of the reserve deposits in gold and legal tender. That 35 per cent is idle gold, unproductive and of no practical value, for the reason that the deposits are not capable of being withdrawn under the law. During the last 12 months, in spite of a withdrawal of deposits from national banks of over $2,000,000,000 and from State banks of over $1,000,000,000 the deposits in reserve banks have increased $13,000,000. Thirty-five per cent of $1,784,000,000, the present deposits in reserve banks, would make nearly $600,000,000 of idle gold and legal tender, and 25 per cent (the amount to which reserve against deposits is diminished) would make $446,000,000.

One billion seven hundred and eighty-four million dollars is the present deposit of reserves in the reserve banks. Thirty-five per cent of that is nearly $600,000,000 of gold and legal tender that is lying there, serving no useful purpose. That gold can be employed, though still owned by the reserve banks, through the Federal reserve foreign bank, and used as a basis of 20 per cent reserve would provide reserve notes amounting to $2,500,000,000, or five times the amount of such reserve gold. Under the bill I propose there would be 100 per cent of commodities behind each reserve bank note and 100 per cent of short-time bankers' bills. If the emission of these notes should go up to $2,500,000,000, there would be behind the bank notes 100 per cent of bankers' credits ($2,500,000,000), 100 per cent of commodity credits ($2,500,000,000), and 20 per cent of gold ($500,000,000), and we would in that way manufacture, if I may use such a term, a sound gold and commodity secured currency abundant to restore the European countries to a sound currency foundation.
At present they do not know what the value is of a mark, lire, kroner, lei, or a ruble. The mark has fluctuated 33 per cent in the last 30 days. It went down to one-third of a cent and back to half a cent.

Mr. SMOOT. Mr. President—

The PRESIDING OFFICER (Mr. Robinson in the chair).

Does the Senator from Oklahoma yield to the Senator from Utah?

Mr. OWEN. Certainly.

Mr. SMOOT. Does the Senator expect in his statement to show how it is possible to make the German mark worth 24 cents?

Mr. OWEN. I am not concerned in making the German mark worth 24 cents. It is impossible to make it worth 24 cents.

Mr. SMOOT. There are over 100,000,000,000 marks outstanding.

Mr. OWEN. Yes; there are 103,000,000,000 marks outstanding at this time.

Mr. SMOOT. And more are being issued every day.

Mr. OWEN. Yes; they are pouring out at the rate of a billion a week. So it is impossible for the German people to know how to make their contracts in terms of marks.

Mr. SMOOT. The reason why I interrupted the Senator was that I am compelled at this time to go to an important committee meeting. I wish I did not have to leave the Chamber, because I am anxious to hear what the Senator has to say. I desired to ask the question whether he had worked out any plan or whether there had been evolved in his mind a plan to set aside the present German paper mark and begin anew upon a gold basis. I thank the Senator.

Mr. OWEN. I am not concerned with that. It is impossible for the American Government or the American people to interfere with the fiscal or currency affairs of the European countries. They have their own difficulties. It is not a question even for them of putting the German mark back to par. It is a far more important question. If they do put the German mark back to par, they must pay bonds in gold at par at 23.8 cents that have been issued against the mark worth a half cent apiece, and then paying the bondholder, who bought those bonds measured in marks worth half a cent apiece, in marks worth 24 cents apiece; in other words, the bondholder receiving forty-eight times what he loaned to the Government of Germany. It is a very perplexing problem, and one that may take some years to work out, and will result eventually in a necessary compromise between the debtor and creditor classes affecting gigantic sums.

So I am not concerned with that difficult problem. What I am concerned with is that there shall be furnished to Europe a currency measured in grains of gold, a currency sufficient in volume to meet their industrial requirements. Under my plan the bank would earn 15 per cent on the $500,000,000 invested; assuming that $2,500,000,000 of notes would be loaned, it would bring a net income of approximately 3 per cent. It would earn about $75,000,000 a year, and setting apart 5 per cent on the capital for the benefit of the reserve banks they would take from that $75,000,000 the $25,000,000 of earnings per annum where they now get nothing at all. They complain that they
put their deposits in the reserve banks and get no interest on the deposits, but under my proposal they would get $25,000,000 of earnings out of the idle gold which is tied up as a useless reserve behind the deposits.

But there is a far greater and more important reason for furnishing Europe with this gold-secured currency, and that is that Europe owes us $15,000,000,000 and she has neither gold nor commodities with which to pay us. However, she has the man power, she has the natural resources, she has the ingenuity and the brain and the brawn, and we are in a position, and we are the only nation in the world in a position, to furnish Europe with a gold-secured currency that will be adequate for them to base their contracts on and give stability to credits in their industrial and commercial life.

I am presenting this matter to the majority party and to the country. I do not expect to press the bill, because it is impossible for a minority Member successfully to press a bill of this magnitude and character. I know that. I concede that to start with. I offer this bill to the majority party because our common country could be served magnificently by this plan.

In connection with that we must also, I think, take into account the conditions in Europe with regard to the payment of principal interest on the sum they owe us and our nationals. I do not at all approve of the proposal made by various of our good citizens that we should remit this debt to Europe. It is not true that Europe is bankrupt. Europe is no more bankrupt than the United States is bankrupt. It has got the same fertile fields, the same vineyards, the same orchards; it has the same productive power; it has a greater productive power in machinery and in invention than it had before the war. It is true that the foreign indebtedness of Europe has grown to a gigantic sum, as in Germany, for instance; but it is also true that those Government liabilities are individual, personal assets of their own nationals who own the bonds, and they are neither better nor worse off as a people than they were before they issued those obligations.

Mr. HITCHCOCK. Mr. President——

The PRESIDING OFFICER. Does the Senator from Oklahoma yield to the Senator from Nebraska?

Mr. OWEN. I yield.

Mr. HITCHCOCK. I am very sympathetically interested in what the Senator is saying, because, as he knows, I have introduced a bill which is along lines in some respects similar to those of his bill and has similar purposes. I do not fully understand, however, the details of the Senator’s proposal. As I caught it, it is that the Federal reserve banks of the United States shall establish another bank?

Mr. OWEN. That they shall own the stock of a Federal reserve foreign bank.

Mr. HITCHCOCK. And that the stock issue should amount to $500,000,000?

Mr. OWEN. Yes; payable in gold.

Mr. HITCHCOCK. Payable in gold, and that that bank should issue its currency against a gold reserve?

Mr. OWEN. That it should issue its bank notes as currency against bankers’ bills, with short-time maturities, not exceeding 90 days, and against commodities that are staple, merchantable, insured, and covered by documents.
Mr. HITCHCOCK. Not against a gold reserve?
Mr. OWEN. The 20 per cent gold reserve would be included.
Mr. HITCHCOCK. Does the Senator propose to limit the issue of currency to a percentage of the gold reserve?
Mr. OWEN. To 20 per cent.
Mr. HITCHCOCK. What amount of currency does the Senator figure that would enable the bank to issue?
Mr. OWEN. It would enable the bank to issue twenty-five hundred million dollars.
Mr. HITCHCOCK. That would require, then, a gold reserve of $500,000,000 on a 20 per cent basis?
Mr. OWEN. Yes.
Mr. HITCHCOCK. The Senator, in that respect, is making the gold reserve very much less than the gold reserve required of the Federal reserve banks against the issue of currency?
Mr. OWEN. For the reason that when we deal with commodities that are worth the gold value of the notes and we have, in addition to that, 100 per cent of bankers’ bills behind the notes, we need not fear about a 20 per cent reserve or getting the gold for redemption, because the commodities themselves are worth the gold, and in addition we have the bankers’ short-time promise to pay.
Mr. HITCHCOCK. Of course, that is also true in the case of the Federal reserve banks.
Mr. OWEN. I am only justifying this proposal now; I am not criticizing the Federal reserve banks, although in their case I think we made the ratio of reserve much higher than was or is necessary.
Mr. HITCHCOCK. I agree with the Senator in that respect.
Mr. OWEN. The Bank of England, I will say to the Senator, had a reserve as low as 8 per cent, without disturbing public opinion in England.
Mr. HITCHCOCK. Now, will the Senator trace briefly the methods by which this gold and commodity-secured currency issued by the proposed bank would get into the financial channels of Europe?
Mr. OWEN. Yes. Here is a German potash manufacturer who wants to send $100,000 worth of potash to the United States for sale; he has a market for it, but he needs the accommodation of immediate credit when he handles the matter. He takes his potash and draws against it a bill which is indorsed by some member bank, we will say, the Reiehsbank. It is a short-time obligation; he draws it payable in 60 days or 90 days. Then he gets $100,000 worth of Federal reserve foreign bank notes against that shipment of potash. The title to the potash passes into the hands of the Federal reserve bank or its agents.
If the obligation is not paid when it is due to be paid, first, the potash would pay for it, if sold by the agents of the bank; if it did not produce enough, then the banker who indorsed the bills would meet the difference; and if that did not meet it, still there would be the credit of the potash manufacturer and the shipper behind it. These bank notes then would pass from hand to hand among the people and the banks. They would afford a form of currency that would enable people to deal with each other through this currency as a medium of exchange. They would not then have to exchange a bushel of potatoes for
a bushel of corn or a bushel of coal nor deal in fluctuating marks or rubles. In eastern Europe the people are now using the principle of barter. What I am proposing is that we shall furnish them with bank notes that are the equivalent of gold, so many grains fine.

Mr. HITCHCOCK. Now, let me ask the Senator another question. In that process, the potash producer in Germany has to get possession of $100,000 worth of the notes of the proposed bank?

Mr. OWEN. Yes.

Mr. HITCHCOCK. The potash comes to the United States, and with it a draft for payment within 60 days.

Mr. OWEN. Yes.

Mr. HITCHCOCK. The potash importer in the United States, at the end of 60 days, pays that draft?

Mr. OWEN. Yes.

Mr. HITCHCOCK. What becomes of the $100,000 of currency which has been advanced to the German shipper?

Mr. OWEN. It circulates in Berlin.

Mr. HITCHCOCK. And the bank in this country has received $100,000 in payment for the potash?

Mr. OWEN. Yes.

Mr. HITCHCOCK. Has the Senator considered the fact that the United States exports annually approximately $3,000,000,000 worth of products more than it imports?

Mr. OWEN. Yes.

Mr. HITCHCOCK. How is it going to continue paying currency to Europe under those circumstances when upwards of $3,000,000,000 must be paid here in order to make up the excess of exports over imports?

Mr. OWEN. The Senator will agree with me that as a mathematical principle the whole true balance of trade is equal to the sum of its several parts; and we may deal, therefore, with one transaction and inferentially determine what will be the result of a number of such transactions. Every single shipment, whatever it is, is balanced at the time it is made. There are certain invisible factors that enter into what we call the "balance of exchange." The "balance of exchange" really is a term which is often misleading, because the balance of exchange means a balance produced by adding up the figures of the imports and exports on the manifests of vessels arriving at and departing from the ports of a given country. We add those figures up, but we do not take into account the shipment of currency, the shipment of bonds, the shipment of stocks, the rendering of services through marine insurance, the rendering of services through trade on the ocean, the rendering of services by foreign countries to Americans who go into foreign countries and live there at the hotels and carry with them letters of credit, thus transmitting from this country abroad various credits.

Mr. HITCHCOCK. I appreciate what the Senator says, but I think the present experience is that we are not only buying much less of Europe than we are selling to Europe, but the tide of investment is from this country into Europe at the present time rather than into the United States.

Mr. OWEN. I think that is true, and ought to be so to correct the differences in commodity exports.
Mr. HITCHCOCK. So that the factors of which the Senator speaks are comparatively negligible. The fact is, after we have summed the whole thing up we find that Europe must pay us about $3,000,000,000 every year more than we pay Europe for what is bought.

Mr. OWEN. I will say to the Senator again that that is a fiction; it is not really true, and the reason it is not true is found in the factors entering the so-called "balance of trade," which are invisible and do not appear on the face of the record. When Europe buys $3,000,000,000 in excess of our commodities they pay in stocks, bonds, services, real estate, hotel bills, and so forth.

Mr. HITCHCOCK. My judgment is that those factors are more greatly in favor of the United States than against the United States. Our bankers are lending great sums of money practically to all foreign countries—to Brazil, to France, to Great Britain, to Norway, and to Sweden; to the cities and towns—and foreign nations are not lending anything over here at all.

Mr. OWEN. That temporarily offsets the "balance of trade" in our favor.

Mr. HITCHCOCK. The tide has now reversed, and we are actually lending a great deal more money to the remainder of the world than we are borrowing from other countries of the world. Therefore, the factors the Senator speaks of do not exist. The ultimate result is that there is a balance of $3,000,000,000 a year that we should receive from Europe above what we are paying to Europe. How can the Senator make that up? That is a difficulty that I have encountered in connection with my bill providing for a bank of nations. How can that great balance be overcome?

Mr. OWEN. I do not think the Senator followed clearly the observations made by me in regard to the balance of trade. The "balance of trade" relates to certain commodities only on the manifests of ships and is not a true balance of the financial and commercial exchanges; it never was and never will be at any time to come, for the reason that the balance of trade merely registers certain commodities on the ships' manifest and nothing more. It is only a commodity balance and nothing more.

Mr. HITCHCOCK. I agree with the Senator that formerly it was not a true register—that is to say, that we were buying in Europe two or three thousand million dollars a year less than we were selling in Europe, and yet we were also paying to Europe great sums of interest—but we are not paying such interest now; that tide has been reversed; so that the conclusion the Senator reaches, while it would have been accurate before the war, it seems to me, does not apply now. Those factors of which he speaks have changed their course.

Mr. OWEN. Mr. President, the "balance of trade," according to the figures of our statisticians, always has been and always will be the balance as shown on the ship manifests. It does not take into account the $10,000,000,000 that we loaned to Europe during the World War. Since the war we have loaned them $5,000,000,000 more, and that $5,000,000,000 is partly an offset to the so-called balance of trade.

Mr. HITCHCOCK. No; I think the Senator is in error there; it makes the matter worse. Not only are we selling to Europe
a great deal more than we buy from Europe, but we are lending to Europe, on top of that, a great amount of money, and they are not only obliged to pay us three thousand million dollars a year as the balance of trade, but they have got to pay us a thousand million dollars a year in interest.

Mr. OWEN. The amount that we lend to Europe does not appear in the "balance of trade," and we lend them part of the money required to balance the commodity "balance of trade"; that is a complete answer to the Senator. Every transaction balances itself at the time it is made. Of course, if I send 100 bales of cotton to Europe I get its equivalent in some form; I get it either in cash or in credit or in property on the other side of the water, but each transaction balances itself at the time it is made, and a million such transactions balance themselves.

The so-called "balance of trade" is never a balance but indicates the lack of balance of imports and exports and always represents an excess of exports or imports of goods.

Mr. NORRIS. Mr. President, may I interrupt the Senator there?

The PRESIDING OFFICER. Does the Senator from Oklahoma yield to the Senator from Nebraska?

Mr. OWEN. I yield.

Mr. NORRIS. Every transaction must balance itself or eventually difficulty would ensue, of course; but I want to ask the Senator now whether he proposes in his bill to redeem the notes that are to be issued by the proposed bank?

Mr. OWEN. Those notes will be taken up when the obligation is liquidated.

Mr. NORRIS. In the transaction to which the Senator referred in connection with potash—

Mr. OWEN. When the loan is paid back to the bank, the bank would get its notes or the equivalent in gold.

Mr. NORRIS. When the potash is sold here the bank, of course, gets the money in this country for it; but what process is gone through in order to redeem the notes that were originally issued in Europe for the potash?

Mr. OWEN. It would probably result in a credit where the transaction resulted in shipping over; but when you reverse that and an American ships into Berlin cotton of an equivalent amount, the cotton has to be paid for with these very notes, and the notes will come in to pay the bank the amount due to the bank for a New York credit extended the cotton shipper.

Mr. NORRIS. The foreign reserve bank, when it got the money for the potash on this side of the water, would not dare pay out that money. It would have to retain that money until it got possession of the original issue, and retired that; otherwise there would be inflation.

Mr. OWEN. That would be a credit in New York, and that credit would be used as a means of financing cotton shipped back to Germany. In other words, one hand would wash the other, and we would be furnishing a medium by which these transactions could be cleared; and that is the very purpose of this proposal. It is to furnish a convenient means of giving a stable medium of exchange to the European manufacturer and merchant, in order that they may create the commodities with which to pay America the amount that is due to America. They
I think we can not otherwise rapidly discharge their obligations; and I think in no event can we expect an immediate payment of the principal and interest of those amounts due to our Government, because of the demoralized condition of European industries.

I do not at all approve the idea of remitting to these European Governments their indebtedness to this country. It is not necessary to do it. They are not bankrupt. They are just as well able to pay their debts as we are able to pay our debts; and if we remit the indebtedness it would be exactly the same thing as taxing the wealth of America and presenting it as a gift to the wealth of Europe.

In order to adjust ourselves to the conditions in Europe, I think we ought to agree that the interest charges on the ten billions due to this Government should be postponed and merged into the principal for a period of time, say, 5 or 10 years. I think, moreover, that instead of charging Europe a very high rate of interest, we ought to agree that the rate of interest shall be what it was before the great World War—that is, 3 per cent. I say “3 per cent” because 3 per cent was the normal rate of interest in France and throughout western Europe before the war. The Bank of Netherlands, for instance, which is a great State bank, had a 3 per cent rate on loans for 50 years without a single break in that rate. The Bank of France would lend as small a sum as 5 francs for one year at a 3 per cent rate, and the rate of interest in the United States on a well-secured loan, such as a Government bond, was 3 per cent. Our 3 per cent bonds were at a premium before the war. The bankers do not average a rate of interest to their depositors exceeding 3 per cent. They have some running at 2 per cent and some at 4 per cent, but they do not average as high as 3 per cent interest on the deposits made with them; and, on the other hand, when a bank lends out its deposits it is content with less than 3 per cent as a margin of profit on its loans.

Mr. EDGE. Mr. President.

Mr. OWEN. I yield to the Senator.

Mr. EDGE. Unfortunately, I did not hear the early part of the Senator’s explanation of his bill. When we realize and appreciate, as the Senator has stated, that the balance of trade, because of the $10,000,000,000 of loans and the $5,000,000,000 represented mainly by export commodities, operates to bring about a most unfavorable exchange condition so far as it relates to purchases from America, which condition we well understand to-day is interfering tremendously with our export business, I am interested to know, if the Senator can state briefly, how the operation of such a bank would to any considerable extent affect what I think is fundamental and what must be corrected before we can greatly increase our exports, namely, the condition of exchange to-day as it relates to purchases from America.

Mr. OWEN. I will say to the Senator that what we now speak of as the rate of exchange really measures the selling price of a mark, franc, lira, kroner, or ruble in terms of gold. It all comes down at last to the gold value of those currencies. When you talk about exchange, commodity balances have ceased to cut any important figure in it, for the reason that if they could command gold and ship gold the rate of exchange would balance itself within two or three points, or what is called in normal times “the gold shipping point”; but they can not get
gold with this depreciated currency, and they have not the commodities now to take the place of gold or to command gold.

Mr. EDGE. Mr. President——

Mr. OWEN. I yield to the Senator.

Mr. EDGE. Is it not a matter of ordinary business realization that when you bid for anything—in other words, when there is a scarcity of any commodity or of money—the price is naturally higher? The existing condition of the balance of trade makes it necessary for the Frenchman or the Englishman or the representative of any other country, when he is compelled to pay for a bill of goods exported from this side, to bid all the higher simply because of that condition. It seems to me that that has its effect on exchange as much as any other possible thing.

Mr. OWEN. If you will take the present exchange rate of $4.20 on the pound sterling, which normally is $4.86, and take the present market value of gold in London, you will find that the exchange is fixed precisely by the purchasing power of gold by the paper money of England—the Bradbury notes. Gold is at a premium in London, and that premium measures the difference in the cost of the pound sterling.

Mr. EDGE. How does the Senator account for the very sudden fluctuations in British exchange and, in fact, in all other currency, ranging in the last six weeks from in the neighborhood of $3.75 or $3.80, as I recollect now, to $4.20, as the Senator states, on the pound sterling? I do not think there is any business condition to warrant it. I am wondering myself if the Senator has any answer beyond that of speculation.

Mr. OWEN. I think speculation does cut quite an important figure in it; and I think one of the important reasons for the passage of the bill I have introduced here is that by having a Federal reserve foreign bank you would have a natural stabilization of exchange on the basis of a reasonable commission and percentage for the services rendered; and in that way you would have a greater stability of exchange than if you had men who were buying and selling the pound sterling for profit.

Mr. EDGE. I am inclined to agree with the Senator that some type of an international bank—perhaps a combination of his ideas and the ideas expressed by the Senator from Nebraska—is absolutely essential and necessary to-day to have its influence on foreign trade and currency and exchange. I am free to admit, however, that I have not yet, as far as my little study of the situation permitted, found a way that I thought would greatly influence it. I think it will help, but not as much as an effort on the part of importers and exporters to equalize the balance of trade in a natural manner.

I agree that I do not like the idea of wiping out the $15,000,000,000 indebtedness. I never have. I hope it will not be necessary to bring about that condition. I do not believe it will be.

Mr. OWEN. The Senator may rest assured that five billions of it, at least, held by our private citizens will never be wiped out, and the statesman insane enough to try to tax America ten billions as a gift to the wealth of Europe will himself be wiped out.

Mr. EDGE. I have not a moment’s hesitation in saying, however, that I believe that if the $15,000,000,000 of indebtedness...
were wiped out today there would be practically no difference in the rate of exchange between the countries.

Mr. OWEN. It would make no difference whatever at this time. It is the depreciated mark that measures the balance of exchange in Germany, the depreciated lira in Italy, and so forth.

Mr. EDGE. I am not prepared, however, to indorse that plan for one moment.

Mr. OWEN. It would not greatly serve the exchange at this time——

Mr. EDGE. I am not so sure of that.

Mr. OWEN. Because in reality, when you take the German mark, which before the war had an issue of two billions and now has an issue of one hundred and three billions, it is a question of the quantity of those marks, the facility of getting them, the fact that it is known now that they can not be redeemed in gold. It is just the quantitative theory over again. They have gone down from par to 2 per cent because the output has been multiplied fifty times.

Mr. EDGE. There is the answer, or one of the answers. If the Senator can evolve a plan, in connection with the organization of an international bank, whereby the directors of that bank will have a certain influence or control of the spread of currency, you might say, the issues of various countries that are today practically bankrupt, then I can see how such a bank would very rapidly and permanently rectify present conditions; but I am afraid that is almost impossible. That is practically the Ter Meulen plan, which we hear something about, and which has merit in it.

Mr. OWEN. The Ter Meulen plan is a different thing. It is a means by which to put a fixed income of a State expressed in bonds behind certain particular credits for the nationals of any particular country. It has its merits and the Ter Meulen bonds could be used as a basis of credit in any banks anywhere engaged in international banking.

Mr. EDGE. Such a bank, in my judgment, must have some control of the budgets of nations in order that their income and their outgo shall balance. It is necessary to balance the budget, as the term is usually used, and such a bank must also be able to control the printing press in the issue of currency, or no international bank, in my judgment, can ever have a great influence on exchange conditions, which in themselves influence trade.

Mr. OWEN. Of course the European Governments will have to balance their budgets. They will have also to quit using the printing press for the purpose of manufacturing unlimited paper currency. If they do not, their currency will become more and more depreciated, until it will not be worth more than the paper upon which it is printed. That, of course, is true; but in order to strengthen the revenues of the European countries it is of supreme importance that the people of those countries shall be employed in profitable industry. I am proposing a plan that will enable them to make contracts that have a stable value under them. At present they have a fluctuating currency. I am proposing a currency which will not fluctuate more than the value of gold fluctuates, and therefore if my plan is adopted these European countries will be in a position to in-
crease their revenues and to balance their budgets. They will be in a position to employ their people profitably in peaceful industry. That is the very purpose of the proposal that I am making. It will help them to balance their budgets. It will teach them the folly of using the printing press to turn out paper money, because this currency I propose will be sufficient for the people. It will be sound and clean and based on gold and commodities worth gold. Therefore it will give them a sound currency. If I may say so, the currency blood of their commerce will be clean, will be worth gold; and America is the only country in the world that can furnish it.

I think we ought to fix a 3 per cent rate on these European loans. I think we ought to allow the interest to merge into the principal for 5 or 10 years; and I think at the same time in the United States we ought to determine upon the policy of postponing the payment of our own war debt for a longer period of time. That at the same time we are relieving Europe of paying the present interest on these debts we ought to relieve the American people of the sinking fund against the war debt for a like period, because it can all be made up when Europe is back again on its feet and in a productive position.

As I said in the beginning, I am presenting this plan for the consideration of Senators, especially of the majority party. It is a very important suggestion. It is based on the principles of the Federal reserve act. The principles are absolutely sound; they have been demonstrated to be sound.

Senators, you have it in your power to adopt a plan that will restore the industrial life of the world, and I am presenting it, with such earnestness as I may, in the hope that patriotism and public spirit will induce Senators to study this proposal I have made, and I trust you will take so much of merit as you may find in it and make it available for the service of mankind.

Mr. FLETCHER. Mr. President, as I understood, the limit of the issuance of circulating notes under that system would be about two billion five hundred million?

Mr. OWEN. It would.

Mr. FLETCHER. Does the Senator think that would be sufficient to accomplish what he aims at?

Mr. OWEN. It is abundant. The total issue of currency now in Germany, with 80,000,000 people, is only worth 850,000,000 gold, and that is an amount five times as great.

Mr. KING. A hundred billion marks then would be worth only about $500,000,000 in gold?

Mr. OWEN. That is true at half cent a mark.

Mr. FLETCHER. What the Senator suggests might do for Germany, but how about the whole of Europe?

Mr. OWEN. Germany has 80,000,000 people, in round numbers, and five times 80,000,000 is 400,000,000, and there are only 300,000,000 in Europe. If $500,000,000 is enough for the German people, $2,500,000,000 is enough for Europe. I have covered that sufficiently. It will furnish an abundance. I think there ought to be authority for the European nations to take over this bank or its branches at the proper time, when they are in position to do it. The United States reserve banks need not want to carry on these banks if the other countries will take them over.

Mr. FLETCHER. I was wondering also what had been accomplished under what is known as the Edge Act, which au-
authorized national banks to get together and establish banks in foreign countries.

Mr. OWEN. The trouble is that commerce is languishing. Commodities are not being manufactured in sufficient quantity. Commerce is impaired by the demoralization caused by the World War, and I am proposing a plan now by which to restore the industrial activity of Europe.

Mr. POMERENE. Mr. President—

The PRESIDING OFFICER. Does the Senator yield to the Senator from Ohio?

Mr. OWEN. I yield.

Mr. POMERENE. I was called from the Chamber, and possibly the question I have in mind has been explained; but if so, I did not hear what the Senator said about it. Does the Senator's plan contemplate some action by the several European Governments whereby they would aid in availing themselves of this system?

Mr. OWEN. It contemplates no action on the part of any European Government at all.

Mr. POMERENE. I believe that under what is known as the Gresham law cheaper money always drives dearer money out of circulation.

Mr. OWEN. I thank the Senator for making that suggestion, because it is in point. That would be true if you had gold circulating side by side with paper money, where the people might pay their debts in either one or the other. They would pay their debts in the cheaper money, and the gold would go into hiding; but in this case there would be no competition between the Federal reserve foreign bank notes and the mark, for instance, for the reason that these bank notes would be the equivalent of gold, and they could not go into hiding for the reason that behind every note is a hundred per cent of commodities worth the gold face value of the notes, and bankers' credits of 100 per cent more behind these notes worth the face value of the notes. Therefore they could not go into hoarding.

Mr. POMERENE. That was the thought I had in mind. In other words, if they should be retired, you could not get the same service from that kind of a circulation that you would get if they were kept in circulation.

Mr. OWEN. That is true, and if the Gresham law did apply, what the Senator says is absolutely true, that it would render nugatory the service proposed to be rendered by these notes; it would nullify the proposal; but they can not be withdrawn, because they are actually covered by 100 per cent of commodities, and they are covered by 100 per cent of bankers' credits besides, and it is a short-time note that is behind these reserve bank notes.
Mr. POMERENE. It may be true that it is a short-time note that is back of the reserve notes, but I am trying to trace these reserve notes themselves to see what is going to happen to them.

Mr. OWEN. The reserve notes would be called for to liquidate the indebtedness incurred.

Mr. POMERENE. These reserve notes might not be in the hands of the debtor.

Mr. OWEN. The banker gets these reserve bank notes. He owes the exact amount of the reserve bank notes. He has to pay it in 60 days, we will say.

Mr. POMERENE. Yes; but if a manufacturer over there gets his reserve notes, and in the conduct of his commercial affairs turns part of them over to me and part to some one else, it being a better class of currency, I might be disposed to hoard them.

Mr. OWEN. The bank would have to pay them in gold if they should be hoarded.

Mr. HITCHCOCK. I rather agree with what the Senator from Ohio has said, and I want to call the attention of the Senator from Oklahoma to an answer which he made to me. He instanced a case in which a potash producer in Germany received for his shipment of potash $100,000 in the notes of this bank, and he said that when the potash was shipped to this country the potash user in this country would, after 60 days, say, pay in American money for the potash which he purchased.

Mr. OWEN. You may say gold.

Mr. HITCHCOCK. Whatever you please. Meanwhile the $100,000 of the notes of the bank are in Germany; they are currency.

Mr. OWEN. Yes; the corresponding gold would be in New York.

Mr. HITCHCOCK. It seems to me there would be some likelihood, as the Senator from Ohio has suggested, that one of the difficulties of the situation would be that the holders of those notes would be apt to hang on to them and hoard them, just as at the present time they are hoarding American money. It is notorious, as has been said by German writers, that while certain people in the United States have been buying German currency and German credits with the idea that they will advance, many Germans have been buying American currency in order to make themselves secure, and it seems to me that there would be a likelihood of a good deal of that currency going out of circulation.

Mr. OWEN. It would go into circulation. It would be in the pockets of people and passing around for their common use. Take the potash example, for instance. One hundred thousand dollars of those notes would go right into the hands of the people.

Mr. HITCHCOCK. Let us assume that the potash manufacturer in Germany has deposited his full $100,000 of currency of this bank in his own bank in Germany. In his own domestic transactions he can use the German money just as well as he can use that money, and there is no reason why that German bank, if it wants to keep a reserve, should send it over here for redemption. It can keep the notes there just as well. It is just as much of a reserve for that bank to keep. It seems to me it would be the tendency of that superior class of currency to go into hiding.

Mr. OWEN. It would not be in hiding; it would be in actual use, and that is exactly what I wanted to say, because under...
those circumstances the banker or the potash manufacturer could say, "I want to make a contract with you to buy $100,000 worth of additional potash, and I have the gold or its equivalent available in my bank. I have it here ready to use now. I have shipped $100,000 worth of potash, and I have $100,000 of gold or the equivalent of gold, and I want to use that to buy some more potash, or buy some more labor, or whatever goes into the production of it."

Mr. HITCHCOCK. He would naturally use German money.

Mr. OWEN. He might use some of these notes to buy German money if he wanted to.

Mr. HITCHCOCK. If he did, the people who received those would naturally save them, because they would know they would be as good as gold, and they would float the German marks in their place. I believe that is a possibility.

Mr. OWEN. At the last, the banker who got the accommodation owes this money, and he has to pay it in gold or in the equivalent of gold, and these notes are the equivalent of gold, and it would make certain a demand on his part to get the gold.

But, of course, I am assuming that this bank would expand and that there would be twenty-five hundred million of these dollars in circulation in a great variety of ways, infinitely various, so that no human mind can trace them, but that at last this bank always has the bank credits of 100 per cent behind these notes, and it always has commodities of gold value to the extent of 100 per cent, and it has always 20 per cent in actual gold in its own vaults. That security is enough. It is 220 per cent against every note at the bank, and it would be only a bank note at last.

Mr. HITCHCOCK. I am not disposed to dispute the Senator's statement that the security is ample. I want to call his attention to another matter. He has instanced the case of a European exporter being paid through this bank for the products which he exports to the United States. There is no difficulty about that at the present time. The man in Germany has no difficulty in getting credit for what he exports to the United States; there is no difficulty about that at the present time. The man in Germany has no difficulty in getting paid for what he exports to the United States, the man in France has no difficulty, and the man in Great Britain has no difficulty. The real difficulty is when the American undertakes to export to Europe; then there is a difficulty in getting payment. Will the Senator reverse his process and illustrate how the bank which he proposes would pay the American for the shipments which he makes to Europe when the European is in no position to make payments?

Mr. OWEN. Yes; take this hundred thousand dollars which the Federal reserve foreign bank has in New York against the shipment of a hundred thousand dollars' worth of potash. A man comes up and says, "I want to ship a hundred thousand dollars' worth of cotton to Berlin." The banker or the Federal reserve foreign bank says: "All right; put your cotton on board. Draw your bill against Berlin. Have it underwritten by the Equitable Trust Co. of New York, and I have a hundred thousand dollars against the shipment of this potash which I will turn over to you." In due course of time it will come over to Berlin and be paid by the German people, and the German
people will then have this hundred thousand dollars of currency now available to pay it with.

Mr. HITCHCOCK. Let me stop the Senator right there. How are the banks in Germany to make the payment for this shipment?

Mr. OWEN. By using these very bank notes.

Mr. HITCHCOCK. They have gone into circulation; you do not know that the banks have them. They may be hoarded.

Mr. OWEN. I never heard of anything in the shape of money in circulation the banks did not get their hands on eventually.

Mr. HITCHCOCK. Assuming that the theory is correct that the identical hundred thousand dollars in notes which have been sent to Germany will pay for this shipment of cotton, that will be all right, providing our shipments to Germany are no greater than Germany's shipments to the United States. But assume the case where shipments from Germany to the United States are much less than the shipments from the United States to Germany. Then what would be done?

Mr. OWEN. The Senator is asking me to finance an impossible case. If the German people cannot ship enough commodities to the United States to pay for the commodities shipped from the United States to Germany and have no other means of paying, they must stop shipping from the United States, and that is precisely what has happened to our foreign commerce. They have quit buying in such quantities.

But, as I said to the Senator before, each individual case will adjust itself. When I ship to Germany I say to them that they are going to be paid, and I have good security. When a German ship to the United States he does the same thing, and these balances of trade you speak of need not worry us, because each transaction will take care of itself; but it is true at last that you will have trade languish unless the people of one country are able to manufacture and export commodities of equal value to their imports. They must have their exports and their imports at last practically balance. I think that is undoubtedly true, and I think that is the idea the Senator is desiring to impress. I do not think there is any question about that.

Mr. HITCHCOCK. I agree with the Senator. I have run up exactly the same difficulty with my bill that I think he encounters with his bill, the difficulty of making payment where the country which makes the payment has not been able and is not able to export sufficient manufactured goods or products of one sort or another for that purpose.

Mr. OWEN. I am proposing to extend them a financial accommodation in a gold-secured currency to the extent that they enable them to restore their industries and manufactures and increase their commodities for export.

They can only pay their debts in the products of their labor, in commodities. I am proposing to help them pay their debts to us by helping them restore their industries through the use of a stable and gold-secured currency.

Mr. HITCHCOCK. That is exactly what I am trying to do in my bill, but I find considerable difficulty, and I am anxious to hear the Senator explain it as fully as possible.

Mr. OWEN. To recapitulate, or, perhaps, to repeat in some degree, I may say that by the last report the Federal reserve

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banks had two million nine hundred and ninety-three millions of gold and legal tender, making approximately two billions nine hundred and fifty millions net gold.

Taking away five hundred million of this gold and putting it subject to the redemption of the bank notes of the Federal reserve foreign bank would give, with a 20 per cent gold reserve against such rates, a gold-secured currency available for Europe of twenty-five hundred millions, which would be enough to serve their commerce and industry, and make a profit to the banks of the United States until Europe should be restored to a normal condition. Germany, for example, measuring its present mark currency of one hundred and three billions at a half a cent per mark, would have a gross currency value of about five hundred million dollars, which would be enough if it had a stable value. The bank I propose could supply this amount of gold-secured currency which would suffice to supply the manufacturers and merchants with an amount adequate for their needs, and twenty-five hundred million dollars would be an abundance to provide Europe with all the gold-secured currency imperatively necessary for the restoration of its industries.

Withdrawing five hundred millions from the present American gold reserve would still leave twenty-four hundred millions of gold and legal tender behind Federal reserve notes of two billion four hundred and forty-seven million in actual circulation which at present happens to be about 100 per cent.

The Federal reserve system provided for a 35 per cent reserve in gold or lawful money against the reserve deposits of the member banks, and these deposits, amounting to seventeen hundred millions, require a gold deposit of over five hundred millions in gold, notwithstanding these deposits are fixed by statute law, can not be withdrawn, and do not fluctuate substantially. A year ago the deposits of the twelve reserve banks, December 23, 1920, amounted to $1,771,000,000. On December 21, 1921, these deposits amounted to $1,784,000,000, an increase of $13,000,000, although the loans and discounts, including open-market purchases and acceptances, had decreased $1,621,630,000.

It is an absolute waste of five hundred millions of gold to keep it tied up as a reserve against the reserve deposits. The principle of keeping a reserve against a deposit which is subject to withdrawal from a member bank is totally different from a reserve held against reserve bank deposits, because a member bank may have all of its deposits withdrawn and a member bank has no means of making payment with Federal reserve notes obtained from the Government as with the Federal reserve banks. But even a member bank which is carefully managed should be able to go through a complete liquidation within a reasonably short time under our reserve system, and it would be impossible to embarrass the reserve banks by the failure of one or more member banks.

So that without diminishing the amount of gold behind the Federal reserve notes, the United States could establish the Federal reserve foreign bank with five hundred millions of free gold, and, therefore, furnish Europe with twenty-five hundred millions of gold secured currency.

The Federal reserve foreign bank under the plan proposed would not issue Federal reserve notes, but would issue Federal reserve bank notes, based on a minimum of 20 per cent actual
polfl and 100 per cent of short-time qualified commercial bills based on actual staple merchantable commodities, such bills being secured by documents and underwritten by member banks. Any bank authorized to do business with the Federal reserve foreign bank would be designated for this purpose a member bank.

In Europe the people are accustomed to bank notes. The Bank of England note is a bank note and, although the note of a private corporation, is made legal tender by law. The notes of the Bank of France and of the Reichbank of Germany are legal-tender notes, although bank notes, and comprise the volume of the currency of France and Germany, respectively. The franc and the mark being legal tender, the people who transact business with each other promise to pay in francs and marks, and when the franc and mark go down from par those who belong to the creditor class suffer and those who belong to the debtor class gain. A man who at the beginning of the war owed 100,000 marks worth at that time gold par could liquidate the debt now for one-fiftieth part of the same value in gold.

This is ruinous to the bond-holding class whose bonds are payable in marks. It accounts for the tremendous fluctuation in the price of stocks which represent part ownership in certain properties, because the properties having actual gold value increase in terms of marks as the marks go down in gold value.

Mr. President, I do not think it desirable that I should comment upon the wisdom or unwisdom of the German Government in expanding the marks to such a gigantic volume. It is sufficient to point out the fact of this inflation, its interruption to the stability of credits, and its eventual depressing influence on industrial life. While on a rising market there may be for a while a feverish activity to manufacture and sell goods against a rising market, eventually the discovery is made that it is an illusion and the collapse must come. We have already experienced our depression, have reached the bottom in nearly all lines of commodities, and are now reacting from it.

It is obviously impossible that the German people, the Poles, the Austrians, or Russians will ever pay in gold the debts contracted in paper money. Some compromise must be effected between the debtor and creditor class at which the mark, the kronen, the lei, and the ruble shall have a fixed gold value for purposes of adjustment, unless, indeed, with the ruble the whole bad business is repudiated. But with a depreciated and fluctuating currency business men are almost paralyzed. The distress and disorganization of business will not end until a sound currency is made available.

Mr. President, it is not enough to provide a means by which Europe can get a gold currency for the use of their manufacturers and merchants. Under the present disorganized condition of Europe they can not at this time pay back to the United States the principal or interest of the debts due our Government and our nationals in gold or in commodities. They have not the gold, and their manufacture of commodities is greatly hampered by the conditions which I have described.

Quite a few of our citizens in distinguished positions have keenly realized the disorganization of Europe and the extreme poverty of the poorer classes that they have been led to the belief
and have advocated that the people of the United States should forgive the debt due by the people of Europe. It is a generous impulse. I sympathize with the high motive that actuates those who make the suggestion. They believe it would attach the people of Europe to the people of the United States and that it would have a future moral and financial consequence that would fully justify the cancellation of the debt.

I do not agree to this for the very simple reason that while it is true that the poverty of the poorer classes in Europe is very great, it is also true that the wealth of the wealthy classes of Europe is very great and I am not willing to tax the wealth of the United States and of our people with the effect of conveying that amount of property to the wealthy classes of Europe.

As I have heretofore stated, the material resources of Europe remain; the productive power of the people of Europe is greater now than it was in 1913, provided only their industries were properly organized and in full motion.

The very great bond issues put out by the European Governments are held by their own people, and these Government debts are private assets and neither add to nor take from the power of the European people, as such, to pay the amount which they borrowed from us. Their Governments borrowed from us ten billions and our country expended in the war over forty billions. The war cost us thirty billions net outside of what we advanced to Europe, and this war was brought on through the acts, through the sins of omission and the sins of commission of the European statesmen. We were finally besought to come to the protection of the more democratic European people who were about to be overthrown and subjugated by the evil forces which they had permitted to grow up in their midst.

While I do not agree that we should remit this debt or the interest upon it, I do think that we ought to make the most important concessions. We ought to agree to withhold for 5 or 10 years a demand for the present payment of interest on the amount due the United States by the foreign Governments and let it be added to the principal. We ought to lower the rate of interest on this indebtedness to 3 per cent because 3 per cent is a fair rate of interest on a secured debt. I say it is a fair rate because 3 per cent was the unbroken rule of interest charged by the Bank of Netherlands for 50 years without an exception previous to the World War; because France had a 3 per cent rate of interest with very few exceptions for decades before the war, and because our 3 per cent bonds before the war were at a premium, and because the American bankers pay their depositors less than an average of 3 per cent, and the American bankers are content to make less than 3 per cent on the average of their deposits in lending the deposits out and taking the responsibility of the loans.

Even during the World War London merchants got money on acceptances at 3½ per cent, and call money now in London is under 3 per cent, and because call money in normal times, as in February, 1908, to December, 1908, averaged between 1½ per cent and 3 per cent, as it did in 1909. It averaged under 3 per cent during 1910 and 1911, and before the World War, in 1914, from January to July it averaged under 2 per cent, and even during 1915 and 1916 it was very low, until we got into the war.
The European people are not bankrupt either financially or morally. They will pay their debts honorably and in due time, but America ought to go as far as reason and justice requires in lowering the rate of interest, in giving time, and in extending financial cooperation and credit to enable Europe to make effective its man-power and material resources.

I have said that the European people were not bankrupt for the simple reason that their material resources and man power, their brain and brawn, remain unimpaired, and while it is true that the Governments of Europe have permitted the currency to be impaired in purchasing power by emission of paper currency in excess of what could be redeemed in gold, nevertheless whatever this currency is and whatever the bonded indebtedness may be already issued by the European Governments, the European people hold as individual assets almost every dollar of these Government liabilities, and in appraising the wealth and the wealth-producing power of Europe it must be remembered that these national liabilities are individual assets.

I am not willing, Mr. President, to have the wealth of America taxed in the interest of contributing to the wealth of Europe, and Europe must recognize its obligation to tax its own wealth just as we have taxed our wealth in this country to meet its national obligations.

All Europe must acknowledge the rights of private property and provide the means of giving private property prompt, sure protection.

The European nations must balance their budgets, and will undoubtedly do so as soon as the world reaches an understanding with regard to the limitation of armaments on sea and land, and as soon as the nations have an understanding, whether express or implied, that they will use their combined energies to protect the territorial integrity of unoffending nations against the invasion or aggression of outlaw nations.

With the destruction of the military dynasties the world has but little reason to anticipate in future wicked wars of aggression.

The European nations must stop the unlimited issue of paper money and bring their currency back to gold par. This is a problem of gigantic importance and of the most serious difficulties dealing with the bonded indebtedness of these nations measured in terms of a depreciated currency. It can only be done by the most resolute and clear-cut purpose and will involve compromises between the debtor and creditor classes involving amounts that are gigantic. We need not wait for this compromise to be effected, for other remedies are available.

Mr. President, in the event that the United States does postpone the payment of the interest on the European debt for the next 5 or 10 years, and if we extend the time of the payment of the principal of the European debt for 50 years, we ought at the same time to postpone the payment of the bonded indebtedness of the United States for at least a like period and waive the collection of a sinking fund for the next 5 or 10 years in order to relieve the American people of some part of the gigantic burden of taxes imposed by this World War.

In conclusion, Mr. President, the suggestions which I wish to make are as follows:

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First. That we should postpone the final payment of the World War debt in the United States by extending the payment over 50 years; that we should not for 10 years collect any amount for a sinking fund.

Second. That in arranging the payment of Europe's debt to the United States we should extend time to Europe necessary to enable them to readjust their affairs and regain their productive power, and that we should not for 10 years demand of them the payment of the interest due, but allow it to merge into the principal.

Third. That we should put the interest rate at 3 per cent on the European debt to the United States.

Fourth. That we should establish a Federal reserve foreign bank through which might be emitted twenty-five hundred million dollars of gold-secured Federal reserve foreign bank notes having 100 per cent commodity bills and banking credits behind such notes; such notes subject to redemption in gold at New York, London, and Paris only, and then only to member banks.

The Gresham law could not apply to these reserve bank notes, for the very sound reason that every one of these notes would have behind it 100 per cent of commodity bills worth the gold on the market, and moreover would have sound bankers' credit worth the amount of such notes in the market, and moreover would have 20 per cent of actual gold, so that anybody able to buy gold at all could buy it with these commodities and bankers' credits and need not cash the reserve bank notes as a means of getting gold. It would not be the same as putting gold in circulation side by side with depreciated paper money, because to get these notes you have got to pay the full value in gold in terms of commodities and bankers' credit, and it would be just as easy to buy gold under these circumstances as to buy and redeem the bank notes.

The value of the proposed note is that it furnishes in the most convenient possible form a currency redeemable in gold and worth gold, and, therefore, becomes a medium of exchange with which the European people, the manufacturers and merchants and business men, can measure their contracts and know what they are doing when they enter into a contract.

I have drawn this bill in the hope that some of the Senators of the party in power would approve its principles and take it and perfect it by putting it under the microscope and use its sound principles in order that the people of Europe who owe us fifteen thousand millions of dollars may be put in a position where they can repay what they owe us. Our industrial and commercial prosperity is most intimately bound up with the happiness and prosperity of the European people. If they can not buy our goods we suffer; if we can not buy their goods they suffer. If their industrial life is disorganized so that they can not buy from us our foreign commerce languishes.

We have already seen our foreign commerce fall off over three thousand million dollars this year. We find goods piling up in excess, and men burning corn in the West, while the Russian people die for the lack of corn.

The world is entering into a new era. The great military dynasties have been overthrown. The Hohenzollerns, the Hapsburgs, the Romanoffs have followed the Bourbons.
world enters a new democratic era. The Conference at Wash­
ington on the Limitation of Armaments has already had a pro­found effect on the world. It will not only cut down the gigantic taxes which would have ensued from the rivalry among the nations in building warships, but it will lead to a limitation of land armaments. The increasing intelligence of the people of the world will no longer permit statesmen to be led by vanity and ambition into the slaughter of the peoples of the earth.

A new era has been born, an era of peace, of industrial life, of new industrial activity, of new powers of production, and the great war debts in 25 years from now will be liquidated far more easily than they are now, not only because of the increasing power of man to harness the forces of nature and create values, but because men have learned how to create credits and to make money available to those who are entitled to it. We have demonstrated this in the Federal reserve act; in the farm loan act; in the War Finance Corporation; in the Liberty loan drives, where we turned over to Uncle Sam forty billions of dollars of credits in a few short months.

Under the Federal reserve act since 1913 there has been a very large expansion of credits, notwithstanding the contraction which has taken place under the pressure of the last year and a half.

The payment of the war debt will be much easier on the people by postponing it a few years, because their productive power is increasing year by year. I therefore pray, Mr. President, that the members of the majority party who are charged with the administration of government shall consider the suggestions which I have had the honor to make, and if there be credit arising from the principles and plan I propose, let the party in power take the full credit. I shall be more than content if what I have proposed may be of service to the country and the world and assist the party in power to meet the reasonable hopes and expectations of the American people.

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